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Selected Program Descriptions

The NAFTA North American Development Bank (NADBank):

In mid-1994 agreement was reached between the U.S. and Mexico on two new organizations to support border environmental clean-up and to provide support for community adjustment and investment related to NAFTA. The Border Environment Cooperation Commission (BECC) was developed to help border states and local communities in coordinating, designing and financing environmental infrastructure projects with cross-border impacts. The North American Development Bank (NADBank) was created to address two problems: the financing of border environmental projects and adjustment assistance to address NAFTA-related community trade adjustment problems. NADBank was provided with funding that should support \$2 to \$3 billion worth of projects over four years, however, only ten percent of its funds were to be allocated to the Community Adjustment and Investment Program (CAIP).

NADBank CAIP assistance is limited to loans and loan guarantees to businesses located in communities designated as eligible for assistance under the CAIP. There is no authority for supporting community capacity building, planning or technical assistance, and no provision for funding of infrastructure improvements to support local economic conversion in areas hard hit by import impacts when such areas aren't part of the NADBank border program. Only three loans or loan guarantees have been provided under the NADBank CAIP in the three years of its existence.

The Treasury Department made its first designations under the CAIP on August 1, 1997, when it designated 35 communities as eligible, which should make it possible for companies in those communities to apply for CAIP assistance. To be designated as eligible for the CAIP, a community must provide evidence of two factors: first, it must demonstrate job losses associated with the passage of NAFTA and second, it must suffer from an unemployment rate significantly higher than the national rate. The job loss test can be met by having a significant number of recent Department of Labor TAA worker group certifications, or by showing the loss of a significant number of jobs to business relocations to Canada or Mexico. At this point, the CAIP can only be viewed as an experiment.

Trade Adjustment Assistance for Firms and Industries:

The Department of Commerce has implemented the Trade Adjustment Assistance (TAA) Program for Firms and Industries since the late 1970's. (See attachment B - a detailed program description and fact sheet.) Although funding for the TAA Program for Firms and Industries has fluctuated significantly over the years and responsibility for the program has been transferred from EDA to the International Trade Administration (ITA) and the back to EDA, the program has proven itself to be an efficient and effective way to help U.S. firms and industries injured by imports regain the ability to compete in the global marketplace. While the program included loan

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and loan guarantee authority in its early years, those authorities were later eliminated because they were cumbersome to implement and firms were generally able to obtain conventional financing once they had developed and implemented their Adjustment Proposals.

Most of the assistance provided under the TAA Program for Firms and Industries has been provide through a network of twelve Trade Adjustment Assistance Centers (TAACs) which provide direct, hands-on assistance to trade injured firms. The TAACs, established in 1978, were among the first government-sponsored providers of comprehensive assistance to manufacturers to help them improve their operations. TAACs work with firms to help them complete the necessary documentation to become certified under the program, develop a comprehensive Adjustment Proposal that identifies the company's strengths and weaknesses as well as the steps they need to take to become competitive, and then implement the proposal, generally through the cost-shared (50/50) hiring of outside consultants with expertise in the necessary business discipline. While the majority of TAACs are overseen by university-based entities, three are sponsored by private non-profit organizations, one by a state agency and one by a regional manufacturers' association.

The assistance provided through the TAACs is unique in a number of ways. First, unlike most business assistance programs, manufacturers must demonstrate injury due to imports and go through a certification process. Since they must have suffered lost sales and employment and those losses have to be at least partly due to increased imports of like or directly competitive products, firms receiving assistance from the TAACs are generally facing declining fortunes. This is another difference between the TAA Program and other business assistance programs that generally work with either start-ups or healthy firms seeking to improve operations. Because of the generally weak condition of their client firms, the TAACs also tend to work with their clients for a longer period of time and provide a higher level of assistance. It is not unusual for a TAAC to work with a client for over three years and to provide over \$100,000 in cost-shared consultant assistance to the firm.

