

May 2011

TARP

Treasury's Exit from GM and Chrysler Highlights Competing Goals, and Results of Support to Auto Communities Are Unclear



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Why GAO Did This Study

Since December 2008, the Department of the Treasury (Treasury) has committed \$62 billion in Troubled Asset Relief Program (TARP) funding to General Motors (GM) and Chrysler. Under GAO's mandate to oversee TARP, this report addresses (1) how restructuring with federal assistance has affected GM's and Chrysler's financial condition, (2) what Treasury has done to ensure that it disinvests in GM and Chrysler so as to protect taxpayers' interests and what risks remain in recouping its investments, and (3) how restructuring has affected auto communities and what the White House Council on Auto Communities and Workers (Council) and its staff in the Department of Labor's Office of Recovery for Auto Communities and Workers (Auto Recovery Office) have done to mitigate these effects. GAO reviewed documents on the companies' financial performance and federal assistance to auto communities and interviewed company, Treasury, and community officials.

What GAO Recommends

GAO recommends that the Secretary of Labor report to Congress how the Auto Recovery Office has helped auto communities and its future plans, and that Congress consider not funding the office unless this information is provided. The Department of Labor agreed with parts of the recommendation, provided additional information on the office's activities, and stated that it would identify the office's future plans in the next 60 days.

View [GAO-11-471](#) or key components. For more information, contact A. Nicole Clowers (clowersa@gao.gov) at 202-512-8678.

TARP

Treasury's Exit from GM and Chrysler Highlights Its Competing Goals, and Results of Support to Auto Communities Are Unclear

What GAO Found

Substantial federal assistance allowed GM and Chrysler to restructure their costs and improve their financial condition. Through federally-funded restructuring, GM and Chrysler reported lowering production costs and capacities by closing or idling factories, laying off employees, and reducing their debt and number of vehicle brands and models. These changes enabled both companies to report operating profits and reduce costs enough to be profitable at much lower sales levels than ever before. Nevertheless, to remain profitable, both companies must manage challenges affecting both their costs, including debt levels, and vehicle demand, such as launching products that are attractive to consumers amid rising fuel prices.

Treasury has recouped roughly 40 percent of its investments in GM and Chrysler, but the extent to which it will further recoup its investments depends on how it balances two potentially competing goals for divestment—to maximize taxpayers' return and to exit the companies as soon as practicable. By participating in GM's November 2010 initial public offering (IPO), Treasury tried to fulfill both goals, selling almost half of its shares at an early opportunity. In preparation for the IPO, Treasury took steps to protect taxpayers' interest, such as hiring an adviser to provide analysis and support, as GAO previously recommended. Treasury received \$13.5 billion through the IPO; yet, for Treasury to fully recoup its investment, GM's share price will have to increase from the \$33 Treasury received in the IPO to an average of over \$54—a higher price than industry analysts estimate over roughly a 6 to 18 month period. Chrysler's value would have to grow above historic levels for Treasury to recoup its investment. In divesting from the companies, Treasury may find its interest in exiting as soon as practicable at odds with the potential to increase taxpayers' return by waiting for the remaining shares to rise in value.

While federally-funded restructuring allowed GM and Chrysler to remain in business, and therefore benefited communities where auto work continued, communities where plants were idled or closed experienced economic challenges beyond those they already faced. The Council and the Auto Recovery Office, which were established to help auto communities navigate federal programs, have brought federal attention to auto communities. However, communities that GAO visited had mixed views on the results of these efforts. Furthermore, the Council has not completed two of the four functions set forth in the executive order establishing it, and neither the Council nor its staff have demonstrated the results of their efforts. Although the Council is set to expire in June 2011 unless renewed by the President, fiscal year 2012 funding has been requested for the Auto Recovery Office to continue its efforts.

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Abbreviations

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| AIFP | Automobile Industry Financing Program |
| CBO | Congressional Budget Office |
| EESA | Emergency Economic Stabilization Act of 2008 |
| EPA | Environmental Protection Agency |
| GDP | gross national product |
| GM | General Motors |
| HPI | Housing Price Index |
| IPO | initial public offering |
| SEC | Securities and Exchange Commission |
| TARP | Troubled Asset Relief Program |
| UAW | United Automobile, Aerospace and Agricultural Implement Workers of America |
| VEBA | Voluntary Employee Beneficiary Association |
| WIA | Workforce Investment Act |

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United States Government Accountability Office
Washington, DC 20548

May 10, 2011

Congressional Committees

In late 2008 and early 2009, the Department of the Treasury (Treasury) provided unprecedented support to two of the nation's three largest auto manufacturers—General Motors (GM) and Chrysler—after deteriorating economic conditions resulted in a dramatic decline in auto sales and significant financial losses to these companies.¹ Through the Automotive Industry Financing Program (AIFP) under the Troubled Asset Relief Program (TARP), Treasury committed \$62 billion to help GM and Chrysler continue operating while restructuring into more viable companies.² As we previously reported, the companies' restructuring efforts addressed some of their key challenges, including reducing their reported debt and labor costs, consolidating production, and rationalizing their dealership networks.³ While Treasury has begun to recoup its investment in these companies—most notably, through GM's initial public offering (IPO) in November 2010—more than \$34 billion of Treasury's assistance to GM and Chrysler remains to be recovered.

As GM and Chrysler restructured, many communities that relied heavily on these companies and their suppliers for employment and economic investment faced plant closures and workforce reductions, among other

¹Prior to bankruptcy reorganization, the companies' legal names were Chrysler LLC and General Motors Corporation. Chrysler Group LLC and General Motors Company are new legal entities that were created through the bankruptcy process to purchase the operating assets of the pre-reorganization companies.

²Emergency Economic Stabilization Act of 2008 (EESA), Pub. L. No. 110-343, 122 Stat. 3765 (2008) (codified at 12 U.S.C. §§ 5201 *et seq.*). EESA originally authorized Treasury to purchase or guarantee up to \$700 billion in troubled assets. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, 123 Stat. 1632 (2009), amended EESA to reduce the maximum allowable amount of outstanding troubled assets under EESA by almost \$1.3 billion, from \$700 billion to \$698.741 billion. While the Secretary of the Treasury extended the authority provided under EESA through October 3, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Pub. L. No. 111-203, 124 Stat. 1376 (2010), enacted on July 21, 2010, (1) reduced Treasury's authority to purchase or insure troubled assets to \$475 billion and (2) prohibited Treasury from using its authority under EESA to incur any additional obligations for a program or initiative unless the program or initiative already had begun before June 25, 2010.

³GAO, *Troubled Asset Relief Program: Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM*, GAO-10-151 (Washington, D.C.: Nov. 2, 2009).

effects, while facing already precarious economic conditions. Anticipating the possible effects of the companies' restructuring, in June 2009, the Administration created the White House Council on Automotive Communities and Workers (Council)—made up of representatives from over 20 federal agencies and councils—to coordinate a federal response to issues affecting communities that rely on GM, Chrysler, or other auto companies and suppliers and demonstrate the Administration's commitment to providing these communities with support in recovering from changes in the auto industry. The staff for the Council is housed within the Department of Labor's Office of Recovery of Auto Communities and Workers (Auto Recovery Office).

As part of our statutorily mandated responsibilities for providing timely oversight of TARP, we are continuing to monitor Treasury's assistance to the auto industry, including the effect of restructuring on communities that rely on the auto industry.⁴ This report will explore: (1) how restructuring with federal assistance has affected GM's and Chrysler's reported financial condition; (2) steps that Treasury has taken to ensure that the disposition of its investments in GM and Chrysler is designed and timed to protect taxpayers' interests and the risks that remain in recouping Treasury's investments; and (3) the effects of GM's and Chrysler's restructuring on communities that rely on the auto industry as their economic base and the assistance that the Council and the Auto Recovery Office provided to mitigate those effects.

To determine how restructuring with federal assistance has affected GM's and Chrysler's financial condition, we reviewed the companies' audited and unaudited financial statements filed with the Securities and Exchange Commission (SEC), selected documents from their bankruptcy proceedings, and company-provided data. We interviewed representatives of the companies and industry analysts and experts. To identify the steps that Treasury has taken to ensure that the disposition of its investments in GM and Chrysler is designed and timed to protect taxpayers' interests and the risks that remain in recouping Treasury's investments, we reviewed available documents from Treasury related to its oversight of and plans to

⁴EESA requires GAO to report at least every 60 days on findings resulting from, among other things, oversight of TARP's performance in meeting the purposes of the act, the financial condition and internal controls of TARP, the characteristics of both asset purchases and the disposition of assets acquired, TARP's efficiency in using the funds appropriated for the program's operation, and TARP's compliance with applicable laws and regulations.

divest itself from its auto company investments, including Treasury's press releases and guidance. We interviewed officials from Treasury's Office of Financial Stability—the office created to administer TARP—about their continuing efforts to monitor and divest the government's financial interests in the auto companies. We also interviewed officials with Lazard Frères & Co. LLC (Lazard), Treasury's financial adviser for its auto company investments, to discuss the analyses and support Lazard provided on the disposition of Treasury's investments in GM and Chrysler. We also reviewed analysis prepared by Lazard for Treasury as the department prepared for GM's IPO.

To examine the effects of GM's and Chrysler's restructuring on communities that rely on the auto industry as their economic base, we used data from the Council, Brookings Institution, GM, and Chrysler to select six case study communities in which a GM or Chrysler plant was closed or idled between 2008 and 2010 and the auto industry employment base was more than twice the national average. Our case study communities include (1) Detroit, Michigan; (2) Flint, Michigan; (3) Dayton/Moraine, Ohio; (4) Mansfield, Ohio; (5) Wilmington, Delaware; and (6) Nashville/Spring Hill, Tennessee.⁵ To identify the assistance provided by the Council to these communities to help mitigate the effects of restructuring, we reviewed the executive order establishing the Council and the Council's 2010 annual report. We interviewed officials from the Council and each case study community, including the city mayor's office and economic development, chamber of commerce, and community college officials. To assess the reliability of GM's and Chrysler's financial information, as well as the Bureau of Labor Statistics' unemployment data and the Federal Housing and Finance Agency's housing price index data, we (1) reviewed existing documentation related to the data sources and (2) tested for missing data, outliers, and obvious errors in the data. We determined that the data were sufficiently reliable for the purposes of our report.

We conducted this performance audit from May 2010 to May 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence

⁵For the purpose of this report, we consider Dayton and Moraine, Ohio, to be one auto community given Dayton's proximity to Moraine—the location of GM's closed assembly plant—and Nashville and Spring Hill, Tennessee, to be one auto community given Nashville's proximity to Spring Hill—the location of GM's idled assembly plant.

obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

TARP Assistance for Restructuring GM and Chrysler

Through AIFP under TARP, Treasury committed \$62 billion to GM (\$49.5 billion) and Chrysler (\$12.5 billion) to support the companies during their restructurings as they attempted to return to profitability.⁶ As a condition of receiving this federal assistance, the companies were required to submit plans to Treasury that would, among other things, identify how the companies intended to achieve and sustain long-term financial viability. These plans established targets for addressing some of the companies' key challenges to achieving viability, including reducing debt, reducing numbers of brands and models, rationalizing dealership networks, and reducing production costs and capacity. To effectuate the restructuring plans, both companies filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Through the bankruptcy process, the newly organized Chrysler and GM purchased substantially all of the operating assets of the old companies under a sale pursuant to Section 363 of the bankruptcy code. After the respective sales in June 2009 and July 2009, the new Chrysler and new GM began operating with substantially

⁶The \$12.5 billion committed to Chrysler includes \$2.1 billion that had not been drawn as of April 1, 2011. AIFP also provided funding to support certain automotive finance companies, Chrysler Financial (\$1.5 billion) and GMAC, Inc. (now Ally Financial, Inc.) (\$16.3 billion), which are not discussed in this report. Additionally, GM received a \$884 million loan to participate in GMAC/Ally Financial's rights offering. Treasury exchanged this loan for a portion of GM's equity in GMAC/Ally Financial. As a result, Treasury initially received 35.4 percent common equity interest in GMAC/Ally Financial. The GM loan was terminated, but GM paid \$9 million in interest on the loan to participate in GMAC/Ally Financial's rights offering before the loan was terminated. In addition, under AIFP, Treasury established two programs—the Auto Supplier Support Program and the Warranty Commitment Program. The Auto Supplier Support Program was designed to ensure that automakers receive the parts and components they need to manufacture vehicles and that suppliers have access to liquidity on their receivables. Under this program, GM and Chrysler received loans, both of which have been repaid. The Warranty Commitment Program was designed to mitigate consumer uncertainty about purchasing vehicles from the restructuring automakers by providing funding to guarantee the warranties on new vehicles purchased from them. Funds were provided to GM and Chrysler under this program but have been repaid in full because both were able to continue to honor consumer warranties.

less debt and with streamlined operations.⁷ The bankruptcy courts signed orders approving old Chrysler's plan of liquidation on April 23, 2010, and old GM's amended bankruptcy plan on March 29, 2011, and the companies' assets and liabilities were transferred to liquidating trusts.

In exchange for Treasury's financial assistance, Treasury received 60.8 percent common equity and \$2.1 billion of preferred shares in new GM, 9.85 percent equity in new Chrysler, and \$11.8 billion in debt obligations between the companies.⁸ These funds, along with loans from the Canadian government and concessions from nearly every stakeholder, including the companies' primary labor union—the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)—were intended to give the companies time to restructure to improve their competitiveness and long-term viability.

Treasury's Stewardship of Its Ownership Stake in GM and Chrysler

Treasury's equity in GM and Chrysler gives Treasury an ownership stake in both companies. The Administration has stated that the government is a "reluctant shareholder" in GM and Chrysler, but that it would be irresponsible to "[give] away the equity stake to which taxpayers were rightly entitled." In July 2009, Treasury outlined guiding principles for its involvement in the auto industry, including

- exiting its investments as soon as practicable;
- maximizing the return on its investment;

⁷General Motors Company and Chrysler Group LLC are new legal entities that were created through the bankruptcy process to purchase substantially all of the operating assets of the pre-organization companies. Throughout this report, in cases where such a distinction is important, we refer to the pre-reorganization companies as "old GM" and "old Chrysler" and the post-reorganization companies as "GM" and "Chrysler."

