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REPORT BY THE

Comptroller General

OF THE UNITED STATES

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Federal Response To The 1976-77 Drought: What Should Be Done Next?

Four Federal agencies provided drought-related loans and grants exceeding \$1 billion to augment water supplies and provided assistance to a large number of drought victims. However, there were problems in administering the drought programs.

To cope more effectively with future droughts, the Congress should direct the Secretaries of Agriculture, Commerce, and the Interior and the Administrator of the Small Business Administration to assess the problems encountered in providing emergency relief during the 1976-77 drought. Based on the results of this assessment--which would build on GAO's work--a national plan should be developed for providing future assistance in a more timely, consistent, and equitable manner.



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This report was prepared at the request of the late Congressman Leo J. Ryan, Chairman, Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-190188

Chairman, Subcommittee on Environment,
Energy and Natural Resources
Committee on Government Operations
House of Representatives


Dear Mr. Chairman:

In accordance with the late Congressman Leo J. Ryan's May 10, 1978, request, this report discusses the Federal Government's effectiveness in lessening the impact of the 1976-77 drought. This report contains recommendations to the Congress on actions needed to cope more effectively with future droughts.

To expedite this report, we did not obtain written agency comments. The matters covered in the report, however, were discussed with appropriate agency officials, and their comments are incorporated where appropriate.

As arranged with your office, we plan to distribute the report 1 day from the date of the report. At that time, we will send copies of this report to appropriate Senate and House Committees; the Office of Management and Budget; and the heads of the Departments of Agriculture, Commerce, and Interior and the Small Business Administration.

Sincerely yours,


Comptroller General
of the United States



D I G E S T

The 1976-77 drought created serious water problems for most of the Nation. Arid Western States relying heavily on water stored in reservoirs for their agricultural and municipal needs were particularly hard hit.

In April 1977, following Presidential and congressional action, Federal programs to lessen the impact of the drought were mounted. In June more than 40 Federal programs, administered by 16 agencies, offered drought relief in the form of loans, grants, indemnity payments, and other forms of assistance to State and local governments, households, farms, and private businesses.

Four Federal agencies were primarily responsible for implementing emergency drought legislation that provided assistance to water users. However, problems in the management and coordination of the various drought relief programs need to be corrected to deal more effectively with future droughts.

NATURE AND EXTENT OF FEDERAL RESPONSE

The drought assistance programs generally fell into two categories: those designed to prevent damage before it occurred by implementing short-term actions to augment water supplies and those designed to make loans to farmers for production losses and to provide working capital to farmers and other businessmen until conditions returned to normal. The various drought relief programs were implemented primarily by the Departments of Agriculture, Commerce, and Interior and the Small Business Administration. The four agencies provided over \$5 billion in loans and grants to drought victims during fiscal

years 1976, 1977, and 1978. About \$1 billion was for short-term emergency actions to augment water supplies. The six Western States of California, Washington, Oregon, Idaho, Nevada, and Arizona received \$512.6 million in drought assistance.

LESSONS LEARNED FOR FUTURE
RELIEF AND ASSISTANCE PROGRAMS

The four agencies generally did a commendable job of establishing the administrative structure to implement and carry out the drought programs in a timely manner. Problems existed in the management and coordination of the various drought programs that involved the augmentation of existing water supplies. For example:

- Some of the emergency legislation was enacted too late and certain drought programs were not implemented in a timely manner, preventing drought victims from receiving assistance. (See p. 12.)
- Numerous loans involving millions of dollars were approved for projects which had little, if any, impact in lessening the effects of the drought. (See p. 13.)
- The eligibility and repayment criteria for the various programs was inconsistent and confusing and resulted in the inequitable treatment of drought victims. (See p. 17.)
- Inadequate coordination among the agencies resulted in overlapping responsibilities and duplication of effort. (See p. 19.)

The four agencies responsible for implementing the emergency drought legislation provided assistance to numerous farmers, communities, businesses, and water user organizations. Late enactment of the legislation, however, precluded implementing certain relief measures that could have had potential for lessening the impact of the drought. Also, the agencies encountered problems in

managing and coordinating the programs that need to be corrected to more effectively deal with the impact of future droughts.

We recommend that the Congress direct the Secretaries of Agriculture, Commerce, and the Interior and the Administrator of the Small Business Administration to assess the problems encountered in providing emergency relief during the 1976-77 drought. Based on the results of this assessment--which would build on GAO's work--a national plan should be developed for providing future assistance in a more timely, consistent, and equitable manner. Issues to be considered in the development of such a plan should be (1) the identification of respective roles of agencies involved to avoid overlap and duplication, (2) the need for legislation to more clearly define those roles, and (3) the need for standby legislation to permit more timely response to drought-related problems.

AGENCY COMMENTS

To expedite issuance of this report, formal written agency comments were not obtained; however, the report was discussed with cognizant agency officials and their comments are included where appropriate.