In spite of the condition of the clients when they enter the program, however, the results of TAAC assistance have been impressive. A TAAC analysis of 651 firms completing assistance under the program between FY 1990 and FY 1996 showed that while sales had declined 11 percent (from \$7.3 billion to \$6.5 billion) in the two years prior to entering the program, they had increased 40 percent (from \$6.5 billion to \$9.1 billion) after receiving assistance. Employment also showed significant recovery, having dropped nearly 15 percent in the period before the firms entered the program and then recovering nearly 14 percent after assistance.

While recent years have seen limited funding going into industry assistance efforts because of reduced appropriations for the TAA Program for Firms and Industries, there have been a number of innovative and effective industry-government cooperative efforts undertaken through the program. Among the industry projects funded were the original American Electronics Association (AEA) and Semiconductor Industry Association (SIA) representative offices in Japan working to resolve trade issues with that nation; initial funding for the Tailored Clothing Technology Center (TC2) developing automated apparel technology on behalf of the U.S. apparel

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industry; and a program with the Gear Research Institute to develop austempered ductile iron materials technology as a lower cost, lightweight and strong material for drive train applications. The TAA program for Firms and Industries should be viewed as the U.S. Government's "turnaround" consulting program for trade injured companies and industries, and a major source of support for community business retention efforts.

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EXISTING TRADE ADJUSTMENT ASSISTANCE PROGRAMS:

Economic Development Administration:

The Economic Development Administration (EDA) was established under the Public Works and Economic Development Act of 1965, as amended (42 USC 3121 *et seq.*), to generate new jobs, retain existing jobs and stimulate industrial and commercial growth in economically-distressed areas of the United States. EDA assistance is available to rural and urban areas of the Nation experiencing high unemployment, low-income levels, extensive poverty, outmigration, or sudden and severe economic distress.

The basic principle underlying all EDA programs is that economic development is a local process that must be based on locally identified economic development plans and/or adjustment strategies. EDA works in partnership with state and local governments, regional economic development districts, public and private non-profit organizations and Indian tribes to support local development efforts. EDA's capacity building tools (planning, technical assistance, economic adjustment strategy and technical assistance, national technical assistance and research, and trade adjustment assistance) are used to provide communities with the resources needed to support the development and implementation of a comprehensive approach to the rebuilding of the local economic base. The Agency then uses its other program tools (public works, economic adjustment infrastructure and revolving loan funds) to support local efforts to implement their economic development programs. (See attachment A - EDA Fact Sheet and Program Booklet)

While originally created to address areas of the country suffering from general long-term economic decline, EDA's role in recent years has evolved to include a significant component of strategic adjustment assistance to help communities deal with defense cutbacks and natural disasters. The Agency has demonstrated effective coordinated use of its multitude of program tools in helping communities meet the challenge of significant short-term negative economic dislocations. A recent study of EDA's public works program conducted by a consortium led by Rutgers University, for instance, showed that for every \$1 million of funds EDA provided under its public works program, over \$10 million in private investment were leveraged resulting in the creation of 327 jobs at an EDA cost of \$3,058 per job.

Chapter 4 - Adjustment Assistance for Communities. The major program tools that would be brought to bear on trade injured communities include:

- **Planning/economic adjustment strategy funding** to provide the framework and support for the creation of a comprehensive community adjustment planning process that will involve local officials, business leaders, labor organizations, citizen groups and other interested community players in the development of an adjustment strategy for the rebuilding of the local economy. For example, EDA provided a \$45,000 grant to the City of Yuma, AZ, to prepare a comprehensive economic development strategy covering neighboring communities in Yuma County to emphasize industrial diversification linked to economic development in adjacent Mexican towns.
- **Technical assistance** support to evaluate the feasibility of proposed investments and to provide assistance to meet specific technical needs of the strategy such as an