⁸The \$11.8 billion in debt obligations includes \$6.7 billion to GM, \$0.5 billion assumed by new Chrysler for financing extended to old Chrysler, and \$6.6 billion in loan obligations to new Chrysler, of which \$2.1 billion has not been drawn. Treasury also provided funding that remained with the old companies—\$986 million for GM and \$5.4 billion for Chrysler. Treasury received a \$1.9 billion repayment on the original \$4 billion loan extended to old Chrysler, wrote off \$1.6 billion of this loan, and as previously noted, \$0.5 billion of this loan was assumed by new Chrysler. Treasury expects to receive limited recoveries related to the liquidation of collateral for its old Chrysler loan of \$1.9 billion. Treasury's \$986 million loan to old GM was converted to an administrative claim. As of April 20, 2011, Treasury received \$95 million in proceeds on these loans. Treasury retains the right to recover additional proceeds from this loan, but any additional recovery is dependent on actual liquidation proceeds and pending litigation.

-
- improving the strength and viability of GM and Chrysler; and
 - managing its ownership stake in a hands-off, commercial manner, including voting its shares only on core governance issues, such as the selection of a company’s board of directors and major corporate events or transactions.⁹

Treasury has an internal working group within the Office of Financial Stability—referred to as the auto team—to oversee AIFP, including Treasury’s investment in GM and Chrysler. The auto team monitors the companies’ performance, including reviewing the companies’ progress against their restructuring plans and analyzing financial and market indicators to determine options for divesting Treasury’s investments. We previously reported that Treasury should have a plan for ending its financial involvement in GM and Chrysler that would indicate how it would both sell its equity and ensure adequate repayment for the financial assistance it provided.¹⁰ In November 2009, we recommended improvements to Treasury’s approach for monitoring and divesting its investment in GM and Chrysler, including retaining expertise to advise Treasury on the sale and oversight of its equity, communicating to Congress its plans to assess and monitor the companies’ performance, and developing criteria for evaluating the optimal method and timing for divesting the government’s ownership stake in GM and Chrysler.¹¹ We discuss the status of these recommendations later in the report.

White House Council on Automotive Communities and Workers

As part of its efforts to help communities affected by changes in the auto industry, in early 2009, the President designated a Director of Recovery for Auto Communities and Workers, and the Department of Labor established the Auto Recovery Office, headed by the director, to focus on the economic recovery of auto communities and workers. In June 2009, the President issued an executive order establishing the Council to “establish a

⁹Ron Bloom, Senior Advisor, U. S. Department of the Treasury, written testimony before the Congressional Oversight Panel, Regarding Treasury’s Automotive Industry Financing Program, July 27, 2009. These major corporate transactions include events such as mergers, sales of substantially all assets, and dissolutions; issuances of equity securities that entitle shareholders to vote; and amendments to the charter or bylaws.

¹⁰GAO, *Troubled Relief Asset Program: June 2009 Status of Efforts to Address Transparency and Accountability*, [GAO-09-658](#) (Washington, D.C.: June 17, 2009).

¹¹[GAO-10-151](#).

coordinated Federal response to issues that particularly impact automotive communities and workers and to ensure that Federal programs and policies address and take into account these concerns.”¹² The Secretary of Labor and the Director of the National Economic Council and Assistant to the President for Economic Policy co-chair the Council, which is composed of over 20 members, including the heads of all domestic cabinet agencies and key White House offices.¹³ As established in the executive order, the executive director of the Auto Recovery Office also serves as the executive director of the Council and coordinates the Council’s activities.

The Council’s functions, as outlined in the executive order, are to

- *provide leadership and coordinate the development of policies and programs* across executive departments and agencies to ensure a coordinated federal response to issues that have a distinct impact on automotive communities and workers,
- *advise the President* on the effects of pending legislation and executive branch policy proposals on auto communities and workers,
- *provide recommendations to the President* on changes to federal policies and programs to address issues of special importance to automotive communities and workers, and
- *help ensure that officials across the executive branch advance* the President’s agenda for auto communities.

The Auto Recovery Office, funded through the Department of Labor, serves as the working staff for the Council. The office works directly with state and local officials in affected communities to help them receive federal support through existing federal programs to improve the

¹²Executive Order 13509, entitled “Establishing a White House Council on Automotive Communities and Workers.” Exec. Order No. 13509, 74 Fed. Reg. 30903 (June 23, 2009).

¹³According to the order, the White House Council members are drawn from agencies and councils, including the Secretaries of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Labor, Transportation, the Treasury, and Veterans Affairs, as well as the Administrators of the Environmental Protection Agency, General Services Administration, and Small Business Administration; the Directors of the Office of Management and Budget and the Domestic Policy Council; the Chairs of the Council of Economic Advisers and Council on Environmental Quality; the Attorney General; and the United States Trade Representative.

communities' economic condition. The office's budget—\$2.35 million in fiscal year 2010 and \$2.42 million and \$2.36 million requested for fiscal years 2011 and 2012, respectively—covers Council staff salaries and benefits and a contract for a report on issues related to auto communities.¹⁴ Under the executive order, the Council is set to expire on June 23, 2011, unless extended by the President.

Federal Assistance Allowed GM and Chrysler to Restructure Their Costs and Improve Their Financial Condition

Federal Assistance Enabled GM and Chrysler to Restructure and Reduce Costs through Bankruptcy

As we previously reported, substantial government assistance allowed GM and Chrysler to restructure their balance sheets and obligations through the bankruptcy code and tackle key challenges to achieving viability. In December 2008, the chief executive officers of GM and Chrysler testified before Congress that, without federal assistance, their companies would likely run out of the cash needed to continue operating, which could have resulted in a disorderly liquidation. With federal assistance, the companies avoided these outcomes, and, although bankruptcies can be drawn-out processes that take years to complete, both old GM and old Chrysler entered bankruptcy and completed sales of their assets to new GM and new Chrysler within about a month. Without federal assistance from Treasury, the companies may not have been able to finance their restructuring and may have had to liquidate.

As tables 1 and 2 show, through restructuring, GM and Chrysler reported lower fixed costs and capacities by reducing their numbers of factories, employees, and dealerships. In addition, GM eliminated a substantial

¹⁴In fiscal years 2009 and 2010, according to the budget for the Office of Recovery for Auto Communities and Workers, it received about \$277,000 and \$130,000 of its funding from the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

amount of its long-term debt and reduced the number of vehicle brands and models it sells. As table 1 shows, GM identified targets for these operational metrics in its restructuring plan, and as of December 31, 2010, reported that it had met its brand and model targets along with significantly reducing its debt. In addition, GM reported making progress toward meeting its targets for number of plants and U.S. employees, set for 2012 and 2014, respectively. GM officials said that the company did not meet its restructuring target for the number of dealers because of decisions—made by the company or resulting from statutorily mandated arbitration—to reinstate some of the dealerships originally selected in the plan for closure.¹⁵

Table 1: GM’s Employees, Plants, Dealers, Brands, Models, and Debt As of Year End for 2007, 2008, and 2010 and Related Restructuring Targets

(Dollars in billions)

| GM | 2007 | 2008 | 2010 | Restructuring targets^a |
|-----------------------------|-------------|-------------|-------------|--|
| U.S. employees ^b | 109,859 | 91,176 | 76,562 | 63,000 in 2014 |
| U.S. plants | 51 | 47 | 40 | 31 in 2012 |
| U.S. dealers | 6,776 | 6,246 | 4,458 | 3,605 in 2010 |
| U.S. brands | 8 | 8 | 4 | 4 in 2010 |
| U.S. models | 49 | 48 | 34 | 34 in 2010 |
| Long- and short-term debt | \$39.4 | \$45.3 | \$4.6 | ^c |

Source: GM SEC filings and viability plan and company-provided data.

Note: GM dramatically reduced production while in bankruptcy in the summer of 2009, therefore, data for 2009 are not comparable to data for previous or subsequent years and are not included in this table. Also, the debt amounts do not include pension or other postretirement benefit liabilities.

^aAccording to GM, these restructuring targets are as of May 31, 2009.

^bU.S. employee numbers are approximate.

^cGM’s restructuring plan includes a \$14.9 billion target for secured and unsecured debt in 2010, but GM does not report comparable debt numbers in its financial statements.

Chrysler identified changes in two operational metrics—brands and models—and established select financial targets, including a debt reduction target in its November 4, 2009, restructuring plan. In 2009, Chrysler increased the number of brands from three to four by dividing the Dodge/Ram brand into two separate brands—Dodge and Ram. The

¹⁵The Consolidated Appropriations Act, 2010 mandated a binding arbitration process that terminated General Motors and Chrysler dealers could follow if they were interested in having their franchise agreements reinstated. See Pub. L. No. 111-117, Division C, Title VII, § 747, 123 Stat. 3034, 3219-3222 (2009).

company's reported debt, however, has increased because the company issued debt to independent health care trusts, resulting in a reduction of other liabilities on its balance sheet related to post-employment health care benefits. Chrysler reduced its numbers of U.S. plants, dealerships, and employees (see table 2).

Table 2: Chrysler's Employees, Plants, Dealers, Brands, Models, and Debt, 2007, 2008, and 2010 and Available Restructuring Targets

(Dollars in billions)

| Chrysler | 2007 | 2008 | 2010 | Restructuring targets ^a |
|------------------------------|--------|--------|---------------------|------------------------------------|
| U.S. employees ^b | 55,100 | 36,500 | 34,200 | Not established |
| U.S. plants | 23 | 21 | 17 | Not established |
| U.S. dealers | 3,585 | 3,298 | 2,311 | Not established |
| Brands | 3 | 3 | 4 | 4 in 2010 |
| Models | 28 | 27 | 23 | 24 in 2010 |
| Industrial debt ^c | \$8.2 | \$11.3 | \$13.1 ^d | \$8 in 2014 |

Source: Chrysler.

Note: Chrysler reduced production while in bankruptcy in the spring of 2009; therefore, data for 2009 are not comparable to data for previous or subsequent years and are not included in this table.

^aAccording to Chrysler officials, the company did not establish non-financial targets in its November 4, 2009, restructuring plan so the brand and model numbers included in that plan do not represent restructuring targets for the company.

^bU.S. employee numbers are approximate and as of the end of the year.

^cChrysler reports its industrial debt, which includes only the liabilities related to its automotive business and excludes its Gold Key Lease self-liquidating debt.

^dAs of December 31, 2010, the largest components of Chrysler's debt were its loans from Treasury, the Canadian governments, and the Voluntary Employee Beneficiary Association (VEBA) trust, which was established to provide for Chrysler retiree health benefits under an agreement with the UAW.

Through Restructuring, Both GM and Chrysler Have Improved Their Reported Financial Condition

As company officials and auto industry analysts pointed out, the key result of restructuring was that the companies reduced their fixed costs levels, allowing them to be profitable at much lower sales levels than before, thereby decreasing their "break even" levels. For example, in the third quarter of 2007, GM indicated that it needed to sell 3.9 million vehicles in the United States annually (assuming a 25 percent share of the total 15.5 million U.S. vehicle sales market) in order to break even. Now, after restructuring, GM indicates that it needs to sell roughly half as many vehicles in the United States—around 2 million annually—in order to cover its fixed costs. As noted in its November 4, 2009, business plan, Chrysler, at that time, had to

ship roughly 1.65 million vehicles worldwide annually to break even on its operating income. Chrysler's reported worldwide shipments reached 1.6 million vehicles in 2010.¹⁶ According to Chrysler, the company has since reduced its operating breakeven to roughly 1.5 million vehicles worldwide (assuming a U.S. vehicle sales market level between 10 million to 11 million vehicles) due to operating efficiencies and other cost reduction actions.

These reductions in the break-even level have been particularly important, as total reported auto sales in the United States in 2010 were around 11.8 million—down from 13.5 million in 2008, just before the economic recession pushed sales down to 10.6 million in 2009. Assuming that the companies maintain this competitive cost structure, they are positioned to be profitable at any U.S. industry sales market above their reported break-even levels—between 10.5 million and 11 million in total industry sales for GM¹⁷ and between 10 million and 11 million in total industry sales for Chrysler—assuming that the companies maintain their current market share. GM officials told us that lowering GM's U.S. break-even point has been one of the most significant outcomes of restructuring because it allows the company to break even at or near the “bottom of the cycle.” IHS Global Insight, a private-sector firm that provides economic and financial forecasts and industry analysis, estimates that total U.S. vehicle sales will rebound to 13.3 million in 2011 and 16 million in 2013, which would be above the companies' break-even points.

Since reducing their costs through restructuring, GM and Chrysler have reported dramatically improving their financial performance. As table 3 shows, both companies reported improvements in their net income, operating income, and cash flow metrics between 2008 and 2010. As table 3 shows, GM reported a net income of about \$4.7 billion in 2010, which is the company's first annual profit since 2004. GM also reported a Chrysler reported a modified operating income of \$763 million in 2010, up from a

¹⁶Chrysler does not have a publicly available prebankruptcy break-even number for comparison.

¹⁷This estimate assumes that GM will have an 18 to 19 percent share of the total market.

modified operating loss of about \$3 billion in 2008 prior to restructuring.¹⁸ Chrysler's net losses generally declined in 2010—from \$197 million in the first quarter of 2010 to \$172 million in the second quarter and down to \$84 million in the third quarter. But in the fourth quarter of 2010, its reported losses increased to \$199 million. According to Chrysler officials, the company continued to report net losses in 2010 primarily due to the approximately \$1.3 billion in interest charges on its debt. Chrysler set a net income target of \$0.2 billion to \$0.5 billion in 2011, and in the first quarter of 2011, reported a net income of \$116 million—its first quarterly net profit since the new company began operations in 2009.