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ABBREVIATIONS

Bureau	Bureau of Reclamation
EDA	Economic Development Administration
FmHA	Farmers Home Administration
GAO	General Accounting Office
SBA	Small Business Administration

CHAPTER 1
INTRODUCTION

The 1976-77 drought created serious water problems for two-thirds of the country. The West was particularly hard hit. Stringent water rationing measures were implemented in northern California. The Central Valley of California, which provides much of the Nation's agricultural needs, encountered serious water and soil conditions which threatened agricultural production. Arizona faced depletion of underground water sources, and Washington and western Nevada also suffered water shortages. Idaho experienced the worst drought ever recorded as water supplies became exhausted. Oregon was threatened with substantial wheat and livestock losses.

In March 1977 the President outlined to the Congress a program for responding to the Western States drought. Much drought-related legislation was introduced in the Congress and supplemental appropriations to existing programs were provided. The various drought programs were implemented primarily by the Departments of Agriculture, Commerce, and Interior and the Small Business Administration (SBA). These four agencies provided loans and grants amounting to over \$5 billion during fiscal years 1976, 1977, and 1978.

In May 1978 the late Congressman Leo J. Ryan, Chairman of the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, requested that we examine the Federal response to the drought to ascertain the nature and extent of the relief and assistance, the extent to which the programs and projects accomplished their goals, the costs involved, and the lessons learned for future relief and assistance programs.

The President proposed to the Congress a variety of temporary assistance measures designed to lessen short-term drought problems. In response to the President's proposal, the Congress enacted the Act of April 7, 1977, commonly called the Emergency Drought Act of 1977 (Public Law 95-18), the Community Emergency Drought Relief Act of 1977 (Public Law 95-31), and certain provisions of the Supplemental Appropriations Act of 1977 (Public Law 95-26) to bolster existing emergency assistance programs. In June 1977 more than 40 Federal programs, administered by 16 agencies, offered

drought relief in the form of loans, grants, indemnity payments, and other forms of assistance to State and local governments, households, farms and private businesses.

The overriding objective of the President's program was to prevent damage before it occurred by implementing short-term actions to augment existing water supplies. This was to be accomplished by such means as

- digging new wells or rehabilitating old wells,
- transporting water by vehicle or pipeline,
- buying water from growers of lower value annual crops and selling the water to growers of higher value perennial crops, and
- promoting water conservation.

Other Federal programs available to drought victims were designed to provide assistance after damage occurred. Typical of these were the disaster loan programs of the Farmers Home Administration (FmHA) and SBA. The primary purposes of these loans were to aid farmers who had production losses and to provide working capital to farmers and other businessmen until conditions returned to normal.

Disaster loans are made as the result of a "disaster declaration" by the President, Secretary of Agriculture, or the Administrator of SBA. During the drought, disaster loans were also made in counties designated as emergency drought impact areas by the Interagency Drought Coordinating Committee. This committee was formed in April 1977 by the Secretaries of Agriculture, Commerce, and Interior and the Administrator of SBA. The committee agreed to a common procedure for designating emergency drought impact areas which was based primarily on a meteorological drought index.

During 1977 about two-thirds of the counties in the Nation were classified as drought disaster areas. Numerous disaster loans were made to farmers, ranchers, and businessmen in these areas who sustained losses resulting from the drought. In the Western States loans also were made to augment water supplies.

SCOPE

We limited our review to the following six programs administered by the four agencies primarily responsible for providing drought relief.

- Community emergency drought relief program administered by Commerce's Economic Development Administration (EDA).
- Drought emergency program and the emergency fund program administered by Interior's Bureau of Reclamation.
- Emergency loan program and the community program loans and grants administered by Agriculture's FmHA.
- Disaster loan program administered by SBA.

We primarily limited our review to those aspects of these programs that were designed to augment existing water supplies. On May 25, 1978, we issued a report 1/ concerning farm assistance programs administered by FmHA and SBA. The report deals with loans to farmers to cover production losses resulting from the 1976-77 drought.

1/ "Difficulties in Coordinating Farm Assistance Programs Operated by Farmers Home Administration and Small Business Administration," (CED-78-118, May 25, 1978).

CHAPTER 2

NATURE AND EXTENT OF THE FEDERAL RESPONSE

The four Federal agencies were responsible for implementing emergency loan programs in a timely manner. They were confronted with such tasks as establishing field offices, notifying the public, coordinating with State and local governments, hiring temporary personnel, and establishing an administrative structure to implement and carry out the various programs.

The nature and extent of the six drought relief programs are discussed below.

COMMUNITY EMERGENCY DROUGHT RELIEF PROGRAM

The Community Emergency Drought Relief Act of 1977 (Public Law 95-31) provided temporary authority to the Secretary of Commerce to facilitate emergency actions to lessen the impact of the 1976-77 drought. Loans and grants were to be available to applicants in drought-affected communities for projects to implement short-term actions to augment water supplies. Eligible applicants included States, or political subdivisions of States, with a population of 10,000 or more; Indian tribes; and nonprofit organizations.