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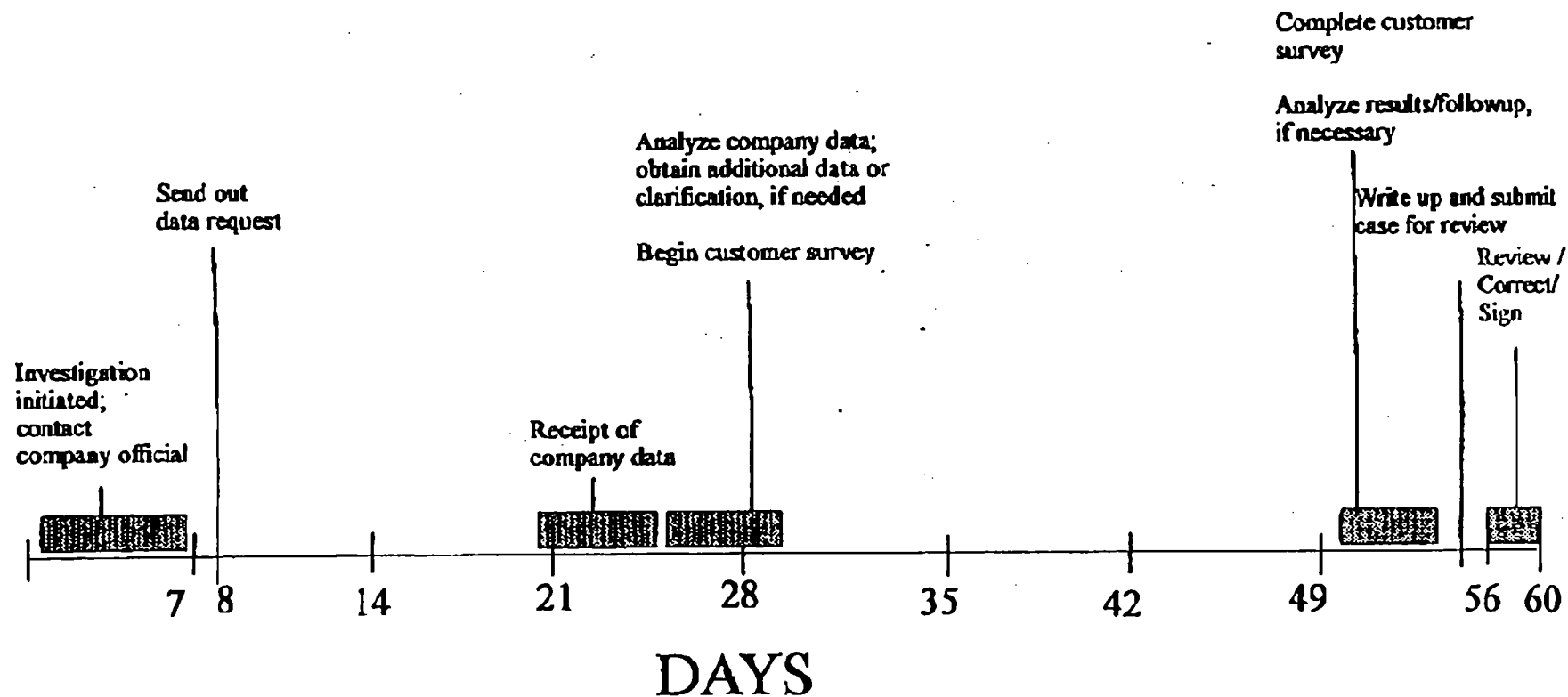
environmental assessment or financial restructuring. In Owensboro, KY, for instance, a \$16,000 technical assistance project to prepare an airport industrial park master plan led to the funding of an infrastructure project to provide improvements to support the Mid American Air Industrial Park.