Table 3: Changes in GM's and Chrysler's Net Income, Operating Income, and Cash Flow

(Dollars in billions)

| GM | 2007 | 2008 | 2010 |
|---|----------------------------|---------------------|-------------|
| Net income (loss) to common stockholders | (38.54) | (30.94) | 4.67 |
| Operating income (loss) | (4.31) | (21.23) | 5.08 |
| Operating cash flow | 7.73 | (12.07) | 6.78 |
| Chrysler | | | |
| Net income (loss) | Not available ^a | (16.8) ^b | (0.65) |
| Modified operating income (loss) ^c | Not available | (3.0) | 0.76 |
| Operating cash flow | Not available | (5.3) | 4.2 |

Source: GM and Chrysler SEC filings.

Note: We did not include 2009 data because new GM and new Chrysler began operating in the summer of 2009. Consequently, 2009 annual data are not comparable to data for other years.

^aChrysler officials noted that the company's 2007 financial data are not meaningful because Daimler sold Chrysler to Cerberus in that year, resulting in purchase accounting adjustments.

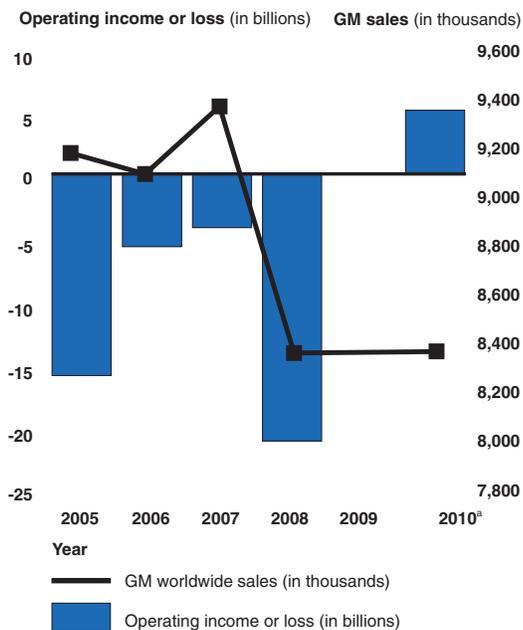
^bAccording to Chrysler officials, the net loss for year-end 2008 includes impairment charges for goodwill and brand name intangible assets of \$10.4 billion and restructuring charges of \$1.3 billion.

^cChrysler uses modified operating income (loss), a non-GAAP financial measure to monitor operating results. Chrysler notes that this financial measure may not be comparable to other similarly titled measures of other companies, such as GM.

¹⁸Operating income describes a company's profit or loss from core operations. Net income includes gains and losses from nonoperating sources, such as interest income/loss, investment income, taxes, and noncash, accounting charges. As noted in table 3, Chrysler uses modified operating income (loss), a measure that generally accepted accounting principles do not provide for to monitor operating results. Chrysler notes that this financial measure may not be comparable to other similarly titled measures of other companies, such as GM.

Figure 1 illustrates that GM has improved its reported operating income despite a decline in its worldwide sales. Specifically, while GM’s reported worldwide sales dropped from roughly 9.2 million in 2005 to 8.4 million in 2010, GM’s operating income increased during this period—from a \$16 billion loss in 2005 and a \$21 billion loss in 2008 before restructuring and then to a profit of roughly \$5 billion in 2010. Since, according to Chrysler officials, 2007 data are not meaningful because of the change in ownership, we are not able to provide a similar historical trend and comparison for Chrysler.

Figure 1: GM Operating Income and Worldwide Sales, 2005 through 2010



Source: GM SEC filings.

^aAs previously noted, GM dramatically reduced production in the summer of 2009; therefore, data for 2009 are not comparable to data for previous or subsequent years and are not included in this figure.

Further Improvement in the Companies' Financial Condition Will Depend on Their Ability to Continue to Contain Costs While Mitigating Challenges Affecting Vehicle Demand

Cost Containment Will Depend on the Extent to Which the Companies Can Fund Pension Plans, Reduce Debt, and Negotiate Favorable Labor Contracts in 2011

While GM and Chrysler have taken steps to improve their financial condition, they face additional challenges that could affect their future profitability. Both companies must work to manage challenges affecting their costs, such as funding pension obligations and pending labor negotiations, and vehicle demand, such as the fragility of the economy and fuel price volatility.

- *Funding pension obligations and reducing U.S. government debt:* GM and Chrysler are working to fund their pension plans and reduce their debt levels. As of December 31, 2010, GM reported that its U.S. pension plans were underfunded (i.e., the value of plan assets was less than the value of plan liabilities) by \$12.4 billion, down from \$17.1 billion at the end of 2009. This reduction is to some extent the result of GM's voluntary contribution of \$4 billion in cash to its defined benefit pension plans in December 2010. Additionally, in January 2011, GM contributed approximately \$2 billion in common stock to the plans, and GM's former chief financial officer publicly stated that the contribution was part of GM's goal to fully fund the pension plans and minimize debt. We previously reported that GM has large "credit balances" based on contributions made in prior years that may be used to offset contributions that may otherwise be required.¹⁹ While projections of funding requirements are inherently sensitive to underlying assumptions, GM currently projects that required contributions will amount to no more than \$3.5 billion through 2016. Thus, while the company's recent, voluntary contributions may help reduce a portion of the underfunding among its plans, the plans may continue to be underfunded for several years or more unless, among other things, GM makes additional voluntary contributions or the plans' asset performance improves. Additionally, company executives told us that they are working to try to reduce the company's debt and rely on cash generated from its business to fund capital expenditures. For example, in April 2010, the company repaid its loan from Treasury, and in January 2011, GM withdrew its application for a \$14.4 billion loan through the Department of Energy's

¹⁹Minimum funding requirements are set forth in the Employee Retirement Income Security Act of 1974 (ERISA). Pub. L. No. 93 – 406, 88 Stat. 829 (codified as amended at 29 U.S.C. §§ 1001-1461). For more information, see GAO, *Troubled Asset Relief Program: Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future*, [GAO-10-492](#) (Washington, D.C.: Apr. 6, 2010).

Advanced Technology Vehicles Manufacturing Loan Program.²⁰ In a press release, the company stated that this decision was based on its confidence in its overall progress and performance and was consistent with its goal of carrying minimal debt on its balance sheet.

As of December 31, 2010, Chrysler reported that its worldwide defined benefit pension plans were underfunded by approximately \$4 billion, and the company had not committed to making additional, voluntary contributions to its plans above the minimum amounts required by law.²¹ We previously reported that Chrysler, like GM, has large, available credit balances to offset contributions that may otherwise be required for some of its defined benefit pension plans. In its most recent annual financial statement, Chrysler reported that it expects to use credit balances such that no cash contributions are projected to be required in 2011. Chrysler did not report dollar projections of its future contribution requirements beyond 2011. However, we previously reported that as of February 2010, Chrysler expected required contributions to increase significantly in 2013 and would need to make large contributions to its pension plans—about \$3.4 billion between 2009 and 2015—to meet minimum-funding requirements. The first principal payment on Chrysler’s \$5 billion debt to Treasury is scheduled for December 2011, although it had made about \$638 million in interest payments, as of March 31, 2011.²² However, on April 28, 2011, the company announced that it planned to repay this loan during the second quarter of 2011. Chrysler officials reported that this debt, as well as that to the UAW Voluntary Employee Beneficiary Association (VEBA)—the entity to which GM and Chrysler transferred their hourly retiree healthcare obligations—and other financial obligations, could affect the company’s financial performance in the future.

²⁰This program was established to provide loans for retooling U.S. factories to make vehicles and components that improve fuel economy. Pub. L. No. 110-140, Title I, Subtitle B, § 136, 121 Stat. 1492, 1514-1516 (2007).

²¹As part of Chrysler’s bankruptcy sale transaction, Daimler agreed to fund \$600 million in three equal installments to Chrysler’s U.S. pension plans. Consistent with this agreement, Chrysler received payments of \$200 million in June 2009 and June 2010, which it contributed to its U.S. pension plans, and is scheduled to receive the remaining \$200 million in June 2011.

²²Of Treasury’s \$7.1 billion commitment to Chrysler, \$2.1 billion remains available for Chrysler to draw down. As previously noted, as part of a settlement agreement on the \$4 billion in loans that Treasury extended to finance old Chrysler, Treasury received a \$1.9 billion loan repayment and wrote off \$1.6 billion of the loan and new Chrysler assumed \$0.5 billion.

Vehicle Demand Will Depend on the Overall Health of the Economy, Fuel Prices, New Product Launches, and Retail Sales

- *Negotiating favorable labor costs:* As previously mentioned, GM and Chrysler significantly reduced their reported labor costs by restructuring, but their ability to maintain these reductions will be challenged in upcoming labor negotiations. Since 2008, the companies have reported lowering their labor costs, in part, by reducing the size of their workforces and making more efficient use of their workforces by, for instance, closing plants and running additional shifts at existing plants, thus increasing the production capacity for some of their plants. These labor cost reductions may be difficult to maintain, however, as the companies' contracts with their primary U.S. union, the UAW, are set to expire in September 2011 and negotiation on the next contracts will soon begin. The UAW made significant concessions during restructuring, such as agreeing to reductions in compensation for U.S. workers to levels paid by foreign automakers like Honda, Nissan, and Toyota to their U.S. workers, as well as the cancellation of cost-of-living adjustments for current workers. Industry experts we spoke with noted that the UAW could attempt to regain some of these concessions in the 2011 negotiations, and the UAW's president has issued press releases stating that UAW members should share in the companies' newfound financial improvements.²³ Because of its improved financial condition in 2010, GM reported that it provided its hourly employees with profit-sharing payments averaging about \$4,300 per hourly employee, based on the profit sharing plan negotiated with its unions. Chrysler, in recognition of the performance and results achieved in 2010 by its hourly employees in the United States and Canada, reported issuing a performance payment in the amount of \$750 per hourly employee.
- *Economic improvement:* Consumer purchases of new cars are highly correlated with the overall health of the economy, with consumers purchasing fewer vehicles during economic downturns. During the recent recession, total industry light vehicle sales dropped precipitously from around 16 million in the United States in late 2007 to fewer than 10.6 million in 2009, according to Bureau of Economic Analysis data. However, as the economy has begun to recover, U.S. sales have risen, reaching 11.8 million in 2010. The Congressional Budget Office (CBO) projects the gross domestic product (GDP) will grow about 3.7 percent and 4.4 percent year over year for 2011 and 2012 (in nominal dollars). Though these projections are positive, the pace of the economic recovery—and, consequently, improvements in vehicles sales—is not yet clear.

²³The amended UAW contract includes a "no strike" provision, requiring the parties to submit to binding arbitration if no agreement can be reached.

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- *Fuel price volatility:* GM and Chrysler continue to rely heavily on trucks for their profitability. These vehicles are more profitable per unit but because they generally have lower fuel economy than smaller vehicles, their popularity among consumers can be affected by fuel prices. According to the Energy Information Administration, retail gasoline prices increased 22 percent from February 2010 to February 2011, and an increase in fuel prices such as the one in the first half of 2008 could depress demand, and therefore sales, for these larger vehicles. Both companies are working to launch smaller, more fuel-efficient cars such as the Chevy Cruze for GM and the Fiat 500 for Chrysler, but it will take time before sales of the companies' product mix overall are less susceptible to higher fuel prices.
 - *Product launches:* The effective launch of new and refreshed products is important to attracting consumers and increasing sales and market share. Both companies have launched or plan to launch new products this year and next in the United States. GM has launched the Chevy Volt, which, according to GM, is the industry's first mass-produced extended range electric vehicle, and the Chevy Cruze, its newest entry into the compact car market. In 2011, GM officials reported that the company plans to launch the Chevrolet Sonic and the Buick Verano—new entries into the subcompact and compact car market. Chrysler launched production of 16 new and refreshed products in 2010, including the new Jeep Grand Cherokee, Dodge Durango and Charger, and the new Fiat 500, a “mini” car that is distributed through Chrysler's North American dealership network. Industry analysts we spoke with noted that GM and Chrysler need to overcome negative perceptions of their brands and quality that have persisted for some consumers, despite the companies' improvements in quality.²⁴ Both companies will need to continue to improve the public's overall perception of them as they market their vehicles to consumers. Chrysler's ability to improve the public's perception of its products will depend, in part, on its relationship with Fiat. As part of its reorganization, Chrysler arranged an alliance with Fiat, whereby Fiat contributed intellectual property and management services to Chrysler in exchange for 20 percent of Chrysler's equity. As outlined in Chrysler's amended operating agreement, Fiat can increase its ownership in Chrysler an additional 15 percent, to 35 percent, in three tranches of 5 percent each in exchange for meeting three performance metrics—manufacturing state-of-the-art, next-generation engines at a U.S. Chrysler facility; introducing a

²⁴Historically, the companies offered consumers incentives and discounts because of these perceptions, but incentives and discounts can also contribute to an erosion of the vehicles' value and have a negative impact on margins realized on vehicle sales.

vehicle produced at a Chrysler factory in the United States that performs at 40 miles per gallon; and providing Chrysler with a distribution network in numerous foreign jurisdictions. In January 2011, Fiat achieved the first performance metric when it announced that Chrysler would begin production of a 1.4-liter engine based on Fiat's Fully Integrated Robotized Engine (FIRE) technology in Dundee, Michigan, increasing its ownership from 20 percent to 25 percent. In April 2011, Fiat further raised its ownership to 30 percent by achieving its second performance metric when it provided Chrysler with a distribution network in Europe and Latin America, Chrysler achieved sale revenues of \$1.5 billion outside of North America, Chrysler and Fiat pooled their vehicle fleets in Europe for carbon dioxide emissions ratings, and Fiat agreed to compensate Chrysler for use of Chrysler technology outside of North America.

