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ENERGY IMPACTED AREA DEVELOPMENT ASSISTANCE PROGRAM'S DESIGNATI--ETC(U)
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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LEVEL II

ENERGY AND MINERALS
DIVISION

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The Honorable James B. Edwards
The Secretary of Energy

The Honorable John R. Block
The Secretary of Agriculture

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Subject: Energy Impacted Area Development Assistance Program's Designation Criteria (EMD-81-103)

We have reviewed the designation criteria for the Energy Impacted Area Development Assistance Program which was established by section 601 of the Powerplant and Industrial Fuel Use Act of 1978 (P.L. 95-620, November 9, 1978). The Congress was very explicit in setting this program apart from other economic development programs and in directing that its funds only be used for energy-related impacts. Our analysis indicates, however, that both the broadness of the program's designation criteria and an error in them as published have resulted in areas qualifying for the program and receiving funds even though they might not be adversely affected by energy development.

The future of this program is unclear. The President has recommended a rescission of \$52 million of the program's \$62 million fiscal year 1981 funds and no additional funds for the program in fiscal year 1982. Congress has adopted the President's recommendation for fiscal year 1981 by voting to rescind the \$52 million (P.L. 97-12, June 5, 1981) and debate is still underway on fiscal year 1982 appropriations. Also, a bill (S. 1244) has been introduced in the Senate to expand and extend the program through 1985. While our review did not include an evaluation of the merits of the program and whether it should be continued, we believe the results of our review could be useful during both the current debate about the program and any future discussions about Federal programs to aid energy-impacted areas.

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We undertook this review in April 1981 as a part of a broader assignment which assesses Federal socioeconomic impact assistance. This review covers the period from November 9, 1978, when P.L. 95-620 was enacted, to May 1981. In determining if the designation criteria were effective, we interviewed officials of the Departments of Energy (DOE) and Agriculture and a consultant under contract to DOE to review program applications. We discussed the criteria with knowledgeable experts in the area including an official at the Office of Technology Assessment who worked in the area of the socioeconomic impact of oil shale development and an official of the Congressional Research Service who reported on energy impact assistance. We also discussed the reasonableness of the designation criteria with a private consultant who reported on socioeconomic impact issues in June 1979 to the President's Commission on Coal and with an official of the Denver Research Institute who has published numerous papers on the subject. Based on these discussions we reviewed 36 of the 96 applications approved by DOE for designation as energy-impacted areas. We selected 16 of these areas on the basis of the criteria used to designate them as energy impacted and 20 of the remaining 80 areas by random sample. We did not determine, however, if the areas designated by DOE were actually impacted by energy development.

This letter will discuss the program, its designation criteria, and the potential for these criteria to assure that funds go only to energy-impacted areas.

BACKGROUND

The Energy Impacted Area Development Assistance Program was established by section 601 of the Powerplant and Industrial Fuel Use Act of 1978 (P.L. 95-620, November 9, 1978). The objective of the program is to help areas impacted by coal or uranium production, processing, or transportation. The program is funded through DOE and administered by the Farmers Home Administration of the Department of Agriculture. It provides grants for both the development of growth management and housing plans and the development and acquisition of sites for housing and public facilities.

For fiscal years 1979 and 1980, \$61 million was allocated to a total of 23 States. Ten percent of that amount, about \$6 million, was for planning grants and the remainder, about \$55 million, was for site acquisition and development. The types of projects currently being

financed under the program include site acquisition for a housing project for the elderly, site development for a water storage facility, water and sewer lines for a housing project, and site acquisition and development for a health complex.

DESIGNATION CRITERIA

The purpose of the program's designation criteria is to ensure that funds are directed to areas adversely impacted by energy development. It appears, however, that both the broadness of the criteria and an error in them as published have resulted in areas qualifying for the program and receiving funds even though they might not be adversely affected by energy development.

Before an area is eligible to apply for assistance, it is designated an energy impacted area by the Governor of the State and approved as such by DOE. Since the program began in 1979, DOE has received 125 applications for designation--104 in fiscal year 1979, 17 in fiscal year 1980, and 4 in fiscal year 1981. As of June 5, 1981, of that total, 96 have been approved, 21 have been disapproved, 4 were withdrawn, and 4 are pending.

DOE reviews the Governors' designations to ensure they comply with the provisions of P.L. 95-620 and the implementing regulations. The law contains the following criteria, each of which an area must meet and the Governor must address in his designation.

- An actual increase in employment in coal or uranium activities (eligible employment) by either 8 percent or more in the immediately preceding year or an expected 8 percent or more increase in each of the next 3 years.
- A substantial increase in housing or public facilities and services required as a result of the increase in employment.
- A lack of financial and other resources by the State and local governments to meet the increase in public facilities and services within a reasonable time.

A consulting firm is under contract to DOE to review the designation and determine that (1) appropriate data was used in justifying the area as impacted, (2) the estimating

procedures are appropriate, and (3) the area meets the criteria specified in the law and regulations. The contractor's findings are then forwarded to DOE who makes the designation determination.

