Taxpayer billions could fall short in creating new jobs, more efficient cars

Energy Department doles out corporate loans without checks on spending or goals

By Ronnie Greene and Matthew Mosk | March 31, 2011

Tesla Motors was one of the companies selected to receive loans from an Energy Department program meant to create jobs and spur development of fuel-saving cars. Other recipients include Ford Motor Co., Nissan North America and Fisker Automotive. Credit: Emma Schwartz/CPI

An Energy Department loan program meant to create jobs and spur development of fuel-saving cars — bestowed with $25 billion in public money — lacks clear benchmarks to ensure taxpayers' dollars are properly spent or that the goals are achieved, a new Government Accountability Office report concludes.

Short of funds, the program might not even be able to lend the full $25 billion approved by Congress — creating even fewer jobs than envisioned.

This latest criticism of Energy Department grants and loans follows earlier inquiries that have raised questions about whether the Obama administration is favoring certain companies in awarding federal aid, including money intended to stimulate the economy by creating jobs.

As the Center for Public Integrity has reported, a number of green firms financed by major fundraisers to President Obama's 2008 campaign — such as California politician-turned-venture capitalist Steve Westly — obtained hundreds of millions of dollars in federal grants, loans and stimulus money. After Westly raised more than half a million dollars for Obama's campaign, companies in his venture firm portfolio secured half a billion dollars in Energy Department grants and loans. White House and energy officials say those awards were won on merit, and that political support plays no role in the process.

The report by the GAO, the investigative arm of Congress, focuses on the Advanced Technology Vehicles Manufacturing (ATVM) loan program, which has infused five companies with more than $8

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billion in loans. Those dollars are intended to help the likes of the Ford Motor Co. and Nissan North America, as well as cutting-edge electric carmakers Tesla Motors and Fisker Automotive, expand their fleets of fuel efficient autos.

By helping companies develop more efficient cars, the Obama administration said it hoped to encourage other companies and consumers to sell and buy them. Obama has said he aims to put 1 million electric vehicles on the road by 2015. In addition to grants and loans, he proposes a $7,500 tax credit for consumers — expected to spur sales of vehicles made by companies such as Tesla.

The Energy Department, which has supplied the ATVM loans since 2009, had three goals: To boost fuel economy in U.S. passenger cars and advance American auto technology while protecting the financial interest of taxpayers.

But whether the government can determine if the program has achieved those goals is more than open to question. The Energy Department "lacks sufficient performance measures that would enable it to fully assess whether the ATVM program has achieved its three goals," the GAO concluded.

In particular, investigators found the department "lacks performance measures" allowing it to assess success in "advancing automotive technology and protecting taxpayers' financial interests."

The GAO also concluded that the department may not be able to loan the full $25 billion because of higher-than-expected credit subsidy costs associated with earlier loans, "in part, a reflection of the risky financial situation of the automotive industry at the time the loans were made.

"As a result of the higher credit subsidy costs, the program may be unable to loan the full $25 billion allowed by statute."

The report comes amid escalating scrutiny of spending in a department infused with $35 billion in federal stimulus money to complement its annual $28 billion budget.

Last year, the GAO chided the Energy Department for its handling of other loan programs geared toward new technologies and reducing emissions, finding that the department "had treated applicants inconsistently in the application review process, favoring some applicants and disadvantaging others."

The Energy Department's inspector general, Gregory Friedman, said his office has 64 open investigations centered on stimulus spending. They include "the directing of contracts and grants to friends and family," Friedman told the House Energy and Commerce Subcommittee on Oversight and Investigations earlier this month.

And, a joint investigation by the Center for Public Integrity and ABC News found that department grants, loans and loan guarantees have flowed to energy firms financially supported by fundraisers for President Barack Obama. The White House said political connections play no factor in the contract awards.

The ATVM program has faced questions from companies shut out from its money flow. To date, 130 companies have applied for funding yet just a handful have won the loans.

One of the firms turned down for funding in that loan pool complained in a five-page letter to Energy Secretary Steven Chu in September 2009 that it had been given no reason for its rejection and had to call the Energy Department multiple times to learn what happened. "DOE reviewers never even talked to the founder, inventor, engineers, project leads or primary contractors to obtain additional information," said the letter from the California electric car maker, XP Vehicles, Inc., obtained under the Freedom of Information Act.

Efforts to analyze the criteria the Energy Department has used to select the companies that have received federal loans or loan guarantees have proved challenging, even for government auditors.

The author of the GAO's recent energy reports, Frank Rusco, said in an interview that Energy Department officials used an opaque process to select loan recipients in programs the GAO explored last year. He said the agency could not, or would not, explain why some companies were given a quick green light for approval, while others waited years for a response.

"I think it's problematic," Rusco said. "I think they need to have a systematic, transparent and equitable process. And I think if they're not seen to have that, it's going to create issues, it's going to create perception problems. And there may be real problems underlying this as well that we haven't uncovered yet."

Top energy officials say that the loan program took time to get rolling, but is now overseen by 175 professionals who rigorously scrutinize applicants and attempt to support companies with the best hope of creating sustainable jobs.

In the ATVM program, the GAO suggested the Energy Department retain more engineering expertise to "to verify that borrowers are delivering projects as agreed" and develop more quantifiable performance goals.

The Energy Department disagreed with those suggestions, saying it has the appropriate engineering expertise at this early stage of the projects, and that GAO's suggestions involving expanded performance goals would "greatly expand the scope of the program and do not appear consistent with the intent of Congress."

Jonathan M. Silver, executive director of the Energy Department's loan programs office, told the GAO the department set up a rigorous application screening process and closely monitors the financial condition of borrowers.

The GAO, however, said the department should be doing more, particularly with so much money at stake.

"By not engaging engineering expertise to aid ATVM staff in monitoring the projects, DOE has not taken appropriate steps to become adequately informed about the technical progress of the projects," GAO concluded. "Thus, DOE cannot be assured that the projects are on track to deliver the vehicles as agreed nor be in a position to require the borrowers to make any corrections in a timely and efficient manner."

Matthew Mosk is a reporter for ABC News. This story was a collaboration between the network and the Center for Public Integrity.

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