- *Increasing retail sales:* In recent years, GM and Chrysler have reported selling over 25 percent of their vehicles to entities such as rental car companies for their company fleets ("fleet sales") even though the companies recognize that selling to individual consumers ("retail sales") generally yields a higher profit margin. For example, in 2010, roughly 30 percent of GM's vehicle sales and 36 percent of Chrysler's were fleet sales, primarily to rental car companies.²⁵ Rental cars typically end up on the used car market much sooner than cars sold to retail customers, which increases the supply of these vehicles and depresses the sale price for new vehicles. In order for GM and Chrysler to be successful, it will be important for them to sell cars that retail consumers want to purchase so that the companies do not have to rely as heavily on selling large numbers of fleet vehicles at discounted prices.²⁶

In addition to these challenges, GM's overseas operations—which have become increasingly important to the company's profitability—could pose additional challenges. In 2010, GM reported that, through its joint ventures in China, it had the largest market share of any manufacturer in China in 2010, and for the first time in the company's history, GM's vehicle sales in China exceeded its vehicle sales in the United States. However, increased competition in the Chinese market could affect GM's sales and revenue. GM faces increased competition in China as even more companies enter

²⁵GM's fleet sales are for the first 9 months of 2010.

²⁶The recent earthquake in Japan could have an effect on all automakers' vehicle production. On April 20, 2011, GM announced that the company was increasingly confident that the situation in Japan would not have a material impact on the company's full-year results.

the market, in addition to the numerous large and small automakers already competing in the market.

In comparison to its Chinese operations, GM reported that its European operations are currently operating at a net loss and require restructuring to become profitable. GM sells vehicles in Western and Central Europe under the Chevrolet, Opel, and Vauxhall brands. To reduce costs and increase profitability, GM is restructuring the Opel and Vauxhall brands brand by consolidating its manufacturing capacity and reducing labor costs.²⁷ According to the company, this restructuring will cost \$4.2 billion.

Treasury's Timing of Its Exit from GM and Chrysler and Return on Investment Will Depend on How It Balances Its Competing Goals

Treasury Has Recouped \$24 Billion of Its Investments in GM and Chrysler through GM's IPO and Other Payments

As table 4 shows, Treasury has recouped about \$24 billion through GM's IPO, GM's purchase of Treasury's preferred stock, and loan repayments from GM and Chrysler. The majority of these repayments are from GM, and in particular, GM's IPO. In total, Treasury sold over 412 million of its shares, representing 45.2 percent of its total shares, for which it received \$13.5 billion in net proceeds. By selling these shares, Treasury decreased its ownership stake in GM from 60.8 percent to 33.3 percent and helped to reduce the outstanding balance of its investment in GM to about \$27 billion.²⁸ As of April 22, 2011, Chrysler had not made any principal payments on its \$5 billion debt to Treasury—with the first payment not

²⁷To aid in restructuring its European operations, GM entered into negotiations with a consortium including Magna International, a Canadian auto supplier, to sell a majority stake of its Germany-based Opel brand. GM's Board of Directors decided not to pursue the deal and to maintain full ownership of Opel.

²⁸Treasury's equity has since been diluted to 32.04 percent because of the shares contributed to GM's hourly and salaried pension plans in January 2011.

due until December 2011—but Treasury received a \$1.9 billion loan repayment as part of a settlement on one of the loans that it extended to finance old Chrysler.²⁹ Treasury’s current equity stake in the company is 8.6 percent—down from the original 9.85 percent because, as previously discussed, Fiat increased its ownership stake by achieving two of its three performance-related targets, thereby diluting the other members’ overall equity, including Treasury’s. On April 21, 2011, Fiat announced that it will exercise its option to acquire an incremental 16 percent fully diluted equity interest in Chrysler, conditioned upon the full repayment of Chrysler’s debt to Treasury and the Canadian government and termination of all lending commitments under each respective loan agreement. On April 28, 2011, Chrysler announced that it intends to repay its debt to the U.S. and Canadian governments during the second quarter of 2011 from proceeds of a new term loan facility and a debt offering along with the proceeds from Fiat’s payment for the additional equity.

Table 4: Status of AIFP Assistance to GM and Chrysler, as of April 28, 2011

Dollars in billions

| Company | Total committed | Repayments and write-offs | Total repayment ^a | Percent of investment repaid | Outstanding balance |
|--------------|-------------------|---|------------------------------|------------------------------|---------------------------|
| GM | \$49.5 | <ul style="list-style-type: none"> • April 2010: \$6.7 billion loan repaid^b • November and December 2010: \$13.5 billion in IPO proceeds^c • December 2010: \$2.1 billion paid for Treasury’s preferred stock | \$22.5 | 45 | \$27.0 |
| Chrysler | 12.5 ^d | <ul style="list-style-type: none"> • May 2010: \$1.9 billion loan repayment received and \$1.6 billion written off the loan’s face value as part of old Chrysler’s settlement agreement with Treasury | 1.9 | 19 | 7.3 ^e |
| Total | \$62 | | \$24.4 | 41 | \$34.3^f |

Source: GAO analysis of Treasury data.

Note: Totals may not add up because of rounding.

^aThe repayment amounts do not include interest and dividends received from these investments, which totaled \$1.3 million, as of February 28, 2011.

²⁹As previously noted, Treasury also wrote off \$1.6 billion of the loan extended to finance old Chrysler. According to Treasury, this repayment, while less than face value, was significantly more than it had previously estimated to recover following Chrysler’s bankruptcy and greater than the estimated valuation prepared by Keefe, Bruyette and Woods, Treasury’s adviser for this transaction.

^bGM made this payment using funds that remained in an escrow account that was created for the company through the restructuring process in the summer of 2009. According to Treasury officials, the funds in this account came from a portion of the proceeds of a loan made by both Treasury and the Canadian government.

^cOn November 23, 2010, Treasury received \$11.7 billion from selling over 358 million shares of common stock in the initial sale, and subsequently, on December 2, 2010, it received \$1.8 billion for approximately 54 million shares of common stock when the IPO underwriters exercised the over-allotment option on November, 26, 2010. An over-allotment option is an agreement between an issuer and its underwriters granting the underwriters the option to purchase and then resell additional shares to the investing public. Usually the over-allotment option is exercised by the underwriters if the demand before and after pricing is strong.

^dThis amount includes \$2.1 billion in undrawn commitments on Chrysler's \$7.1 billion loan.

^eSince Treasury wrote off \$1.6 billion from its loan to Chrysler, this amount is subtracted from the outstanding balance for Chrysler. This outstanding balance is also increased by \$0.3 billion in capitalized interest.

^fOnce Chrysler repays its loans to Treasury, the outstanding balance for Treasury's investment in Chrysler is reduced to \$2.2 billion, and the total outstanding balance for Treasury's investment in both companies is reduced to \$29.2 billion.

Treasury Has Taken Steps to Protect the Taxpayer's Interest in Divesting from GM

In preparation for participating in GM's IPO, Treasury hired an adviser to provide analysis and support on the disposition of its investment, approved the IPO underwriter selection and determined the related fees, and published IPO guidance. These actions align with some of our previous recommendations to Treasury on managing and divesting itself of its investments in GM and Chrysler.³⁰ Specifically, Treasury took the following actions:

- *Hired Lazard to provide support in divesting the government's interest in GM:* We previously recommended that Treasury obtain the expertise needed to adequately monitor and divest the government's interests in GM and Chrysler. In May 2010, Treasury hired Lazard to serve as an adviser on the disposition of Treasury's investment in GM. Lazard's support to Treasury included participating in due diligence sessions, working with the underwriters to understand potential investor demand and price, and analyzing estimates of GM's valuation and implied share price ranges. Lazard officials noted that much of their analysis and review for Treasury focused on understanding the forecasts, accounting assumptions, and sensitivities underlying GM's business plan and determining whether the company was appropriately valued in advance of the IPO. For example, Lazard assessed key drivers of profitability in GM's preliminary business plan, including the company's expected revenue growth in its international markets and the company's liquidity, debt levels, and pension obligations compared to its competitors.

³⁰ [GAO-10-151](#).

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- *Approved the underwriter selection and related fees.* As noted in Treasury's June 2010 guidance, GM would select the lead underwriters, subject to approval by Treasury, and Treasury would determine the underwriters' fees. According to Lazard officials, they provided support to Treasury to help Treasury determine the right number of underwriters, their compensation, and how to use them. The final underwriting agreement included 35 underwriters consisting of both large and small firms. Treasury negotiated an underwriting fee of 0.75 percent, which is significantly less than the 2 to 3 percent fee normally charged for an IPO of comparable size.
 - *Published guidance on Treasury's participation in the GM IPO.* We previously recommended that Treasury develop criteria for evaluating the optimal method and timing for divesting the government's ownership stakes in GM and Chrysler. In June 2010, Treasury issued guidance on its participation in the IPO. This guidance explained that the timing of the IPO would be left to GM and would depend on market conditions and other factors and that Treasury would decide whether and at what level to participate in the offering. In line with our recommendation, in September 2010, Treasury issued additional guidance on requiring GM and the underwriters to use their "commercial best efforts" to provide access to all investors. Treasury officials noted that guidance was issued to give the market confidence that Treasury planned to follow an orderly process for exiting the company, consistent with its guidance.

Treasury officials emphasized that Treasury would determine whether to offer shares and the amount of shares in GM's IPO, but that the timing for the IPO was GM's decision. Nevertheless, Treasury and GM officials noted that the timing of GM's IPO was primarily driven by the following factors.

- *Window of opportunity:* GM and Treasury officials noted that the window of opportunity for holding an IPO was limited for a number of reasons, including the holiday season late in the year. Treasury officials noted that GM first began discussing a potential IPO with Treasury in April 2010. According to Treasury and GM officials, in early discussions, November was identified as the time frame for holding an IPO before the holiday season, which typically sees low-volume trading and is therefore not a good time to launch an IPO.
- *Positive financial results and investor demand for auto industry shares:* GM showed positive financial results in the first 3 quarters of 2010, despite historically low industry sales, and the stock market was trending positively, including positive trends in shares for Ford Motor Company. Treasury officials noted that there was demand for investing in the auto

industry in the fall and that GM was expecting its fourth quarter 2010 results to be weaker than in previous quarters. According to an industry expert, scheduling the IPO after those results were published could have potentially lowered investor demand, since companies generally want to demonstrate positive trends when going into an IPO. In advance of the IPO, GM disclosed that, due to having a different production mix, new vehicles launch costs (in particular, the Chevrolet Cruze and Volt) and higher engineering expenses for future products, the company expected to generate positive earnings in the fourth quarter of 2010, but at a significantly lower level than that of each of the first 3 quarters.

- *Potential effect of new shares offered by old GM bondholders:* Under old GM's bankruptcy plan, bondholders (unsecured creditors) of old GM are entitled to receive 10 percent of new GM's issued common shares and warrants that are exercisable for additional common stock. These shares will be distributed to old GM bondholders pursuant to the plan of reorganization approved by the bankruptcy court. Treasury and GM officials noted that they were anticipating the issuance of common shares of GM to old GM bondholders sometime in early 2011.³¹ Once these bondholders receive their shares, they could start trading the shares immediately, potentially affecting pricing of an IPO. Therefore, there was interest in holding the IPO before shares were issued to these bondholders.

Treasury's Participation in GM's IPO Highlights Treasury's Competing Goals as Shareholder and Government Agency

Treasury's participation in GM's IPO reflects the ongoing challenge of its competing goals as a shareholder and government agency. As we have previously reported, Treasury's general goals of exiting as soon as practicable, maximizing return on investment, and improving the strength and viability of Chrysler and GM are reasonable, but potentially competing. Treasury officials said that they worked to balance a number of factors—including price, the potential participation of other shareholders, and Treasury's goal to exit its investment as soon as practicable—in determining how many shares to offer in GM's IPO. Treasury officials said that they strive to balance these goals, but do not have a strict formula for doing so; in the end, the decision on Treasury's

³¹As previously noted, on March 29, 2011, the bankruptcy judge signed an order approving old GM's amended bankruptcy plan. This plan created four trusts, including a trust responsible for, among other things, distributing the GM common stock and warrants owned by old GM to those unsecured creditors whose claims are allowed. Old GM announced that on or about April 21, 2011, it expected to begin distributing shares of common stock and warrants to its unsecured creditors.

level of participation in GM's IPO was a judgment call. In particular, Treasury's auto team recommended to the Secretary of the Treasury and the Acting Assistant Secretary for Financial Stability the number of Treasury shares to offer in the IPO, but the Secretary made the final decision on how many of Treasury's shares to offer in the IPO.

Additionally, since GM and Chrysler began operating as new companies, Treasury has stated that it has taken a "hands-off" approach to managing the companies, meaning that it does not interfere with their day-to-day business decisions. Treasury developed this approach as a means to reassure the market of the government's limited intervention in the companies. Confirming this approach, Treasury officials did not comment on company operating risks identified in preparation for GM's IPO because Treasury did not want to opine on the company's issues or how to address them. According to GM officials, government involvement in GM was among the key issues raised by potential investors during the company's road show presentations before the IPO. GM officials confirmed that Treasury acted like a typical large shareholder throughout the IPO process and has not interfered in company decisions.

However, Treasury's involvement in certain aspects of GM's IPO illustrates the difficulties of balancing its goals of maximizing taxpayer return and exiting as quickly as practicable. As the following illustrates, Treasury, as a government entity, had to juggle sometimes competing interests that a typical, large shareholder (i.e., nongovernmental) would not normally confront.

- *Share price:* GM officials noted that Treasury, as a seller, was particularly interested in maximizing the IPO share price and avoiding a significant increase in the share price immediately following the IPO.³² A significant increase in the post-IPO share price could suggest that the IPO share price was too low—that is, the company could have offered the shares at a higher price. According to Treasury officials, Treasury participated in a number of discussions about the share price before the IPO and worked to maximize the share price without eroding demand for the shares.