The energy-impacted designation emanates from P.L. 95-620 which requires not only that there is or will be an 8-percent eligible employment increase, but also that a substantial increase in housing or public facilities and services is required as a result of the employment increase. The program's regulations state that this criterion can be met by (1) housing shortage statistics; (2) higher occupancy rates of substandard housing than has historically occurred in the area; (3) data showing that public facilities and services in the area are substandard due to increased coal and uranium activities; or (4) data or projections showing an increase in eligible employment from the year of designation of at least (a) 100 workers or (b) .5 percent of the designated area's population.

Most areas use the fourth method (known as the Proxy Criterion) since it does not require data or statistics demonstrating a direct impact on housing and/or public facilities. The Proxy Criterion shows the relationship between the increase in eligible employment and the area's total population. The increase in eligible employment of .5 percent of the designated area's population is based on an overall 5-percent increase in population which DOE believes is a reasonable level to indicate an area is impacted. The 5-percent population increase reflects not only the increase in eligible employment, but also the employment generated to meet the needs of the new energy industry workers and the number of dependents associated with the increased workers.

Employment increase does not confirm adverse energy impacts

An 8-percent employment increase does not necessarily mean that an area has been adversely impacted by energy development. Other factors such as the ability of the local area to provide the needed workers without significantly increasing its population, the ability of surrounding communities to absorb some of the population increase, and the relationship of the employment increase to the area's total population should also be considered.

An area subject to an 8-percent eligible employment increase could have the personnel resources available within its current population to match these labor requirements. An

example of unemployed workers being able to fill the job requirements of energy development is the four counties in Ohio designated as impacted from the construction and operation of the DOE Piketon Gas Centrifuge Enrichment Plant in Pike County. As of May 1981, the four counties had received \$1 million from the program. The projected employment increase in the area cited in the Ohio growth management plan for the program was based primarily on a DOE funded study of the socioeconomic effects of this plant. This study concludes, however, that the high rate of unemployment in the area will provide a substantial amount of the required work force for the plant, resulting in a less severe impact on the area. According to the study this is because the unemployment rate in the impact area is relatively high in the construction trade and in the labor force that could be drawn upon for operations. Also, employment originally projected to peak at 3,550 workers in 1985 is now projected to peak at only 2,630 in 1984. This will further diminish the impact of the project on the Piketon area.

In some areas of the country energy development is a welcome source of local income and employment. For example, there are parts of Appalachia which are economically depressed, have a high rate of unemployment, and are soliciting industrial development.

In West Virginia, three areas consisting of 29 counties have been designated as energy impacted by DOE since employment in the coal industry is estimated to increase by at least 8 percent a year from 1981 to 1984. Of the 29 counties designated, 25 have an unemployment rate of over 10 percent and 8 of those 25 have an unemployment rate of over 15 percent. Of these 25 counties, 11 have received funding from the program totalling \$6.8 million. The designation criteria, however, do not consider these unemployment rates in determining the 8-percent increase.

Another factor affecting the degree of impact from an employment increase is the ability of communities in surrounding areas to absorb the population increase resulting from energy development. This would especially be true of areas where good transportation networks facilitate commuting to work. In these cases the impact of the increased population resulting from energy development could be diffused to several locations thereby lessening the burden on any one community.

The third factor to consider is the relationship between an area's employment increase and its total

population. The larger the population of an area, the more readily it should be able to absorb increases. For example, an increase in the number of coal miners from 1,000 to 1,080 (8 percent) in an area with a population of 10,000 would represent .8 percent of the population. The same size employment increase in an area with a population of 100,000, however, would only represent .08 percent of the population. Therefore, an area's population should be considered in determining the ability of the area to handle impacts from energy development.

For reasons such as these three factors, P.L. 95-620 requires DOE to determine not only that an area has or is expected to have an 8-percent eligible employment increase but also that the area is or will be impacted from such an increase. We found, however, that due to the broadness of the designation criteria and an error in the criteria as published, areas have qualified for the program and received funds even though they might not be adversely affected by energy development.

Appropriateness of Proxy
Criterion questionable

As indicated earlier, once the employment increase criteria is met, most areas use the Proxy Criterion to qualify for the program as a measure of population increase. Areas with overall estimated population increases of 5 percent can qualify for the program. Although DOE considers such increases to be reasonable levels to indicate areas are impacted, several experts we contacted believe that a 5 percent population increase can usually be absorbed without such adverse impacts.

Generally impacts start to appear when the increase is between 5 and 10 percent. Between 10 and 15 percent the impacts worsen, and anything over 15 percent would usually mean a breakdown in the area's housing market and ability to provide public services. These are general guidelines when impacts would occur and all communities would not fall within them. Small communities, for example, would have a more difficult time absorbing a population increase than a large community and, therefore, may not fall within these percentages.

We randomly selected 20 of 80 eligible areas to determine what their estimated population increases were. (We excluded 16 of the 96 areas which are discussed in the next section.)

We found that 7 of the 20 areas (about 35 percent) had estimated population increases of 5 percent or less. Four of these seven areas have received funds under the program totalling about \$1 million.