The act authorized \$225 million; the appropriation was \$175 million. Of the \$175 million, \$109 million was used for loans and \$66 million was used for grants. Two-hundred and sixty-eight projects were approved under the program, and communities in 29 States and Puerto Rico received assistance.

The Western States, particularly California, received the largest share of EDA assistance as shown in the following schedule:

<u>State</u>	<u>Number of projects approved</u>	<u>Dollars</u> (millions)
California	106	\$ 79.2
Washington	45	19.7
Arizona	8	10.0
Idaho	10	3.0
Oregon	13	2.1
Nevada	<u>1</u>	<u>.1</u>
Total	183	114.1
Total--23 other States and Puerto Rico	<u>85</u>	<u>60.9</u>
Total	<u>268</u>	<u>\$175.0</u>

EMERGENCY FUND PROGRAM AND
THE EMERGENCY DROUGHT PROGRAM

Interior had two specific program authorizations to help lessen the effects of the 1976-77 drought. These were the Act of June 26, 1948, ch. 676, commonly called the Emergency Fund Act of 1948 (43 U.S.C. 502, 503) and the Emergency Drought Act of 1977, both administered by the Bureau of Reclamation.

The Emergency Drought Act of 1977 provided authority to appropriate \$100 million to augment, utilize, and conserve water supplies for irrigation farming operations on (1) projects constructed or funded under Federal reclamation law, (2) Indian irrigation projects constructed by the Secretary of the Interior, and (3) irrigation projects financed with non-Federal funds. Certain fish and wildlife activities also were covered. The objective was to mitigate losses and damages caused by the 1976-77 drought.

According to the Bureau of Reclamation, the funds were to be used to (1) establish a "water bank" ^{1/} to assist water users to purchase water from willing sellers, including producers of lower value annual crops, and to redistribute such available water supplies for the maintenance of higher value perennial crops; crops to support dairy, beef, and other breeding stock; and for other uses as appropriate, (2) augment water supplies in 1977 by permitting water-user organizations to undertake construction; develop wells; build pipelines; pump water from dead pool storage, rivers, streams, and drains; and undertake other activities to alleviate the impact of the drought, and (3) conduct studies to identify opportunities to augment, utilize, or conserve water supplies and evaluate potential facilities to lessen the effect of a recurrence of the current emergency and make recommendations to the President and the Congress.

The Emergency Drought Act of 1977 also authorized use of funds available (\$30 million) under the authorities of the Emergency Fund Act of June 26, 1948. The Emergency Fund Act authorized the Bureau of Reclamation to maintain a fund to assure the continuous operation of its irrigation and power systems. The emergency fund is available for defraying expenses which the Commissioner of Reclamation determines are required to be incurred because of unusual or emergency conditions.

Recipients of Bureau assistance were State governments, water-user organizations, Indian groups, and individual irrigators located in 23 States. As shown in the following table, the six Western States collectively received the largest share of Bureau assistance.

1/ Water banking is a concept which would allow water users to temporarily transfer some or all of their water rights to other users. It basically involves the purchase of water from those who have more water than they need by an intermediary or broker and the sale of that water to those who need it.

<u>State</u>	<u>Number of requests approved and obligated</u>	<u>Dollars</u> (millions)
California	87	\$22.6
Washington	43	15.0
Idaho	26	3.0
Arizona	3	1.4
Oregon	21	1.1
Nevada	<u>15</u>	<u>2.3</u>
Total	195	45.4
Total--17 other States	<u>298</u>	<u>28.6</u>
Total	<u>493</u>	<u>\$74.0</u>

EMERGENCY LOANS

FmHA's emergency loan program is authorized by the Consolidated Farm and Rural Development Act (7 U.S.C. 1961, et seq.) to provide credit assistance to established farmers, ranchers, and aquaculture operators when a natural disaster has caused physical damage to property or severe crop production losses. Emergency loans can be made in counties named by the Federal Disaster Assistance Administration as eligible for Federal assistance under a major disaster or emergency disaster declaration made by the President; in counties designated by the Secretary of Agriculture; and in counties designated by FmHA State office directors where 25 or less farms are affected.

To be eligible for an emergency loan the applicant must be: a U.S. citizen; an established farmer doing business as an individual, partnership, or corporation; the owner-operator or tenant managing the farm; and unable to obtain credit elsewhere. Also the applicant must have incurred a loss of at least 20 percent of normal production on a basic farm enterprise.

The Interagency Drought Coordinating Committee designated about 2,000 counties in 36 States as emergency drought

impact areas in 1977. These designations triggered FmHA's emergency loan program.

During fiscal years 1976 and 1977 and the first 8 months of fiscal year 1978, FmHA made 92,601 emergency drought loans amounting to \$3.23 billion. FmHA emergency drought loans made in the Western States are shown below.