- **Public works/infrastructure investments** to meet the development needs of a restructured economy including industrial or commercial site development, incubator buildings, skill training centers or improved water and sewer systems. EDA provide the City of Mission, TX, and Mission Economic Development Authority with a \$1,500,000 public works grant to provide infrastructure improvements to develop a 90-acre industrial area to meet the need for new and expanding industrial and commercial business development. The Mission area has been hard hit by peso devaluations that hurt its retail trade and harsh freezes that devastated the citrus industry.
- **Revolving loan funds (RLF's)** for business assistance and infrastructure needs not met by the CAIP. While we would expect the comprehensive Community Trade Empowerment Initiative to play a significant role in developing investment opportunities for the CAIP, there may also be gaps in the financial resources available to these communities that only a RLF could meet. In St. Louis, MO, EDA provided a \$1,350,000 RLF grant as part of a defense adjustment effort to develop creative responses to meet the significant impacts on the local defense industry caused by defense procurement cutbacks. The RLF is targeted to providing assistance for small and medium-sized defense contractors seeking to diversify their businesses away from dependence on defense contracting.
- **Trade Adjustment Assistance (TAA) for Firms and Industries Program** authorities will be used to provide assistance to trade injured companies in these communities to develop and implement a comprehensive Adjustment Plan to restructure their firm and regain the ability to compete in the global marketplace, and to help industries facing growing imports undertake collective activities to help their member companies compete more effectively. The TAA Program helped a western provider of high quality electroplating and metal finishing services to the aerospace and micro-electronics industry who was losing sales to both Mexican and Asian companies. Employment had dropped from 27 to 18 while sales and profits were eroding. Company and TAAC staff developed a recovery strategy based on both addressing pressing environmental problems while also lowering production costs and expanding production capabilities. With TAAC assistance, a new water and metal reclamation system was developed which allowed the firm to isolate its operation from the city sewage system and reclaim metals in a useful form. As a result of the assistance, sales increased by over 25 percent, profitability was restored and employment has grown to 30.

In addition to the individual examples cited above, an example of EDA's program tools being used in a coordinated manner to address the adjustment needs of a community facing a significant dislocation may be useful. The 1991 round of Base Realignment and Closure (BRAC) decisions