³²Initially, GM's IPO share price was expected to be between \$26 and \$29, but strong investor interest during the company's road show presentations resulted in the offering being oversubscribed. According to Treasury, Lazard and the underwriters assessed the extent to which the IPO could support an increase in the share price without eroding the demand. The underwriters advised that \$33 was possible, and the price was subsequently increased.

According to GM officials, Treasury focused on ensuring that the price would generate sufficient demand during the IPO, but not lead to a significant increase or “pop” in price in the following days. Such an increase could have exposed Treasury to criticism that it had “left money on the table”—that is, it did not secure adequate value for its shares. However, in the month following the IPO, GM’s shares traded within roughly \$1 of the IPO share price, with the average share price around \$34.03, or 3 percent above the IPO price. According to Treasury officials, the post-IPO share price performance demonstrates that the IPO was appropriately priced to maximize the initial return.

- *Number of Treasury shares offered:* Although Treasury could have postponed the sale of its shares, waiting for a potentially higher share price, Treasury officials said that they stand behind their participation in GM’s IPO and the number of shares that Treasury offered for several reasons. First, Treasury officials said that it was important to signal to the market that the government intended to exit its investment. Although Treasury officials noted that they did not particularly emphasize bringing Treasury’s ownership stake below 50 percent through the IPO, they pointed out that Treasury did not have to offer many shares to bring its ownership stake under this threshold. Second, Treasury wanted to capitalize on the high level of investor interest in the auto industry that developed throughout 2010 and avoid uncertain market conditions going into 2011. For example, share prices for Ford Motor Company rose almost 50 percent from the end of August 2010 through November 17, 2010—the day of GM’s IPO. Third, as previously noted, Treasury expressed concern that old GM bondholders could potentially disrupt the pricing process if those shareholders gained control of their shares before an IPO, leading to a dilution of Treasury’s shares.
- *IPO guidance:* Treasury’s IPO guidance reflects Treasury’s unique position as a U.S. government shareholder of a private company. For example, Treasury’s September 2010 guidance stressed focusing on North American investors and not allowing a single investor or group of investors to purchase a disproportionate share of GM shares, reflecting the agency’s awareness of potential criticisms about the types of investors that had access to GM’s IPO. According to Treasury and Lazard officials, Lazard compared GM’s IPO with that of other large IPOs, including the potential investor mix, as information on the prospective demand for participation

in GM's IPO became available.³³ According to Lazard officials, this analysis showed that the investor mix of retail and other investors for GM's IPO was comparable to that of other large IPOs. According to the former senior adviser of Treasury's auto team and other Treasury officials, GM and the underwriters adhered to Treasury's guidance on the investor mix for GM's IPO.³⁴

Treasury's unique position as a government shareholder also makes it difficult for Treasury to be transparent about its strategy for divesting from GM, including the actions Treasury took in preparation for GM's IPO. This position also makes it challenging to assess Treasury's oversight of and investment in GM and Chrysler. Although Treasury has outlined goals to guide the management of its investments in the companies, it did not publicly divulge details on the development of its strategy for GM's IPO, such as how many shares it considered offering in the IPO, given that these details could have affected market conditions for the IPO and potentially affected the government's ability to recover its investment. To achieve the maximum return for taxpayers, Treasury officials said they do not plan to disclose more information than is necessary about their strategy for divesting Treasury's remaining ownership interests. As we have previously reported, Treasury should seek to be as transparent as possible about its strategy, including identifying what information can and should be made public and indicating how it plans to balance concerns about the public's "need to know" against those about disclosing proprietary information in a competitive market. However, while we recognize the need to strike a balance between the value of transparency and the need to avoid compromising the competitive positions for GM and Chrysler, to the extent possible, transparency about Treasury's strategy is important to ensure accountability and assure taxpayers that their investment is being appropriately safeguarded.

³³Lazard had access to the underwriters' changing tally of expressed demand from market participants, which identified the specific investors interested in the IPO and the share price that they were willing to pay. Treasury and Lazard officials noted that Treasury did not have access to investor-specific information, but instead, Treasury relied on Lazard to provide analysis on the distribution of investors. Lazard's comparative analysis drew on previous large IPOs, including Visa's and the Agricultural Bank of China's.

³⁴The list of original investors in GM's IPO is not publicly available.

The Timing of Treasury's Exit from GM and Chrysler and the Extent to Which Treasury Will Recoup Its Investment Depends on How Treasury Balances Its Competing Goals

Treasury continues to monitor GM's and Chrysler's performance, and according to Treasury officials, they have developed a strategy for divesting its remaining interest in GM and all of its interest in Chrysler and will disclose their strategy at the appropriate time. As outlined in the underwriting agreement, Treasury is not allowed to release any new GM shares into the market until 180 days after the IPO, or May 2011 at the earliest. GM officials noted that it will be up to the shareholders, including Treasury, to determine when, how many, and at what price to offer their remaining shares. By contrast, GM determined the timing of GM's IPO, while the share price range was established through discussions among GM, the underwriters, Treasury, and other shareholders. According to a senior Treasury official, until the 180-day lock-up period expires, it is premature for Treasury to set a timetable to divest its remaining interest in GM, given that its strategy will depend on business and market conditions, among other factors, at that time. However, Treasury has different options to consider in divesting its remaining interest in GM, such as whether to hold another offering or sell shares over a period of time—as it did when it sold its Citigroup, Inc., common stock.³⁵ According to Treasury officials, they are determining the appropriate strategy for disposing of Treasury's remaining investment in GM and noted that such a strategy would be affected by market conditions, among other things, after the 180-day lock-up period ends.

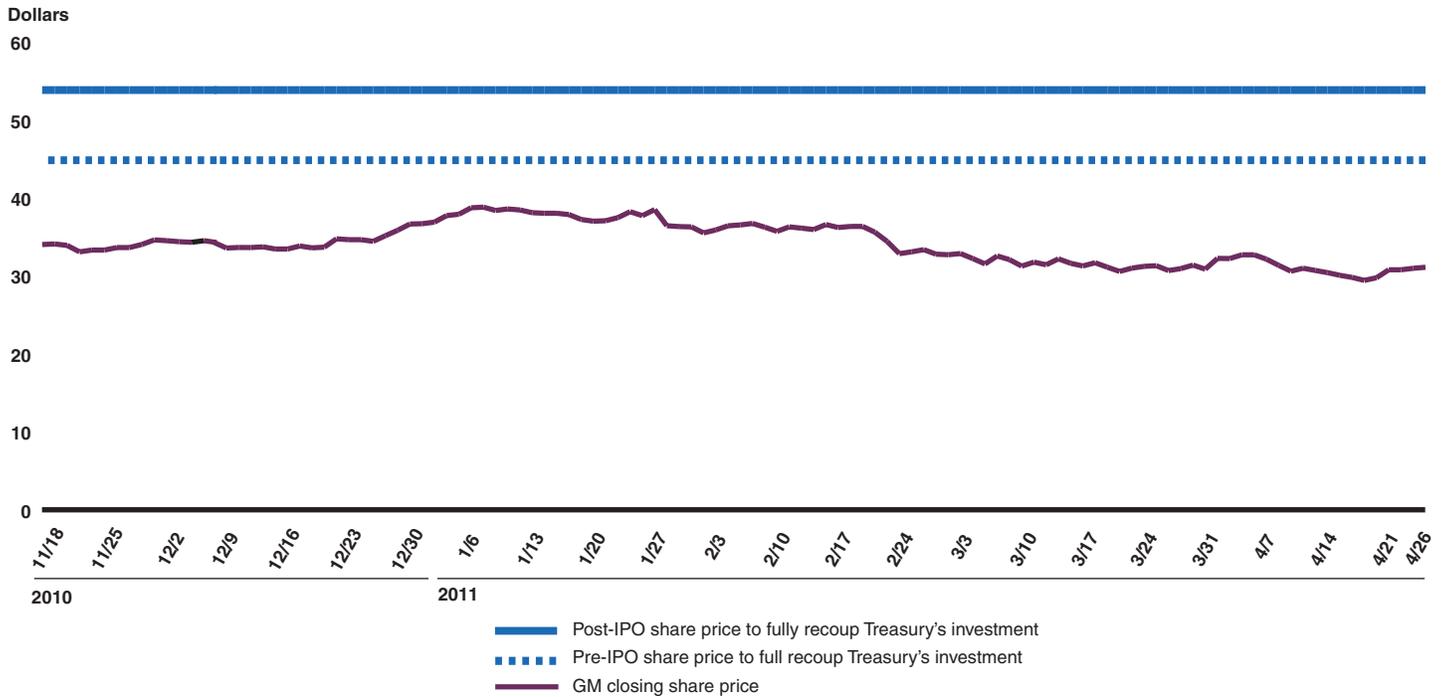
Following GM's IPO, Wall Street analysts were generally positive about the prospects of GM's value in the following 6 to 18 months, but GM's share price will have to increase over 60 percent from the IPO share price to an average of over \$54 for Treasury to fully recoup its investment in GM. Such an increase is not predicted to occur over the next year. We estimated prior to the IPO, that Treasury would need an average share price of about \$45 to fully recoup its investment in GM, whereas Treasury received \$33

³⁵As we previously reported, Treasury received preferred stock in Citigroup, which Treasury exchanged for common stock and trust preferred securities. Treasury began selling its common stock in April 2010. See GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2010 and 2009 Financial Statements*, [GAO-11-174](#) (Washington, D.C.: Nov. 15, 2011).

per share in the IPO.³⁶ After taking into account Treasury's proceeds from the IPO, we estimate that Treasury will need an average share price of about \$54 across all offerings for its remaining GM shares. As figure 2 shows, as of April 26, 2011, GM's share price has traded well below that range—from about \$30 to \$39. Although Wall Street analysts are predicting positive trends, the share price target estimates that these analysts made after the company's fourth quarter 2010 earnings announcement—showing a \$37 to \$50 share price target over roughly a 6- to 18-month period—are well below the price that Treasury would need to fully recoup its investment. Additionally, for each share sold below \$54, the threshold for the remaining investment increases, thus suggesting that Treasury will have difficulty fully recouping its investment if it plans to exit its remaining interest in GM within the next year.

³⁶To calculate the share price needed for Treasury to recoup its investment, we divided Treasury's outstanding balance for GM by the number of Treasury's shares in GM. In both the pre-IPO and post-IPO share price calculations, the outstanding balance reflects the total amount disbursed to GM (\$49.5 billion) less GM's \$2.1 billion payment for Treasury's preferred shares and \$6.8 billion in loan repayments. In calculating the post-IPO share price, we also subtracted the \$13.5 billion in IPO proceeds from the outstanding balance and divided it by the number of Treasury's remaining shares in GM after the IPO.

Figure 2: GM Share Price for November 18, 2010, through April 26, 2011, and the Pre- and Post-IPO GM Share Price Needed to Fully Recoup Treasury’s Investment



Source: Datastream and GAO analysis.

Treasury’s options for divesting its stake in Chrysler differ from those it had for GM, given the type and amount of Treasury’s investment in Chrysler. Chrysler officials confirmed that the company is considering a potential IPO, but not before the second half of 2011, subject to approval from the board of directors, and depending on economic and equity market conditions, and that the company was looking to establish a performance track record that is longer than a couple of quarters in order to gain credibility and build trust in the marketplace. Because the majority of Treasury’s investment in Chrysler was through loans, Treasury officials noted that Treasury’s exit strategy for Chrysler depends on Chrysler’s repayment of its loans from Treasury. As previously noted, Chrysler recently announced that it intends to repay its loans to Treasury during the second quarter of 2011, subject to market and other conditions. The government’s equity stake in Chrysler is much smaller than in GM—roughly 9 percent versus about 61 percent and 33 percent before and after GM’s IPO, respectively. According to Treasury officials, Treasury could potentially sell its equity stake to a third party, depending on market conditions. Treasury’s

exit strategy for Chrysler could also be complicated by the other Chrysler shareholders—Fiat, UAW VEBA, and the Canadian government—since these shareholders may have different interests and incentives, as well as more influence over the IPO process than Treasury.³⁷ For example, as previously noted, Fiat announced that once Chrysler’s loans from Treasury and the Canadian government are repaid, the company is exercising its option to acquire up to an additional 16 percent fully diluted equity interest in Chrysler, which, along with achieving the third performance target, would increase its ownership in Chrysler to over 50 percent and could give Fiat more influence over the timing of Chrysler’s IPO.

Additionally, Chrysler’s equity will have to grow appreciably in order to reach the value at which Treasury would recover the entire equity investment in the company. We estimated that Chrysler would need a market capitalization of about \$41 billion for Treasury to earn enough on the sale of its equity to fully recoup its investment in Chrysler.³⁸ As a point of reference for these values, in 1997, the last year Chrysler was a publicly traded company, its market capitalization value ranged between \$23.1 billion and \$31.7 billion, and in 1998, when it merged with Daimler, its estimated value was \$37 billion.³⁹ Also, as the Congressional Oversight Panel reported, for Treasury to recover all of the funds that it has invested

³⁷As of April 2011, the ownership interests of Chrysler are the UAW VEBA trust (59.2 percent), Fiat (30 percent), Treasury (8.6 percent), and the Canadian government (2.2 percent).

³⁸Our analysis includes all funds Treasury has provided to Chrysler that will be repaid through a combination of debt and equity, but excludes the \$2.1 billion that has not been drawn. We include the \$1.9 billion repayment from the old Chrysler settlement and assume that new Chrysler will repay its \$5 billion in debt. Additionally, the \$1.6 billion write-off is included in the amount that is needed to fully recoup Treasury’s investment in Chrysler. We also based our calculation on Treasury’s current equity stake of 8.6 percent. As a result, Treasury’s equity will have to be worth its total investments minus projected repayments of principal. This analysis does not take into account the cost or opportunity cost to Treasury of lending, any interest Treasury should or could charge to the company on the portion of its investment that has been converted into equity, the present value of the investment, or the value of any social costs or benefits resulting from the investment. If Fiat achieves its one remaining performance-related target and earns an additional 5 percent equity along with exercising its option to acquire an additional 16 percent equity, Treasury’s equity stake will be diluted to 6 percent, meaning that Chrysler’s total equity value would need to reach \$58 billion for Treasury to recoup its investment.