<u>State</u>	<u>Number of loans approved</u>	<u>Dollars</u> (millions)
California	724	\$ 71.7
Washington	568	26.2
Oregon	539	34.7
Nevada	53	3.3
Arizona	9	1.1
Idaho	<u>1,368</u>	<u>68.6</u>
Total	3,261	205.6
Total--30 other States and Puerto Rico	<u>89,340</u>	<u>3,025.6</u>
Total	<u>92,601</u>	<u>\$3,231.2</u>

COMMUNITY PROGRAM LOANS AND GRANTS

These loans and grants are authorized by section 306 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926) to develop community water and waste facilities in rural areas and towns of up to 10,000 people. The Supplemental Appropriations Act of 1977 (Public Law 95-26) provided appropriations totaling \$225 million for rural communities that suffered a diminished water supply caused by the drought. The objective of this program is essentially the same as EDA's community emergency drought relief program. EDA's program was directed to communities of over 10,000 people; whereas FmHA's program was directed to communities of 10,000 or less people. A summary of loans and grants obligated under the program is shown in the following table.

<u>State</u>	Number of projects (note a)	<u>Dollars</u> (millions)
California	79	\$ 44.2
Washington	15	3.4
Arizona	0	0
Idaho	26	7.2
Oregon	7	2.3
Nevada	<u>2</u>	<u>.5</u>
Total	129	57.6
Total--All other States	<u>466</u>	<u>166.5</u>
Total	<u>595</u>	<u>\$224.1</u>

a/ FmHA estimate

DISASTER LOAN PROGRAM

SBA's disaster loan program is authorized by the Small Business Act of 1958, as amended (15 U.S.C. 631, et seq.). Under the disaster loan program, SBA is authorized to make loans as determined necessary and appropriate because of floods, riots or civil disorders, or other catastrophes. SBA loans of various types are available to disaster victims, including businesses, homeowners, tenants, non-profit organizations, churches, and social clubs.

Under its disaster loan program, SBA offers two major types of loans--physical disaster loans and economic injury disaster loans. Physical loan funds may be used to repair or replace damaged or destroyed realty, machinery, equipment, and household and other personal property. Economic injury loan funds may be used to pay current liabilities. Also, working capital can be provided for a limited period until conditions return to normal. Disaster loans can be made in counties named by the Federal Disaster Assistance Administration as eligible for Federal assistance under a major disaster declaration made by the President; in counties named by the SBA Administrator; and in counties

adjacent to those named by the Federal Disaster Assistance Administration and the SBA Administrator which are within the same State.

Traditionally, SBA did not make loans to farmers as farm loans were considered FmHA's responsibility. However, Public Law 94-305, enacted on June 4, 1976, amended the Small Business Act to include farmers.

Although SBA implemented its program for farmers in October 1976, it did not make loans available to farmers suffering production losses until July 1977. Initially SBA did not consider a production crop loss due to drought or other weather variance as qualifying as physical property damage. SBA revised its interpretation in June 1977.

Because of crop losses suffered from the drought, large numbers of farmers applied to SBA for loans under its disaster loan program. To meet this demand the Congress appropriated \$1.4 billion.

SBA drought-related disaster loans made through July 10, 1978, in the six Western States are shown in the following table.

<u>State</u>	<u>Physical loss loans</u>		<u>Economic injury loans</u>	
	<u>Number</u>	<u>Amount</u> (millions)	<u>Number</u>	<u>Amount</u> (millions)
California	1,332	\$16.5	433	\$ 34.8
Washington	1,098	53.3	41	4.2
Oregon	475	2.7	79	5.7
Idaho	222	14.0	175	10.2
Nevada	0	0	6	.4
Arizona	<u>0</u>	<u>0</u>	<u>5</u>	<u>.3</u>
Total	3,127	86.5	739	55.6
Total other States and Territories	<u>34,979</u>	<u>1,325.1</u>	<u>a/ 1,756</u>	<u>a/ 89.1</u>
Total	<u>38,106</u>	<u>\$1,411.6</u>	<u>2,495</u>	<u>\$144.7</u>

a/Includes some disaster loans not drought-related.

CHAPTER 3
LESSONS LEARNED FOR FUTURE RELIEF
AND ASSISTANCE PROGRAMS

The four Federal agencies responsible for implementing emergency drought programs provided over \$5 billion and assistance to many drought victims. About \$1 billion was for short-term emergency actions to augment existing water supplies. For those programs involving water augmentation, the agencies were generally unsuccessful in providing the temporary, emergency assistance envisioned by the President and the Congress.

Many factors contribute to this situation, including the fact that a drought, unlike other types of natural disasters, is difficult to define and to cope with. An earthquake, flood, or hurricane happens quickly and the alternatives for emergency action are clear cut and limited. A drought, on the other hand, occurs gradually over a period of time making it difficult to know when or how to react.

We identified problems in the timeliness of the emergency legislation and in the management and coordination of the various drought programs. Specifically we noted:

- Some drought programs were enacted and/or implemented too late to have much effect in augmenting water supplies.
- Inadequate standards for determining the worthiness of projects meant many projects were funded that had little, if any, effect in mitigating the drought.
- Drought victims were treated in an inconsistent, inequitable, and confusing manner because of the differences in program criteria used to determine loan eligibility and repayment requirements.
- Inadequate coordination among the agencies resulted in overlapping areas of responsibility and duplication of effort.