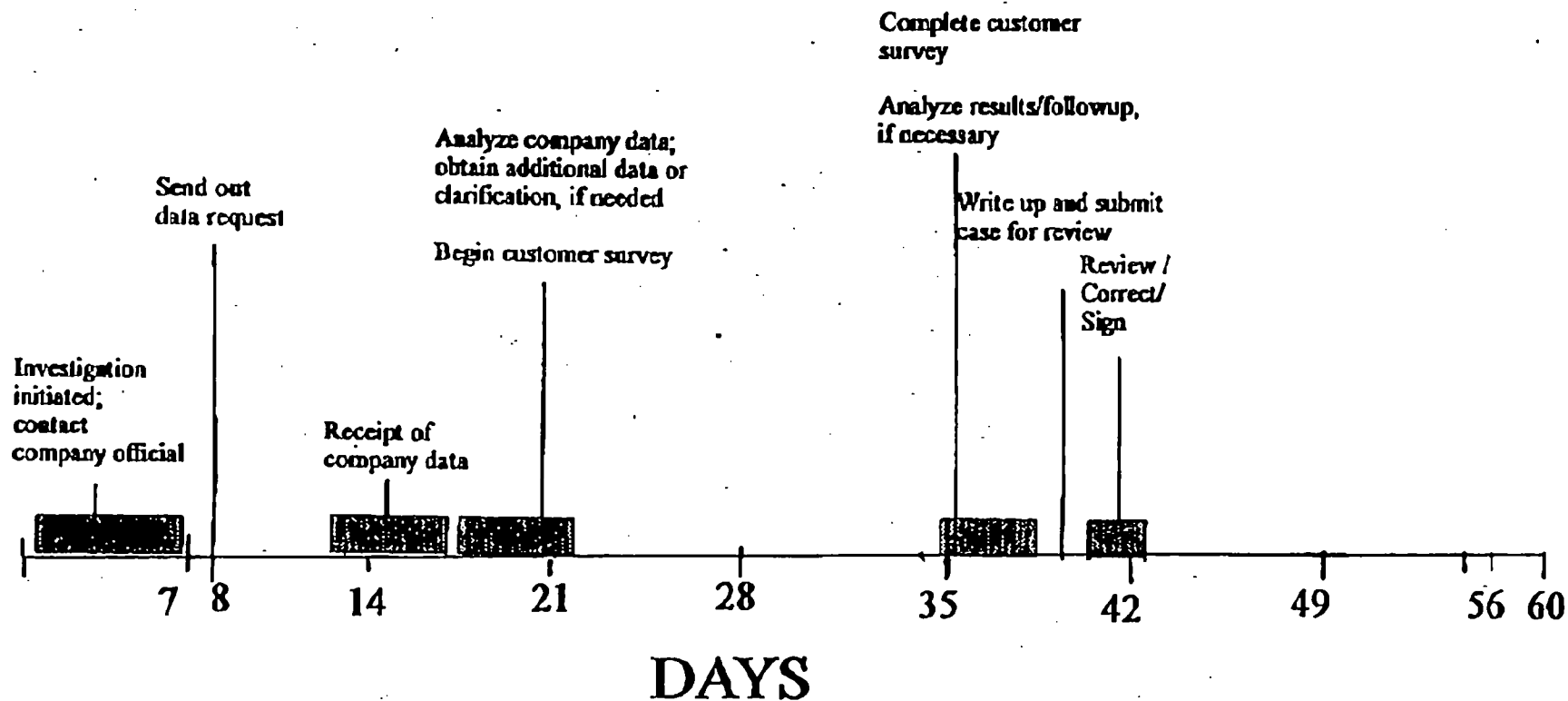
Timeline for TAA Investigative/Determination Process

CURRENT:



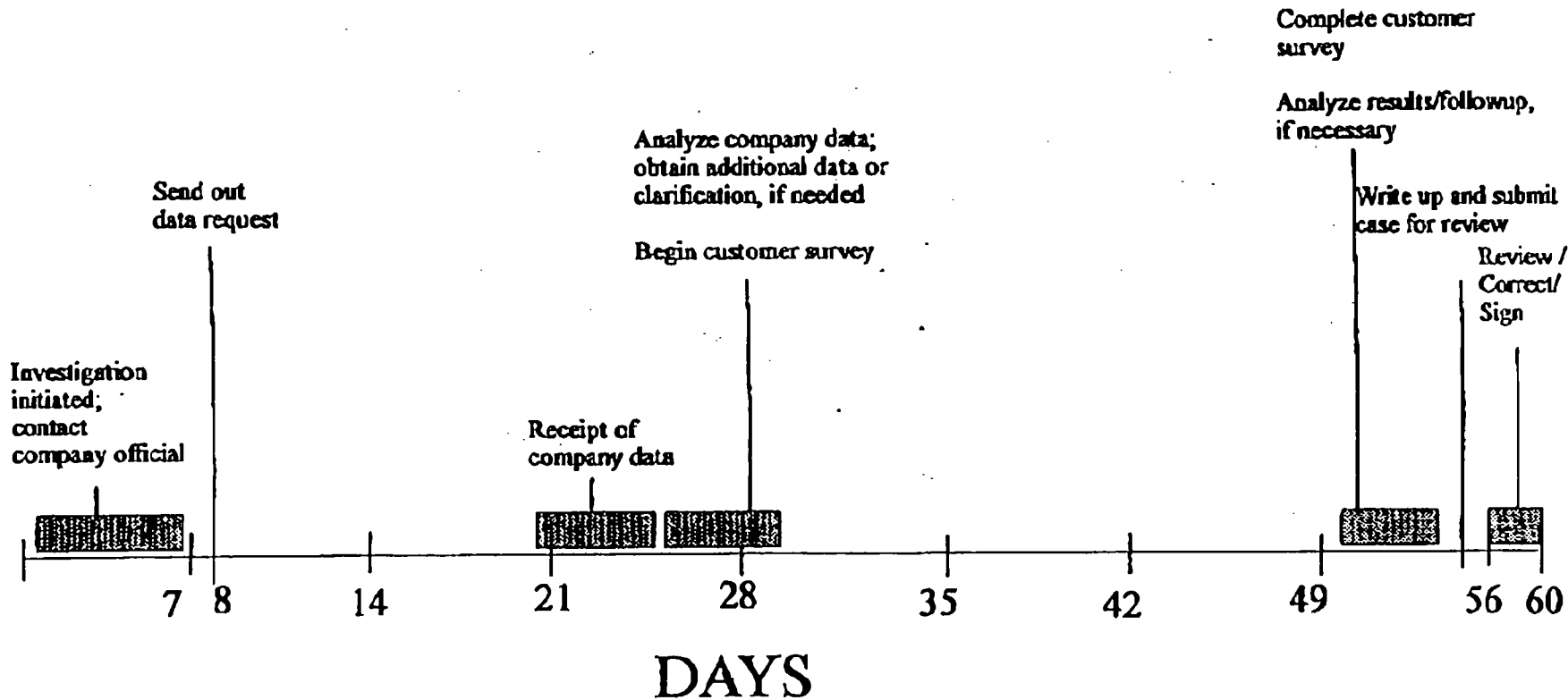
Timeline for TAA Investigative/Determination Process