Error in Proxy Criterion
as published

In addition to the questionable appropriateness of the Proxy Criterion as a measure of impact, we found an error in the criterion as published which makes it even less restrictive. As originally developed in 1979, the Proxy Criterion stated that an area could demonstrate a shortage in housing or public facilities by showing an increase in eligible employment of at least (1) 100 workers and (2) that this increase was at least .5 percent of the designated area's population. (Underscoring added.) Due to an oversight, however, the Proxy Criterion as contained in the regulations published in the Federal Register on June 19, 1979, inadvertently contained "or" rather than "and" thus making the criterion much less restrictive.

DOE and Farmers Home Administration (FmHA) worked together to develop the regulations for the program. DOE's comments on a draft of the regulations noted the error in the Proxy Criterion and requested FmHA to correct it. FmHA officials told us that they made the correction on an early draft but a revised draft sent to DOE for comment on May 4, 1979, however, inadvertently still contained the error. In its comments on May 7, 1979, to FmHA on this version of the draft, DOE overlooked the error and did not again request FmHA to correct it. The regulations containing the error were subsequently published on June 19, 1979.

DOE did not realize the error remained in the regulations until the Governors' designation applications began to arrive in July 1979. At that time DOE, rather than delaying action on the applications already submitted, asked FmHA to correct the error the next time the regulations were changed. A FmHA official stated it would have taken approximately 6 weeks to formally correct the error in the Federal Register.

In January 1981 DOE and FmHA drafted revised regulations which, among other changes, would correct the error. The current administration's moratorium on the publication of regulations, however, delayed their issuance and a decision on their publication is in final review within FmHA.

In our review we found that, of the 96 areas designated by DOE, 16 areas in 10 States would not have qualified had the Proxy Criterion been stated correctly. Of total program funds of \$61 million, 12 of the 16 areas have received a total of \$3.4 million. Four, while eligible, have not received funds under the program.

Only 4 of the 16 areas showed eligible employment increases of .5 percent or more of their total population-- 2 showed 1.7 percent, 1 showed 1.1 percent, and the other .9 percent. None of these four areas should have been eligible, however, since none had an increase of 100 eligible employees.

Although the other 12 areas had eligible employment increases exceeding 100, they should also not have been eligible since their increases were less than .5 percent of their total population. Their eligible employment increases as a percentage of the area's total population ranged from .01 percent to .4 percent.

Another aspect of the error in the regulations is that it may encourage States to expand the size of the areas designated as impacted in order to meet the increase of 100 employees criterion. Although most of the areas are designated on a county basis, States are permitted to designate any size area as impacted as long as it meets the 8 percent employment increase criterion and the 100 increased employees criterion. For example, the designation of seven counties in one State was made on the basis of a total 3-year projected employment increase of 129. None of these counties, however, would have been eligible individually. One county only showed an increase of 12 employees for the 3 years. The county with the largest increase only had a projected increase of 62 eligible employees. If this area had been required to satisfy both parts of the Proxy Criterion as originally intended by DOE, it would not have been eligible for the program because the increase of 129 employees was only .07 percent of the area's total population, far below the .5 percent intended by DOE.

CONCLUSIONS

Although section 601 of the Powerplant and Industrial Fuel Use Act of 1978 clearly intended that Federal assistance under the Energy Impacted Area Development Assistance Program only be directed to areas adversely impacted by energy development, our analysis indicates that the broadness of the program's designation criteria and an error in them as

published resulted in areas qualifying for the program and receiving funds even though they might not be adversely affected by energy development. We believe that 23 of the 96 areas designated as impacted by DOE might not have been adversely impacted--16 because of the error, 7 because even though they had an 8-percent employment increase, they might not have had a significant population increase. These 23 areas have received about \$4.4 million of the total \$61 million in program funds.

We recognize that the future of this program is unclear. This does not, however, make the issue moot, or argue against actions at this time to better ensure that program assistance goes only to those areas adversely impacted by energy development. Such actions, such as improving the regulations, and reconsidering designation approvals, could make a difference in how the \$10 million remaining for fiscal year 1981 is spent. We believe these actions are warranted to ensure that only qualified areas share in the \$10 million and in any future funds which might be appropriated for this or a similar program.

RECOMMENDATIONS

We recommend that the Secretary of Energy, in cooperation with the Secretary of Agriculture, reassess the appropriateness of the designation criteria implementing P.L. 95-620 to ensure that only areas adversely impacted by energy development are eligible for Federal assistance. This would include a reassessment of the regulations determining whether a substantial increase in housing or public facilities and services has been required by the increase in eligible employment. Particular attention should be given to the appropriateness of the Proxy Criterion as a measure of substantial increase in housing or public facilities and services required as a result of the increase in employment.

After agreement is reached by the Secretaries on regulations which would more effectively direct funds to energy impacted areas, we recommend that the

--Secretary of Agriculture publish revised regulations in the Federal Register, and,

--Secretary of Energy reconsider the designation approvals made under the provisions of the regulations dated June 19, 1979, and rescind those which do not comply with the revised regulations.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made after this 60-day period. The 60-day period starts with the date of this letter.

We are sending copies of this report to interested Congressional Committees. Copies of the report are also available, upon request, to other interested parties.

F. Dennis Roland

J. Dexter Peach
Director

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