PROGRAMS IMPLEMENTED TOO LATE

The Emergency Drought Act of 1977 was passed by the Congress on April 7, 1977; however, the lack of snowfall made it apparent as early as January that 1977 was going to be another dry year. The timing of the legislation precluded implementing certain relief measures during 1977 that could have had potential for lessening the impact of the drought.

For example, the Congress originally authorized \$75 million of the Bureau of Reclamation's \$130 million appropriation for a water purchase and reallocation program. As envisioned, this program, referred to as the water bank program, would assist growers of higher value perennial crops and crops supporting cattle herds and other breeding stock in purchasing water from growers of lower value annual crops.

Although the Bureau had moderate success with the water bank program in California, the program was ineffective in other Western States. Of the \$75 million authorized for the water bank program, the Bureau obligated only \$4.8 million. The water bank program was unsuccessful because, by the time the act was passed and implemented, most farmers of lower value annual crops had already planted their fields and were committed to using their water supplies. If the act had been passed before the farmers planted, the Bureau believes the program would have been more successful. Due to the program's lack of success, the Congress subsequently amended the legislation on August 17, 1977, to permit the Bureau to use water bank funds to undertake other drought relief measures.

Another program that was not implemented in a timely manner was the Bureau's loan program to individual irrigators. Normally the Bureau is geared to contracting with water user organizations and thus did not believe it had the necessary staff and facilities to handle drought assistance loans to individual irrigators. The Bureau subsequently entered into an agreement with FmHA to handle this particular loan program. The time required to reach a working agreement delayed implementation of the program during the growing season from April to August 1977.

PROJECTS APPROVED THAT DID
NOT RELIEVE THE DROUGHT

We found that Federal agencies funded new water systems or the rehabilitation of older systems which the loan applicants were already planning to build or rehabilitate to handle long-term water needs before the drought occurred. In other cases, projects were constructed that did not provide any water during 1977. In fact, construction on some projects did not begin until after the drought was declared over. The drought, it appears, provided a low-cost source of Federal financing for constructing projects to meet future needs. While the approval of such projects did not meet congressional intent of short-term emergency actions to augment existing water supplies, the projects may provide benefits in dealing with future droughts. Several examples follow.

Economic Development Administration

EDA provided Kennewick, Washington, with \$2.29 million (a \$545,000 grant and a \$1.745 million loan) to develop two wells and construct water distribution lines. The city was in the process of making these improvements before the drought occurred. The city had obtained its environmental assessment determination during January 1975 and had received construction bids during May 1976.

A city official told us that Kennewick's population had been increasing by 10 percent annually and that the city had been looking for a new source of water. He said, "It was a fortunate coincidence that the drought came along," and provided Federal funds for the project.

In another case EDA provided Tracy, California, with \$5.2 million (a \$1 million grant and a \$4.2 million loan) to construct a water treatment plant and transmission line. The city had a long-standing problem of deterioration in its water quality which was aggravated by the drought. EDA recognized that the plant could not be completed by April 30, 1978, as required by the enabling legislation, and obtained a waiver until September 1978.

The city was planning this project before the drought occurred but was having problems obtaining financing because Tracy voters had turned down a \$9 million bond issue 3 years earlier. The EDA engineer reviewing the project and a Tracy official said the water quality problem would not be critical enough to require the treatment plant and transmission line for at least 2 years, or about 1980.

During our review, Commerce's Assistant Secretary for Economic Development, responding to our view that many of the projects reviewed did not appear to be limited to short-term actions as intended by the Community Emergency Drought Relief Act, stated:

"Although EDA's guidelines stipulated that assistance under the program would be limited to offsetting significant hardships caused by a shortage of water attributable to the 1976-1977 drought, such assistance may concurrently provide or conserve water in subsequent years. For example, a new storage tank or repairs to leaking water mains address not only immediate needs but serve a community in future years as well. Similarly, it is important to point out that the fact that a particular water project had been planned prior to the impact of the 1976-1977 drought does not mean that the project did not address short-term problems caused by that drought. Numerous jurisdictions discovered that water system improvements planned previously became immediate necessities as a result of the drought and expenditures to carry out such improvements were legitimate under the Emergency Drought Program."

We agree that a particular project may provide both long- and short-term benefits. However, the act provides for

"grants and loans to applicants in drought impacted areas for projects that implement short-term actions to augment community water supplies where there are severe problems due to water shortages."

The Assistant Secretary for Economic Development, testifying in favor of the bill which became the Community Emergency Drought Relief Act, said:

"The intention of this program is clearly an emergency reaction and effort to deal with the here-and-now drought situation. We believe that it is important to move quickly and to develop those kinds of projects which can provide some immediate relief. This is not intended to be a program that is designed and directed toward mitigating the longer term water problems that exist."