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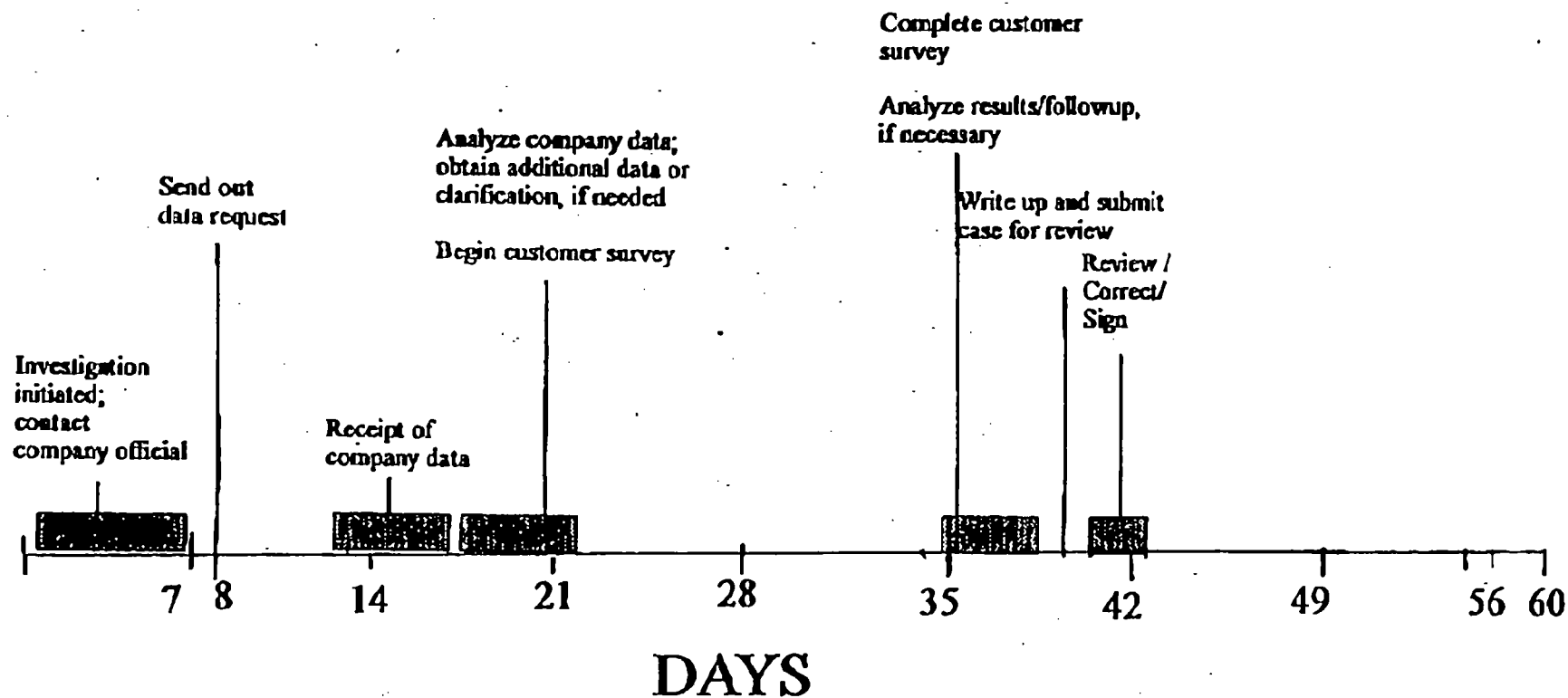
Timeline for TAA Investigative/Determination Process