³⁹In commenting on a draft of this report, Treasury officials noted that Chrysler’s past equity values are not comparable to today’s equity values because Chrysler has substantially restructured its balance sheet through bankruptcy. Although we recognize the changes Chrysler has experienced in recent years, we believe this information provides a sense of the magnitude of growth that will be required of Chrysler.

in both old and new Chrysler, all of Chrysler's loans would have to be repaid and Treasury's equity stake would have to yield at least \$3.5 billion to make up for the losses to date.⁴⁰

In January 2011, Treasury modified its agreement with Lazard to retain its support in disposing of Treasury's remaining investments in GM and Chrysler. As we previously reported, it is critical for Treasury to employ or contract with individuals with experience managing and selling equity in private companies to provide advice and expertise on the oversight and sale of Treasury's equity investments. According to Treasury and Lazard officials, Lazard analyzed the expected distribution of shares to old GM bondholders, given that this distribution of shares may result in changes to the market for GM's shares. Lazard also continues to provide Treasury with information on the financial performance for GM, Chrysler, and Ford, and overall stock market performance. According to Treasury and Lazard officials, Lazard is examining various disposition strategies relating to Treasury's stake in Chrysler, including an analysis of Chrysler's ability to repay debt under various scenarios, such as accessing debt markets or a Department of Energy loan to support its advanced technology vehicle program, among other options.

Treasury's divestment strategy for its GM and Chrysler investments—including the timing of Treasury's exits and the extent to which it will recoup its investments—will depend on how Treasury balances its goals of maximizing taxpayer return and exiting as soon as practicable. For example, GM's share price will have to grow significantly for Treasury to approach fully recouping its investment in the near term. Otherwise, Treasury will have to temper any desire to exit as quickly as possible with the need to maintain its ownership interest long enough for the company to demonstrate sufficient financial progress. However, Treasury's goal of exiting its investments as soon as practicable could lead it to choose a speedier exit at the expense of a fuller recovery of its investments. We previously reported that Treasury would have to address the inherent trade-offs between these goals in developing its exit strategy.⁴¹ Treasury officials noted that they continue to balance these goals as they develop their divestment strategies for GM and Chrysler as market conditions and other events unfold. Given the fluidity of conditions and the number of

⁴⁰Congressional Oversight Panel, January Oversight Report, "An Update on TARP Support for the Domestic Automotive Industry" (Jan. 13, 2011).

⁴¹[GAO-10-151](#).

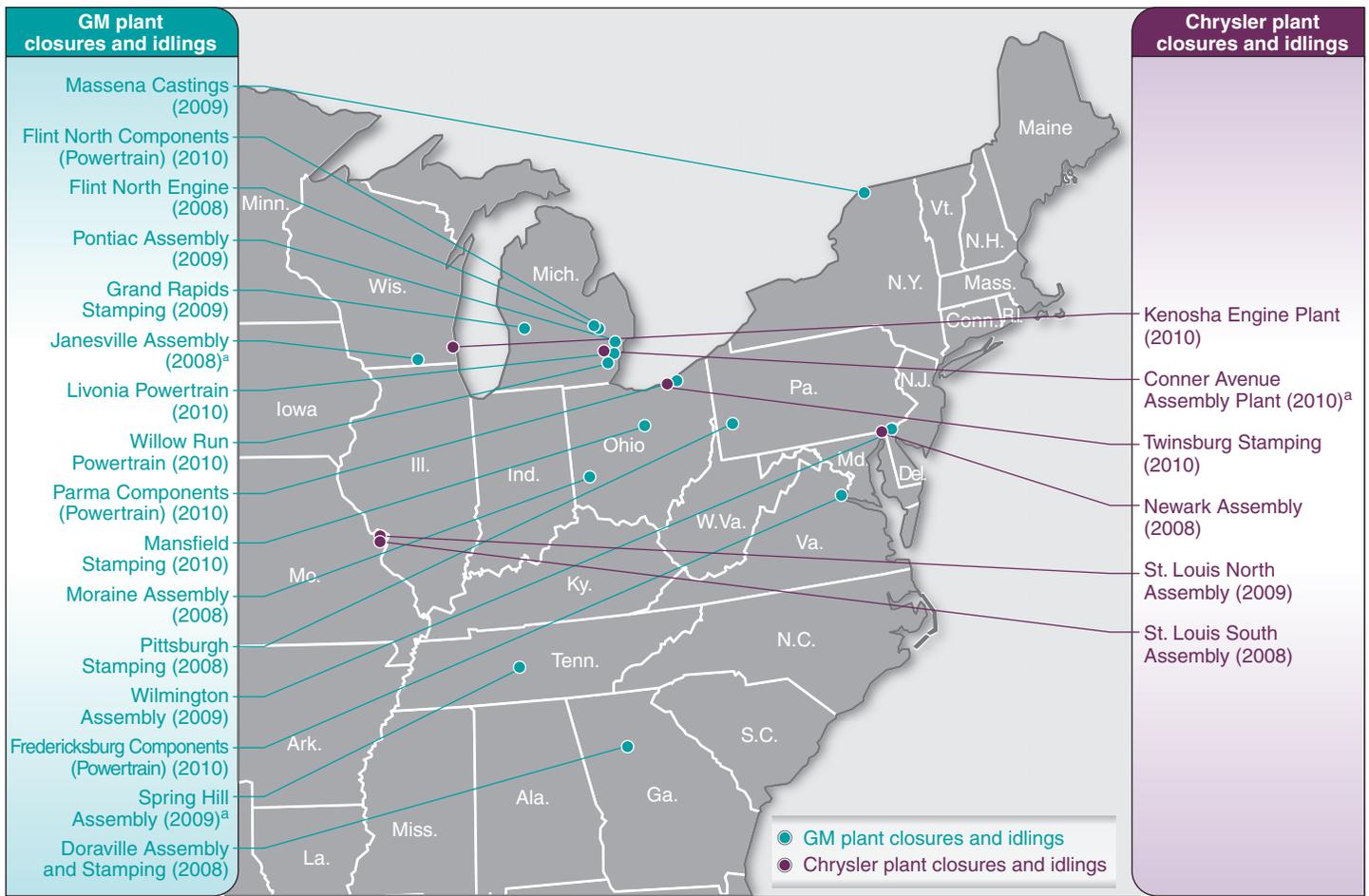
factors that will need to be considered when determining how and when to divest, it will be important for Treasury to analyze and consider all options as it weighs its goals of maximizing taxpayers' return and exiting its investments as soon as practicable.

Council Established to Help Auto Communities Has Not Demonstrated the Results of Its Efforts

For Auto Communities, Plant Closures Added to Employment, Housing, and Environmental Challenges

Though restructuring allowed GM and Chrysler to remain in business, and therefore benefited communities in which the companies retained manufacturing plants and employees, communities in which plants were idled or closed experienced economic challenges in addition to those they already faced. As previously mentioned, GM and Chrysler restructured their costs partly by closing manufacturing plants, and between 2008 and 2010, the companies closed or halted production at 22 plants (16 GM plants and 6 Chrysler plants), 15 of which were located in the Midwest (see fig. 3).

Figure 3: GM and Chrysler Plants Closed or Idled in 2008-2010 Restructuring



Sources: GAO presentation of GM and Chrysler data and Map Resources (map).

^aChrysler's Conner Avenue Assembly Plant in Detroit, Michigan, GM's Spring Hill Assembly Plant in Spring Hill, Tennessee, and GM's Janesville Assembly Plan in Janesville, Wisconsin, are currently idled. Production at these facilities has stopped, but they are not officially closed.

Of the six communities we visited where GM or Chrysler closed or idled a plant as part of its recent restructuring, five had unemployment rates prior to the closure that were already higher than the national average or the average rates in their respective states, and unemployment in all six

worsened in the years following the closure (see table 5).⁴² One of the worst-hit communities was Detroit, where the reported unemployment rate increased nearly 80 percent from October 2007 through October 2010, reaching 13.3 percent—exceeding Michigan’s average of 12 percent and the national average of 9.0 percent over the same time period. Nashville was the only community we visited where the reported unemployment rate was lower than both the state average and the national average during this period. This could be because Spring Hill, the town where a GM plant is located, is only a part of the Nashville metropolitan area, and other parts of the metropolitan area fared better, such as Franklin, Tennessee, where Nissan’s North American headquarters is located. Spring Hill officials reported that suppliers to non-GM auto companies, such as Nissan, are fairly healthy. Nevertheless, unemployment in the Nashville metropolitan area increased as well, nearly doubling over this period.

Table 5: Unemployment Rate before and after Restructuring in Case Study Communities, States, and the Nation

| State/community | Rate in October 2007 | Rate in October 2010 | Percent change between October 2007 and October 2010 |
|-----------------------|----------------------|----------------------|--|
| Delaware | 3.5 | 8.1 | 131.4 |
| Wilmington | 3.7 | 8.4 | 127.0 |
| Michigan | 6.6 | 12.0 | 81.8 |
| Detroit | 7.5 | 13.3 | 77.3 |
| Flint | 7.4 | 13.0 | 75.7 |
| Ohio | 5.2 | 9.5 | 82.7 |
| Dayton/Moraine | 5.5 | 10.4 | 89.1 |
| Mansfield | 5.9 | 10.9 | 84.7 |
| Tennessee | 4.9 | 9.1 | 85.7 |
| Nashville/Spring Hill | 4.2 | 8.3 | 97.6 |
| Nation | 4.4 | 9.0 | 104.5 |

Source: GAO analysis of Bureau of Labor Statistics data.

According to housing price index data from the Federal Housing Finance Agency, housing prices also generally deteriorated in the years following a plant closure. From October 2007 through October 2010, housing prices in

⁴²As previously noted, for the purpose of this report, we consider Dayton and Moraine, Ohio, to be one auto community. Moraine is proximal to Dayton and is the community in which GM closed an assembly plant in 2008 as part of restructuring.

metropolitan areas of five of the six communities we visited declined at least as fast as or faster than housing prices in the states where the communities are located (see table 6).⁴³ For instance, housing prices in the metropolitan areas around Detroit and Flint dropped roughly twice as fast between the third quarter of 2007 and the third quarter of 2008 as housing prices in Michigan—a decline of 14 percent and 12 percent for the communities, compared with a statewide decline of 6.6 percent.

Table 6: Percentage Change in Housing Price Index (HPI) Compared with the Third Quarter of the Previous Year for the Years before, during, and after Restructuring in the Metropolitan Areas of the Case Study Communities and States

| | HPI 2006-2007 Q3 (% change) | HPI 2007-2008 Q3 (% change) | HPI 2009-2010 Q3 (% change) | HPI 2007-2010 Q3 (% change) |
|--------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Delaware | 1.89 | -3.51 | -2.28 | -10.5 |
| Wilmington | 1.75 | -3.59 | -2.77 | -10.5 |
| Ohio | -0.65 | -2.24 | -0.26 | -3.6 |
| Mansfield | -3.54 | -3.78 | -8.89 | -11.1 |
| Dayton/Moraine | -0.40 | -0.95 | -0.99 | -3.2 |
| Michigan | -4.34 | -6.63 | -2.70 | -14.7 |
| Detroit-Livonia-Dearborn | -7.85 | -13.93 | -3.70 | -25.2 |
| Flint | -6.14 | -12.24 | -6.80 | -25.9 |
| Tennessee | 4.60 | 0.14 | -1.20 | -2.0 |
| Nashville/Spring Hill | 5.22 | -0.10 | -0.84 | -2.9 |

Source: GAO analysis of Federal Housing Finance Agency data.

Note: The housing price index data track the average housing prices at the metropolitan area and may not reflect the housing prices at the smaller constituent counties, such as auto communities, within the metropolitan area.

Closing automotive plants also created properties called brownfields, whose reuse or redevelopment may be hindered by the threat of

⁴³The housing price index data have limitations, in that they track only the average housing prices at the metropolitan area and may not reflect the housing prices at the smaller constituent counties, such as auto communities, within the metropolitan areas. The housing prices are generally determined by the supply of and demand for housing units. To the extent that the plant closures' effect on the stock of housing units and population varied among counties or small communities, the housing prices would also behave differently. As a result, averaging housing prices across the counties within a metropolitan area could obscure the varying movement of housing prices.

contamination.⁴⁴ Brownfields present additional and unique economic challenges for communities and, as we previously reported, are potentially harmful to residents' health and reduce local tax bases.⁴⁵ Before a closed automotive plant can be redeveloped or used again, contamination must be assessed and a plan for remediation or clean-up must be established, a process that can make it more difficult for communities trying to attract new employers into shuttered plants. Among the communities we visited, Flint reported that it has been disproportionately affected by brownfield issues, since it has lost four major automotive plants in the last 20 years in addition to the two that closed in the recent restructuring. As a result, Flint has the unique challenge of cleaning up and redeveloping more brownfields—reportedly more than 1,000 acres—than any other community in the country.

Federal Funding Assistance Was Targeted Mainly to Unemployed Workers, and Federal Support for Community Economic Development Has Been Limited

Much of the federal assistance that the communities we visited received was reportedly targeted to individuals recently laid off from auto plants and most officials said that it was secured without the assistance of the Council. According to community officials, this assistance came primarily through Department of Labor resources, such as funding provided through the Workforce Investment Act (WIA) Dislocated Workers Program, Trade Adjustment Assistance, and National Emergency Grants programs.

- *Dislocated Workers Program*: This program provides funding for employment and training services to help individuals find and qualify for employment. Laid-off autoworkers can qualify as dislocated workers because this term includes those who have been “terminated or laid off or received notification of termination or layoff from employment as a result of a permanent closure or substantial layoff.”
- *Trade Adjustment Assistance*: This program helps workers who have lost their jobs as a result of international trade.
- *National Emergency Grants*: These grants temporarily increase the funding for Dislocated Worker training and employment programs at the state and local levels by providing funding assistance in response to large,

⁴⁴In 2004, GAO reported that an estimated 450,000 to 1 million brownfield sites are abandoned or underused across the country.