"These would have to be taken care of through other legislation and programs. What we are talking about * * * is an attempt to respond quickly to the immediate needs and to undertake those sort of emergency kinds of water relief projects and activities which can provide some immediate relief.

"The kinds of projects we are talking about, if they have any effect or impact must be quickly mounted and quickly completed so that the water supplies in the affected areas can be augmented and increased."

While a project designed for short-term relief might also have long-term benefits, we believe that the primary purpose of any project made possible by the act is short-term drought relief, and that long-term projects which may have incidental short-term benefits are not thereby brought within the act's purpose. The final completion date of April 30, 1978, does not operate to change the short-term nature of the act, but rather is a recognition that in some cases there would be delays in completion of the short-term projects envisioned by the act.

Bureau of Reclamation

The Bureau loaned the Jacobs Rancho Water Company \$500,000 to drill five deep wells. The company normally purchases its entire supply of water but was only able to obtain about one-third of its normal supply in 1977 because of the drought.

Although the repayment contract between the company and the Bureau was signed on September 30, 1977, the company did not issue its contract for digging wells until early January 1978. By that time, it had started to rain and the project was delayed because the heavy well-drilling equipment could not get to the muddy well sites. Further delays in contracting and construction resulted in the project not being completed until April 1978.

An engineer with the company advised us that the new wells will not be used in 1978 because the surface supply of water will be sufficient to grow normal crops. He indicated that the wells will be used when the farmers decide to change their cropping patterns to grow more profitable, higher water-use crops.

Farmers Home Administration

Agriculture's internal auditors issued an audit report dated March 16, 1978, concerning FmHA's community water and waste disposal program in California. A portion of that report concerned the emergency drought assistance provided to communities of less than 10,000 population.

The auditors' findings were similar to our findings at EDA--projects were approved to correct problems not caused by the drought. We did not duplicate the work of the internal auditors; however, because their report further demonstrates the need for improvement in the program we are including a summary of their findings below.

"The State office obligated the use of emergency drought funds without adequate documented justifications. The bulk of documentation indicated that four of the six projects we reviewed were to correct problems not caused by drought. Problems of diminished water supplies were not documented for these loans."

For example:

"Project No. 9 consisted of a \$356,800 loan and an \$89,200 grant from emergency drought funds to construct a one-million gallon storage tank. This tank was needed to replace an existing one-million gallon reservoir. The engineering report stated: 'For the last few years, the original reservoir as well as the additions to the reservoir walls began showing signs of cracking. As a result. . . the city is limited to the original storage capacity of 380,000 gallons.' The report further states, 'the loss from the reservoir may vary between two to six gallons per minute from the lower portion (underground). The upper portion of the reservoir cannot at all be utilized.'

"This city purchases its water supply from a neighboring water facility. Because of the drought, the supplier had imposed a surcharge of \$62 per acre foot for water consumption over 90 percent of usage during the same period of the previous year. The deterioration of the reservoir was not caused by the drought, and the city's water supply was not actually reduced. The surcharge did not reduce supply, it only increased water costs to encourage conservation."

Small Business Administration

The drought ended in early 1978; nevertheless, between February 10, 1978, and July 10, 1978, the agency approved 309 loans for well drilling in California totaling about \$5.4 million. This represents about 33 percent of the \$16.5 million SBA spent for well drilling in California during the drought.

We believe many of the physical disaster loans approved after the drought ended had little, if any, impact in lessening the effects of the drought. SBA officials contend, however, that the wells may be useful as an alternative water source.

INCONSISTENT CRITERIA FOR DETERMINING ELIGIBILITY AND REPAYMENT

The emergency drought programs suffered from inconsistent, inequitable, and confusing eligibility and repayment requirements. For example, FmHA required that an applicant be a U.S. citizen; the other agencies did not. EDA and FmHA made outright grants of up to 50 percent of construction costs on many projects; the other agencies did not make grants (except for fish and wildlife purposes or to State governments). Although the Bureau did not charge interest on its loans, the other agencies charged interest ranging between 1 percent and 6-5/8 percent, as required by legislation. Each of the agencies used different procedures for determining the period of loan repayment.

These program differences occurred because the emergency legislation required the agencies to provide assistance in accordance with existing statutory authority. For example, the Bureau usually provides interest-free loans. Other agencies also provide loans, but they normally charge interest. Differences such as this carried over into the emergency drought programs, resulting in drought victims being treated in an inconsistent, inequitable, and confusing manner.

Following is a summary of the different criteria for the various drought relief programs for individual farmers and agricultural irrigation districts.

Individual farmers

A farmer could apply for a drought assistance loan from either the Bureau, SBA, or FmHA. FmHA administered the Bureau's loan program to farmers using Bureau criteria.