CURRENT:



Timeline for TAA Investigative/Determination Process

PROPOSED



October 7, 1997

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: CET

By CET model, Deirdre was pointing to the San Jose Center for Employment and Training. Attached is a description of the program, along with an evaluation of its effectiveness. Here are the facts you need to know:

- The CET was founded in 1968 and provides 3-6 months of vocational training to disadvantaged youths and adults.
- While CET's headquarters are in San Jose, they currently operates training centers in 25 sites in three western states, with a majority in California.
- 65 percent of their 1991-92 students were high-school dropouts.
- Over half were limited in their ability to speak English. Most CET participants are Hispanic.
- A study found that youth at the San Jose CET site showed sustained annual earnings gains of over \$3,000. Combining earnings gains from the third and fourth years after entry into the program, young CET participants earned over \$6,000 more than control group members, which was a 40 percent earnings increase.
- It is not know exactly how these results were achieved at CET. In terms of length and cost of the program, CET was one of the shortest and cheapest of the Jobstart sites. But CET was a more intensive experience -- participants spent over 80 hours per month in training, well above average for all the Jobstart sites.
- The CET program is distinguished by several factors:
 - (1) *Close connections to the labor market* -- CET staff have extensive knowledge of local labor markets, which they use to determine which technical skills will be taught in their courses;
 - (2) *Integrated basic education and vocational skills training, with an emphasis on the latter* -- CET emphasizes job skills training over learning basic skills; basic education is tightly connected to skills training;
 - (3) *An individualized, open-entry, open-exit program* -- the CET curriculum is tailored specifically to the needs of each individual student; and
 - (4) *Highly experienced staff and extensive local knowledge* -- CET has been active in San Jose for over 25 years, and some its staff have been working there for the entire

The CET Project

Founded in 1968, the CET provides 3-6 months of vocational training to disadvantaged youth and adults. CET's headquarters and largest site is in San Jose, but it currently operates training centers in 25 sites in three western states, with the majority in California. The program serves a fairly disadvantaged population; 65% of their 1991-1992 students were high schools dropouts, and over half were limited in their ability to speak English.³⁷ CET clients are mostly Hispanic.

The Jobstart study found that youth at the San Jose CET site showed sustained annual earnings gains of over \$3,000. Combining earnings gains from the third and fourth years after entry into the program, young CET participants earned over \$6,000 more than control group members, which was a 40% earnings increase. These are among the largest training effects ever recorded in a youth training program. When combined with CET's impressive performance in training minority single parents (see below), this program has an excellent record of achievement.