⁴⁵GAO, *Brownfield Redevelopment: Stakeholders Cite Additional Measures That Could Complement EPA's Efforts to Clean Up and Redevelop Properties*, [GAO-05-450T](#) (Washington, D.C.: Apr. 5, 2005).

Old GM Environmental Cleanup Trust



Source: GAO.

GM's assembly plant in Moraine, Ohio, in 2010, approximately 2 years after GM closed it in restructuring. In the first quarter of 2011, GM signed a sale agreement with a company to purchase the plant.

On October 2010, Motors Liquidation Corporation (old GM) reached an agreement with the United States, 14 states, and the St. Regis Mohawk Tribe to establish a trust to clean up and repurpose 89 properties in the 14 states that were closed in GM's restructuring. The Trustee, a former Assistant Administrator for Solid Waste and Emergency Response at EPA, will oversee the administration of the funds and work with local communities when selling or repurposing the old GM plants. \$431 million will be provided to remediate specific old GM sites in 14 states. Two-thirds of these sites are known to be contaminated with hazardous waste. The bankruptcy plan was approved in March 2011, and states are expected to receive the following amounts.

| State | Expected funding from the trust and old GM |
|-------------------------------------|--|
| Delaware | \$11,728,473 |
| Illinois | 5,258,489 |
| Indiana | 25,174,482 |
| Kansas | 4,786,321 |
| Massachusetts | 2,325,836 |
| Michigan | 158,698,888 |
| Missouri | 1,724,806 |
| New Jersey | 24,708,069 |
| New York | 153,864,758 |
| Ohio | 39,394,990 |
| Pennsylvania | 3,299,231 |
| Virginia | 25,922 |
| Wisconsin | 210,857 |
| Total site-specific payments | \$431,201,122 |

Source: White House press release.

unexpected economic events that cause significant job losses, such as those experienced in the auto industry.

All six communities we visited reported accessing these Department of Labor programs, which were supplemented by Recovery Act funds in 2009 and 2010.⁴⁶ For example, Spring Hill, Tennessee, officials reported using National Emergency Grant and other Department of Labor funds to develop training programs for workers laid off from the former GM plant in the area, as well as for those laid off from companies that supplied the plant. According to a workforce training organization in Spring Hill, officials there used WIA dollars in part to fund a job readiness certificate program, which included training in math and English. A community college near Detroit reported receiving Department of Labor funds to retrain laid-off workers, including those from automotive plants, for work in new fields, such as defense.

In addition to receiving support for workers, community officials noted that federal assistance is available to help with the clean-up and redevelopment of old plants. In all six communities we visited, a plant had closed since 2008, and the community had to address the resulting brownfield. Two funding sources that communities identified as providing potential assistance with the remediation and redevelopment of brownfields are the Environmental Protection Agency's (EPA) Brownfields Program, which provides grants for environmental assessment, cleanup, and related job training activities, and an approximately \$772 million trust created by old GM—with TARP assistance—in which funds will be set aside to clean up and repurpose 89 properties that were closed in GM's restructuring (see sidebar).⁴⁷ EPA Brownfields Program funds have been available, but old GM trust funds only recently became available after the bankruptcy court signed an order approving old GM's bankruptcy on March 29, 2011. One community—Flint—reported receiving assistance through the EPA Brownfields Program to remediate possible contamination at Buick City, a plant that GM closed in the 1990s, prior to the recent restructuring.

⁴⁶Pub. L. No. 111-5, 123 Stat. 115 (2009).

⁴⁷Of the \$772 million set aside in the Motors Liquidation Corporation ("Old GM") bankruptcy plan, \$536 million was provided for remediation with the remaining amount for administrative costs.

Council Provided
Communities with
Information on Funding
and Contacts but Has Not
Maintained Data to
Demonstrate the Results
of Its Efforts

To date, the Council has focused primarily on portions of two of the four functions established for it in the executive order—coordinating the efforts and support of federal agencies to ensure a coordinated federal response to issues that affect auto communities and workers. These functions have been carried out primarily by the Department of Labor’s Auto Recovery Office, which provides staff for the Council (referred to as the Council staff). To date, the Council has not made recommendations to the President, and it is not clear to what extent staff have advised the President on legislation or policy proposals. As outlined in the executive order, the Council is set to expire on June 23, 2011, unless extended by the President, but the Department of Labor’s fiscal year 2012 budget request includes funding for the Auto Recovery Office’s efforts to target strategies and resources for revitalizing jobs for auto workers and communities, though it does not state any specific plans for the office’s activities.

As part of their efforts to ensure a coordinated federal response, the Council members and staff visited auto communities around the country and connected them to the appropriate federal agencies and resources. For example, from May 2009 through June 2010, the Council held “listening sessions” in 11 communities that had been affected by the decline in the auto industry.⁴⁸ Council staff, including the former director, were often accompanied at these sessions by cabinet-level Council members such as the EPA Administrator and the Secretary of Labor, whose agencies offer programs with the potential to assist auto communities. Additionally, in each community, Council staff met with local officials to understand the key challenges facing the community and to inform them of and connect them to an appropriate federal program or individual. The Council reported that the problems they heard about most often involved jobs, land use, and difficulties maintaining services in the face of budget shortfalls. A specific Council staff member was assigned to each auto community and state to represent the Council and to serve as the point person for each auto community. These staff members responded to their assigned communities’ needs, such as by providing technical assistance or identifying contacts, and continued to connect the communities to resources and individuals as appropriate. In May 2010, the Council released its first annual report outlining what it had done to help

⁴⁸The Council held listening sessions in Fremont, California; Flint, Detroit, Grand Rapids, and Warren, Michigan; St. Louis, Missouri; Dayton, Twinsburg, and Toledo, Ohio; and Janesville and Kenosha, Wisconsin.

auto communities affected by restructuring.⁴⁹ At the same time, to coincide with the release of this report, the Council co-sponsored a summit titled “Auto Communities and the Next Economy: Partnerships in Innovation” with the Brookings Institution Metropolitan Policy Program, the Department of Labor, and the Funders’ Network for Smart Growth and Livable Communities on the challenges facing auto communities.

Community officials we interviewed said that the Council brought federal attention to auto communities, but four of the six communities noted that they did not receive additional federal assistance, as they might have expected. For instance, Detroit officials reported that, although the Council’s efforts highlighted the challenges facing auto communities and improved relationships between city and federal entities, these efforts did not result in additional funding for the city. Officials in Dayton and Nashville/Spring Hill agreed, stating that the Council’s focus on them resulted in increased federal attention but not increased federal assistance to their regions. These comments suggest that some community officials may have believed that the Council had the ability to provide funding. However, officials in two of the six communities did attribute their receipt of federal funds to the Council. In particular, officials in Flint told us that the Council was instrumental in helping them qualify for a \$6.7 million grant from the Federal Emergency Management Agency to hire or maintain firefighters, and an official in Dayton/Moraine reported that they received a National Emergency Grant a few weeks after the Council visited the community.

Though the Council was not established to provide funding directly to communities and does not have a program budget to do so, its press releases and annual report may have led some communities to believe that they would receive financial assistance from the Council. For example, the Council has published 100 press releases on its Web site announcing Administration activities that may have assisted automotive communities, including federal funds awarded to auto communities, such as Recovery Act and Department of Energy grants. One of these press releases was an announcement that a “landmark federal framework to speed the cleanup of and redevelopment of shuttered auto facilities” would make more than \$800 million available for environmental cleanup at old GM sites.

⁴⁹White House, *Annual Report of the White House Council on Automotive Communities and Workers* (Washington, D.C: May 2010). The Council has not established a timeline for issuing an annual report in 2011.

However, the Council was not responsible for securing these funds. Rather, the available funds were part of the TARP funding provided by Treasury in 2009 for expenses related to the liquidation of old GM. More specifically, as part of GM's bankruptcy settlement, the budget for winding down old GM, which the bankruptcy court approved in 2009, included approximately \$773 million for environmental cleanup. This budget is part of old GM's bankruptcy plan, which was recently confirmed by the bankruptcy court. The Council's May 2010 annual report includes similar announcements and states that the Council, along with its member agencies, "marshaled Recovery Act and other federal funds" for auto communities in areas such as high-speed rail, health care services, and education, totaling billions of dollars. The report also states that the Council "cuts red tape," suggesting it can eliminate certain bureaucratic hurdles for communities, though when we interviewed Council staff they said that communities had to go through the same application and qualification processes as other communities.

The Council's May 2010 annual report cites various federal programs that have helped auto communities, but neither the Council nor its staff in the Auto Recovery Office systematically tracks, measures, or assesses the Council's assistance to the communities. For example, they have not kept an inventory of assistance that it has provided or funding it has helped communities secure, analyzed the inventory for trends, and published the results of their analysis. Consequently, it is difficult to identify the assistance the Council and its staff have provided. Council staff stated that they keep informal records of in-person meetings with auto communities, such as the 2009 and 2010 listening sessions, but do not routinely review or categorize these records. Furthermore, the Council itself provides no resources or direct assistance to the affected communities, but according to Council staff, the Council acts as a liaison to coordinate the responses of the individual member agencies that retain full responsibility and authority for their activities and, though the Council has published many press releases and an annual report, Council staff told us they do not want to take credit for any federal assistance awarded to auto communities and are reluctant to track or measure the outcomes of the Council's assistance as something separate and discrete. We have previously reported that federal agencies engaged in collaborative efforts—like the multi-agency response to auto community issues coordinated by the Council—need to create the means to monitor and evaluate their efforts so that they can

identify areas for improvement.⁵⁰ However, without tracking or measuring the assistance it has provided to communities or systematically reviewing this information to identify common concerns or themes, the Council is neither monitoring nor evaluating its efforts and will have difficulty identifying areas for improvement and corresponding recommendations.

While the Council, through its staff, has worked to identify the needs of auto communities and put community officials in touch with federal contacts and programs—efforts that could generally be described as coordinating the efforts and support of federal agencies on auto community issues—the Council has not fulfilled the remaining two primary functions outlined in the executive order. Specifically, it has not advised the President on the effects of legislative and policy proposals on auto communities or provided recommendations to the President on changes to federal policies and programs that could benefit auto communities. According to Council staff, they have not yet seen trends in concerns or needs across auto communities that could be addressed with a uniform policy or program change, but that some common needs may emerge as their work continues. Furthermore, in their view, changes to individual specific programs are most appropriately addressed by the responsible agencies. In addition, they noted that they are unlikely to make recommendations to the President while the Council is without an executive director. The executive director resigned in August 2010, and, as of April 2011, the President had not appointed anyone to fill this position. The Council has contracted with the Center for Automotive Research to produce a report on lessons learned from communities in which a major auto facility has closed during the last 30 years. It is possible that recommendations, such as successful strategies for redeveloping closed plants or for identifying the most effective types of federal assistance, could emerge from this report, which is due to the Council by August 2011.

Conclusions

With the help of billions of federal dollars, GM and Chrysler have reported improved financial conditions, earning profits for the first time in several years. As the companies' financial condition has improved, Treasury has taken steps to recoup the federal assistance provided, most notably recouping more than \$13 billion in GM's IPO. Nevertheless, Treasury still has roughly \$34 billion invested in GM and Chrysler and thus will have to continue to

⁵⁰GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

monitor the companies and the markets to identify possible divestment strategies that strike the right balance between Treasury's competing goals of maximizing taxpayers' return and exiting as soon as practicable. We previously recommended that Treasury develop criteria for identifying the optimal method and time for divesting the government's ownership, and we were pleased to see that Treasury took some key steps toward doing this for the initial GM divestment, such as issuing guidance on GM's IPO and hiring Lazard to conduct company, industry, and market analysis and generally help the department secure an appropriate price for its shares. Now, with the majority of Treasury's total investment in the two companies still outstanding, it is even more important that Treasury carefully and critically identify and weigh its options, given that industry analysts see little likelihood of GM's share price rising high enough during this year for Treasury to fully recoup its investment in GM. Treasury told us that it plans to develop a strategy for further divesting its equity stakes in both auto companies in the coming months. Because of these plans, we are not making a further recommendation in this area, but we believe that such a strategy, communicated to the public as transparently as possible, is important because the decisions that Treasury makes about further divestment will affect the extent to which the government is able to recoup its investments.

While restructuring benefited GM and Chrysler, it created economic challenges for communities in which the companies closed a manufacturing plant or otherwise reduced employment. Our review of selected economic indicators for and site visits of these communities illustrates these challenges. While the Council and its staff within the Department of Labor's Auto Recovery Office have tried to help auto communities navigate these challenges by serving as a listening post and federal liaison, the results of their efforts are unclear. As officials from the communities we visited noted, the Council brought attention to the plight of auto communities, but it may have created unrealistic expectations of government assistance that led to disappointment, particularly when no funding was provided. Furthermore, because the Council and the Auto Recovery Office have not tracked their assistance to auto communities or measured or assessed the results of that assistance, it is difficult for communities, the public, or Congress to understand what the Council or the Auto Recovery Office have done or accomplished, as well as what value they might have in the future. By not systematically tracking their assistance and assessing and documenting the results, such as by keeping an inventory of the funding they have helped auto communities secure, analyzing the inventory for trends, and publishing the results, the Council and the Auto Recovery Office are also missing an opportunity to identify and share best practices, including the methods or types of assistance that

are most effective in helping auto communities. This means that the assistance that auto communities have received and are currently receiving may not be as effective as it could be. Given the looming expiration date for the Council and the Administration's interest in continuing the Auto Recovery Office as noted by the 2012 budget request, the Department of Labor should evaluate what the office has achieved and, equally important, what can best be done to help auto communities. Such information is especially important if the Council—whose executive order outlines its functions, which are carried out by the Auto Recovery Office, and provides a framework for interagency collaboration to assist auto communities—is not extended. Absent this executive order, the office's purpose and functions are neither articulated nor documented. In addition, it is important that this information be promptly shared with Congress so that it can be used in making future funding decisions for the Auto Recovery Office and other federal programs that have been used by auto communities.