Major program differences

- An applicant for an FmHA loan must be a U.S. citizen. There is no citizenship requirement for a Bureau or SBA loan.
- FmHA applicants and SBA economic injury applicants must demonstrate they are unable to obtain credit elsewhere. The "credit elsewhere" test is not required for Bureau or SBA physical disaster applicants.
- FmHA applicants must demonstrate that they have suffered a minimum 20 percent loss of normal per acre production. Bureau and SBA applicants are not required to meet a minimum loss criteria.
- Loans to Bureau applicants are interest free. The interest rate on SBA's economic injury and physical disaster business loans is 3 percent on the first \$25,000 and \$250,000, respectively. FmHA's loans also bear interest at 3 percent on the first \$250,000. Above these amounts, SBA's interest rate is 6-5/8 percent and FmHA's interest rate is 5 percent.

Agricultural irrigation districts

Irrigation districts could apply to EDA or the Bureau for drought assistance loans.

Major program differences

- EDA applicants whose projects addressed public health and safety automatically received a grant of 20 percent of total project costs. The grant could be increased to 50 percent if the applicant could show that repayment of a loan greater than 50 percent would be an undue financial burden. Bureau applicants were not entitled to grants.
- EDA applicants pay 5 percent interest on their loans. Bureau loans were interest free.

--EDA applicants were not required to demonstrate financial need to qualify for a loan; Bureau applicants were.

INADEQUATE COORDINATION
AMONG FEDERAL AGENCIES

Many of the problems associated with the implementation of the drought programs are attributable to a lack of coordination among the four agencies. The agencies allowed their programs to overlap and did not establish uniform standards and criteria for determining what constituted an eligible drought-relief project. As a result, we found several instances where applicants applied for loans to more than one agency. In some cases, applicants' loan requests would be approved by one agency and disapproved by another. In other cases, both agencies would approve loan requests and applicants accepted loans which offered the best deal.

For example, the Solano irrigation district submitted two loan applications, one for five wells having an estimated cost of \$200,000 and another for pipelines, pumps, a storage tank, and other equipment estimated to cost \$700,000. The Bureau determined that the wells were unnecessary because the district had an adequate water supply. The Bureau continued processing the second application for \$700,000 even though some question existed as to whether the proposed facilities were drought-related. Before processing was completed, the district withdrew its drought loan application because it had received funding approval from EDA for the wells and the distribution system.

In another case, the Oakdale irrigation district submitted a drought loan application on May 2, 1977, for piping and lining open ditches, rebuilding 10 pumps, and constructing one well. The district estimated the cost of this work at \$800,000 and proposed a loan repayment period of 20 years. In processing the loan application, the Bureau analyzed the district's payment capacity and determined that the loan could be repaid within 5 years. This district was notified to this effect, and on August 1, 1977, the district notified the Bureau that they had obtained a combination loan and grant from EDA. Although the loan would bear a 5 percent interest rate, it could be repaid over 40 years.

In yet another case, the Oroville-Wyondotte irrigation district submitted a drought loan application in June 1977 requesting \$100,000 for the repair and replacement of various water distribution facilities. On July 11, 1977, the Bureau notified the district that the application had not been approved because the district had sufficient funds to pay for the planned work. Funding was subsequently obtained from EDA for a similar project. This situation stemmed from the fact that the Bureau required an applicant to show financial need to be eligible, whereas EDA did not.

Similar problems of coordination were noted between the programs of FmHA and SBA. For example, an applicant contacted FmHA concerning a loan and was referred to SBA. He then applied to SBA for a \$871,000 economic injury loan, but his request was declined. SBA's basis for declining the loan was (1) the applicant's financial condition was not caused by the drought and (2) the applicant could not repay the loan and other obligations from earnings. The applicant then applied to FmHA and received a \$926,000 emergency loan for crop losses and major readjustments.

In another case, SBA approved a \$165,000 physical disaster loan for well drilling. Just prior to disbursing the funds, the applicant told SBA that:

"We would very much appreciate a further period to consider whether we wish to pursue our application for the subject loan. Certain other government programs for drought relief financing are being investigated and a period of study of the various options available is required."

We contacted FmHA concerning this applicant and were told that a \$10.6 million emergency loan had been approved for crop losses, annual operating loans, and major readjustments.

In another case, we found an applicant had obtained an emergency loan from FmHA for crop losses and a loan from SBA for a well under the physical disaster homeowners program.

In the GAO report 1/ on coordination between FmHA and SBA, we pointed out that questionnaires were sent

1/ "Difficulties in Coordinating Farm Assistance Programs Operated By Farmers Home Administration and Small Business Administration," (CED-78-118, May 25, 1978).

to farmers asking whether they had applied to both agencies for disaster loans. Of the 532 farmers who responded, 55, or about 10 percent, said they had applied to both agencies. We recommended that the Small Business Act be amended so that SBA is no longer authorized to make loans to farmers. This would eliminate the overlapping responsibilities of SBA and FmHA.

CONCLUSION AND RECOMMENDATIONS

The four Federal agencies responsible for implementing the emergency drought legislation provided assistance to numerous farmers, communities, businesses, and water user organizations. Late enactment of the legislation, however, precluded implementing certain relief measures that could have had potential for lessening the impact of the drought. Also, the agencies encountered problems in managing and coordinating the programs that need to be corrected to more effectively deal with the impact of future droughts.