Recommendation for Executive Action

Given the absence of demonstrated results and the 2012 budget request for the Auto Recovery Office, the Secretary of Labor, as co-chair of the Council, should direct the Auto Recovery Office to (1) document the office's achievements to date, including its support to the Council and assistance provided to various auto communities; (2) identify its functions and strategy going forward; (3) establish a process for measuring the office's results; and (4) determine when and how the specialized assistance provided by the office can be transitioned to existing federal programs. This information should be communicated to Congress as soon as possible so that it can be considered in the fiscal year 2012 appropriations process.

Matter for Congressional Consideration

Congress should consider not funding the Office of Recovery for Auto Communities and Workers, as requested for in the Department of Labor's fiscal year 2012 budget request, unless the Secretary of Labor provides Congress with information about the results of the federal government's assistance to auto communities to date and a plan for carrying out the federal government's efforts in the future.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Labor, Treasury, and Executive Office of the President for their review and comment.

The Department of Labor provided written comments on the draft report, which are reprinted in appendix I. In its comments, the Department of Labor reiterated that the Council and the Auto Recovery Office have been able to marshal federal resources to support distressed auto communities by making over 60 visits to these communities, engaging congressional leaders, developing public-private partnerships between communities and philanthropic foundations, and coordinating federal agencies on their efforts to meet the needs expressed by these communities. The department notes that the best measure of success of the Council and Auto Recovery Office is evident in the numerous federal resources awarded by the federal agencies represented on the Council. As further evidence of the office's achievements, the department provided a list of the communities that they visited, which detailed the purpose of each trip and whether representatives from other federal agencies participated, and a table listing examples of federal resources that have been distributed to auto communities and workers by the federal agencies that comprise the Council. While the information on community visits provides additional detail of the office's activities, it does not articulate the office's achievements or results. Documenting the activities of the office is useful, but it does not address the intent of our recommendation—that is, the department should document, track, and assess the specific assistance being provided by the Auto Recovery Office to distressed auto communities, such as technical assistance, or the outcomes resulting from this assistance, such as whether auto communities received any additional resources as a result of the office's efforts. Similarly, the information on federal resources provided by the department shows the funding provided to auto communities by federal agencies—much like what is detailed in the Council's May 2010 report—but it does not show the extent to which the Council or the Auto Recovery Office influenced the distribution of these funds or helped the auto communities apply for and receive these funds. Therefore, we reiterate the need for the Auto Recovery Office to provide Congress with more specific information on how the office's efforts have addressed challenges facing auto communities and to better justify the continued investment in this targeted effort to auto communities, given the constrained federal budget environment. The Auto Recovery Office needs to provide Congress this information as well as it plans for the future as soon as possible given Congress' ongoing efforts to develop the fiscal year 2012 appropriations.

In its letter, the Department of Labor also agreed that a process needs to be put in place to monitor the Council's and office's progress toward fulfilling its mission and notes the challenges in developing a set of metrics that measures activities such as facilitation and process and that the more traditional measures of performance-based results are being tracked by the agencies that are responsible for administering the actual delivery of services. While we appreciate the challenges in developing metrics for the type of work conducted by the Council and Auto Recovery Office, it is imperative such metrics be developed to help track and assess the Council's and office's results. By systematically measuring its results, the Council and office could assess their progress in meeting the functions outlined in the executive order, and such information on the Council's and office's results could help policymakers better target federal resources to address challenges facing these communities by identifying methods or types of assistance that are most effective in helping auto communities.

Finally, the Department of Labor notes that there are currently senior-level discussions within the Administration on the continued role of the Council and office in the Administration's effort to support auto communities and workers and anticipates that the Administration will identify the office's functions and strategy going forward in the next 60 days. The letter further states that our report presupposes that the Council and office will be eliminated in the short term and argues that the services provided by the Auto Recovery Office can and should continue for the foreseeable future, even absent an extension of the executive order establishing the Council. While we do not assume that the Council or office will be eliminated, we do believe it is appropriate for the department to consider when and how the targeted assistance provided by the office can be transitioned to existing federal programs to minimize duplication of efforts between the office and the federal agencies providing the services. Furthermore, the potential absence of the Council makes it all the more important for the Auto Recovery Office to articulate its future plans, including how it will coordinate with other federal agencies to assist auto communities, given the executive order provides a framework to leverage interagency collaboration. The Department of Labor's written comments also included three technical comments, which we incorporated.

Treasury generally agreed with the report's findings and provided written comments, which are reprinted in appendix II. Treasury also provided technical comments and clarification, which we incorporated as appropriate. The Executive Office of the President did not provide comments.

We also provided relevant portions of a draft of this report to GM and Chrysler for their review and comment. GM and Chrysler provided technical comments and clarification that we incorporated as appropriate. We also provided representatives from the auto communities that we visited with statements from our interviews and made technical changes based on their comments, as appropriate.

We are sending copies of this report to the Department of Labor, Treasury, the Executive Office of the President, Special Inspector General for TARP, interested congressional committees and members, and others. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or clowersa@gao.gov.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



A. Nicole Clowers
Acting Director
Financial Markets and
Community Investment Issues

List of Committees

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Kent Conrad
Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate

The Honorable Max Baucus
Chairman
The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate

The Honorable Hal Rogers
Chairman
The Honorable Norm Dicks
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Paul Ryan
Chairman
The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Dave Camp
Chairman
The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Comments from the United States Department of Labor

U.S. Department of Labor

Office of Recovery for
Auto Communities and Workers
Washington, D.C. 20210



May 3, 2011

Ms. A. Nicole Clowers
Acting Director, Financial Markets, and
Community Investment Issues
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Clowers:

Thank you for the opportunity to review the Government Accountability Office's (GAO) draft report entitled "Treasury's Exit from GM and Chrysler Highlights Competing Roles, and Results of Support to Auto Communities Are Unclear." In general, the draft report does a good job of understanding the role and activities of the White House Council on Automotive Communities and Workers (the Council) and the Office of Recovery for Auto Communities and Workers (the Office). However, there are a few factual clarifications we wish to make, as well as respond to the recommendations proposed by the GAO in the draft report.

Page 35 of the draft report includes a bullet on National Emergency Grants, which are designed to respond to large, unexpected economic events. As written, the reference to "declines in the national economy" is too general. NEGs are not designed to subsidize Dislocated Worker Formula Allocation funds, rather NEGs are designed to respond to specific economic dislocation events. We request that the last line under "National Emergency Grants" be changed to read "that cause significant job losses, such as those experienced in the auto industry".

Additionally, on page 38 of the draft report, reference is made to a budget justification. The 2012 Department of Labor budget justification does reference general activities which the Auto Recovery Office will undertake in 2012. Page DM-26 includes the following: "Office of Recovery Auto Communities and Workers: targets strategies and resources for revitalizing jobs for auto workers and the communities central to the industry." You can view this document at <http://www.dol.gov/dol/budget/2012/PDF/CBJ-2012-V3-02.pdf>.

Lastly, on page 39, there is a reference made to a summit the Council co-sponsored with the Brookings Institution in May 2010. To clarify, this event, titled "Auto Communities and the Next Economy: Partnerships in Innovation", was co-sponsored by four entities: the White House Council on Automotive Communities and Workers, the United States

Department of Labor, the Funders Network for Smart Growth and Livable Communities, and the Brookings Institution Metropolitan Policy Program.

Turning to the specific recommendations for executive action set forth in the draft report, we submit the following for your consideration.

GAO recommendation: Auto Recovery Office should document the office's achievements to date, including its support to the Council and assistance provided to various auto communities.

Even before the President signed the Executive Order creating the Council, the primary objective for the Office was to support workers and automotive communities as they dealt with the impact of the economic downturn in the auto industry. Staff from the Office, including then-Executive Director Ed Montgomery, visited communities large and small, listening to the concerns of the communities and their leaders, and making sure these communities had a partner at each and every step of the way on their path towards recovery. The Council and the Office were charged with reaching out to the affected communities, bringing the communities and federal agency partners together, facilitating a dialogue that would identify the unique challenges each community faces, and act as an ombudsman for the communities and federal partners as they collaborated on solutions to the problems and barriers to recovery. The Office was not created to act as a new programmatic office with its own budget or authority to provide direct support to these communities. Rather than duplicate the programs and services already in place, the Office was established to provide communities with a direct link to the existing federal agencies and resources that could best help them through the recovery process. The intent was to highlight the needs of distressed auto communities and to help them navigate their way to the needed support government can provide.

As we have learned, the journey towards a recovery is long and continues to this day, but the Council and the Office have been able to marshal federal resources to support those communities in greatest need of support. To that end, the Council and the Office made over 60 visits to distressed auto communities across the country, engaged with congressional leaders, developed public-private partnerships between communities and philanthropic foundations, and coordinated with federal agencies on their efforts to meet the needs expressed by distressed auto communities. In the attached spreadsheet, we have compiled a list of the communities we visited and the purpose of the trips.

The work of the Council and the Office was always designed to help lift up the concerns of the distressed auto communities and the GAO study confirms that they received reports from communities they visited that we were successful in bringing increased federal attention to the plight of auto communities.

The best measure of the success of the Council and the Office is evident in the numerous federal resources awarded by the federal agencies that comprised the Council and were a result of both the communities' diligent efforts to apply for them, as well as the federal agencies commitment to consider the special needs of auto communities. Attached is a table which gives examples of federal resources that have gone out to Auto Communities and Workers. It is not an exhaustive list, but it illustrates the types of resources that have been provided. It is important that we stress that our office did not have funds at our disposal to directly respond to the communities, and that our primary role was make sure the communities were connected to the right agency and to facilitate the agency's response.

GAO recommendation: Auto Recovery Office should identify its functions and strategy going forward.

In light of the success the Administration has had in its efforts to help the auto industry turn around, it is appropriate to now review the continued role of the Council and the Office in efforts to support automotive communities and workers. There are currently senior level discussions within the Administration on exactly this issue. We anticipate that the Administration will provide an answer to this question in the next 60 days.

GAO recommendation: Auto Recovery Office should establish a process for measuring the office's results.

The Council and the Office were created as a demonstration of an administration-wide commitment to provide the support needed by auto communities and workers as they deal with the current crisis in the short-term and work towards recovery over the long-term. They have operated with that mission in mind since their inception. Since the function of the Council and the Office has thus far been to act as an ombudsman for the communities and federal partners as they collaborated on solutions to the problems and barriers to recovery, it may be challenging to develop a set of metrics that measures facilitation and process. The more traditional measures of performance based on results are being tracked by the agencies that are responsible for administering the actual delivery of services. However, we agree with the GAO's recommendation that a process needs to be put in place to monitor the Council's and the Office's progress towards fulfilling its mission. We are committed to develop such a process.

GAO recommendation: Auto Recovery Office should determine when and how the specialized assistance provided by the office can be transitioned to existing federal programs.

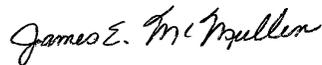
While this recommendation by the GAO presupposes that the Council and the Office are eliminated in the short term, it is our position that the service provided by the Office to distressed auto communities can, and should, continue even absent an extension of

the Executive Order. As evidenced by the GAO's recommendation, the Office provides "specialized assistance" to these communities. The Council and the Office were created to provide auto communities with a central point of contact to help them navigate the various federal agencies that can provide assistance in their recovery efforts. Absent the creation of a specialized position in each of the key federal agencies, the Office exists as an established resource that can effectively coordinate the response of multiple federal agencies to multiple communities.

We acknowledge that the Office will not exist in perpetuity; we believe that the situation facing distressed auto communities is still acute enough to be best addressed through the existence of a centralized, coordinated effort.

Again, thank you for the opportunity to review the draft report. Should you or your staff have any questions concerning the statements or requests contained herein, please do not hesitate to contact us.

Sincerely,



James E. McMullen
Acting Director

Attachments

Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 27, 2011

Thomas J. McCool
Director, Center for Economics
Applied Research and Methods
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. McCool:

The Department of the Treasury ("Treasury") appreciates the opportunity to review the GAO's latest draft report on the Troubled Asset Relief Program ("TARP"), titled *"Treasury's Exit from GM and Chrysler Highlights Competing Roles, and Results of Support to Auto Communities Are Unclear"*. Treasury welcomes the GAO's acknowledgment that Treasury's assistance enabled General Motors and Chrysler to restructure and "tackle key challenges to achieving viability" and that without this assistance the companies may have had to liquidate. We also appreciate GAO's recognition that, in providing this assistance, Treasury took important steps to protect taxpayer interests and that Treasury has taken action consistent with many of GAO's earlier recommendations.

We also appreciate GAO's comments regarding the principles that guide our management of TARP investments. As we stated in our Agency Financial Report for the fiscal year 2010, we endeavor to "protect taxpayers and maximize overall investment returns within competing constraints" and "dispose of investments as soon as practicable, in a timely and orderly manner that minimizes financial market and economic impact."

Treasury values the GAO's oversight of TARP and we look forward to continuing this constructive dialogue.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Massad".

Timothy G. Massad
Acting Assistant Secretary for Financial Stability

Appendix III: GAO Contacts and Staff Acknowledgments

GAO Contacts

A. Nicole Clowers (202) 512-8678 or clowersa@gao.gov
Katherine A. Siggerud (202) 512-2834 or siggerudk@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Raymond Sendejas (Assistant Director), Marcia Carlsen, Kieran Coe, Sharon Dyer, Elizabeth Eisenstadt, Sarah Farkas, Heather Krause, Terence Lam, Henry Malone, Matthew McDonald, Susan Michel-Smith, and SaraAnn Moessbauer made significant contributions to this report.

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