We recommend that the Congress direct the Secretaries of Agriculture, Commerce, and the Interior and the Administrator of SBA to assess the problems encountered in providing emergency relief during the 1976-77 drought. Based on the results of this assessment--which would build on GAO's work--a national plan should be developed for providing future assistance in a more timely, consistent, and equitable manner. Issues to be considered in the development of such a plan should be (1) the identification of respective roles of agencies involved to avoid overlap and duplication, (2) the need for legislation to more clearly define those roles, and (3) the need for standby legislation to permit more timely response to drought-related problems.

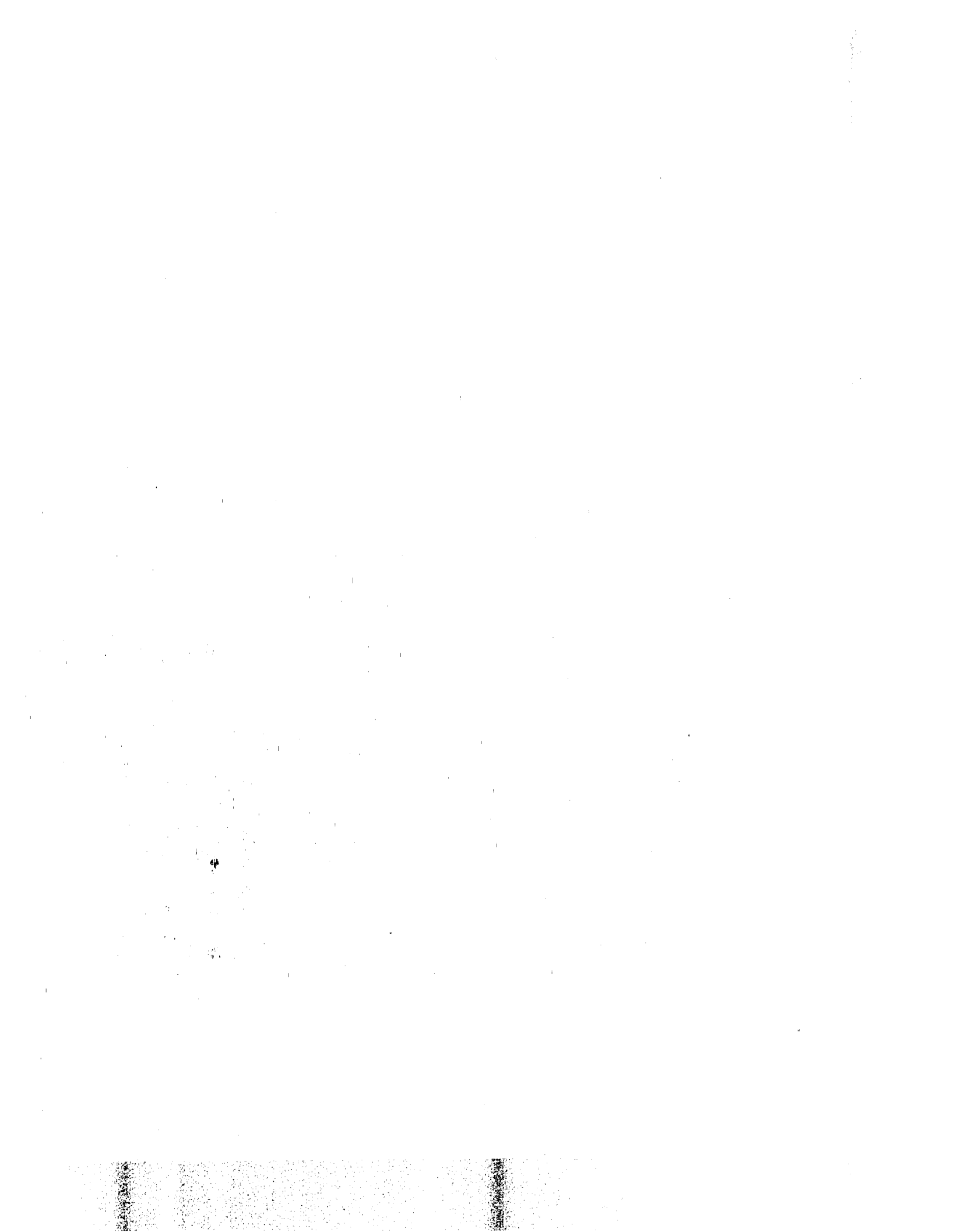
Effective implementation would require the establishment of uniform criteria for determining

- priorities for the type of projects to be constructed;
- the eligibility of applicants; and
- interest rates, terms, and repayment requirements for loans.

AGENCY COMMENTS

To expedite issuance of this report, formal written agency comments were not obtained; however, the report was discussed with cognizant agency officials and their comments are included where appropriate.

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