It is not known exactly how these results were achieved at CET. In terms of the length and cost of the program, CET was one of the shortest and cheapest of the Jobstart sites. Youth were enrolled for an average of 4.1 months and spent 335 hours in training. Total costs per enrollee were \$4,200. However, the comparatively short stay in the program may have made CET a more intensive experience -- participants spent over 80 hours per month in training, well above average for all the Jobstart sites.

The basic element that sets CET apart from other training programs is its strong focus on employment, a focus which is integrated into every element of their program. CET is distinguished by³⁸--

Close connections to the labor market. CET staff have extensive knowledge of local labor markets, which they use to determine which technical skills will be taught in their courses. In each new community CET enters, an industrial advisory board is set up to assist in skill selection and curricular review. CET courses are taught by experienced technicians from industry. Many area employers are also on their board.

The program also has a strong employment orientation, with an emphasis on job placement. Program staff use their many employer connections to help place their students after training is completed.

Integrated basic education and vocational skills training, with an emphasis on the latter. CET emphasizes job skills training over learning basic skills. The basic education provided is tightly connected to skills training. At entry trainees immediately begin vocational training designed to simulate a real job situation. If

³⁷ 25th Anniversary Annual Report, Center for Employment Training, 1993.

³⁸ Personal communications with CET and Rockefeller Foundation staff.

trainees have difficulty with basic reading or math during this training, they are given individual assistance on the spot by basic skills tutors present during the training. Instead of being taught academic skills through classroom instruction, students learn them in the context of job training.

An individualized, open-entry open-exit program. The CET curriculum is tailored specifically to the needs of each individual student. Students are accepted on an open-entry basis, with no testing or other prerequisites for entry. This is similar to the Job Corps approach.

Highly experienced staff and extensive local knowledge. CET has been active in San Jose for over 25 years, and some of its staff have been working there for this entire period. Their long experience in the city has allowed the program to develop many contacts in the business community and earn an excellent reputation among employers. This reputation seems to help CET place its graduates.

CET training was successful not only in the Jobstart demonstration, but in a separate evaluation of its ability to train minority female single parents, another group with serious barriers to labor market success. CET training produced annual earnings gains of over \$1,500 for these women.

The Department of Labor is currently funding a replication of the CET model in a number of East Coast cities. These new sites will be evaluated to determine if the success of CET can be reproduced in other cities.

Other Program Models

Subsidized employment has positive immediate effects, but by itself has not been successful in improving long-term earnings and employment for youth. This approach may prove more successful if combined with other services.

Many programs for disadvantaged youth provide temporary subsidized employment, both to improve their immediate employment status and in the hope that work experience alone -- even without skills training or extensive job placement assistance -- will make disadvantaged young people more employable in the future. The limited evaluation evidence that is available suggests that temporary employment programs without additional services bring little or no post-program benefits to disadvantaged youth. But they do improve employment and earnings during the program period, and there is also a bit of evidence that combining employment with other services can bring greater results.

The Supported Work demonstration is the most extensive and well-evaluated experiment testing the effect of work experience on future employment prospects for disadvantaged youth.³⁹ The demonstration provided up to a year of subsidized work experience followed by

THE WHITE HOUSE
WASHINGTON

October 7, 1997

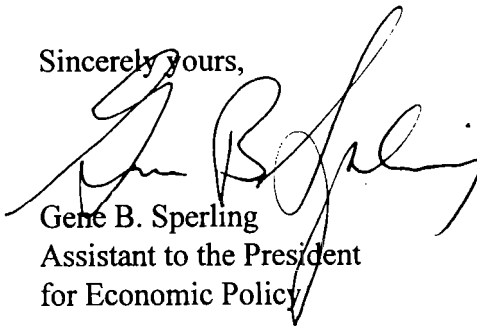
Congressman Xavier Becerra
House of Representatives
Washington, DC 20515

Dear Congressman Becerra:

Please find attached a revised version of our 12-point action plan to cover secondary workers and improve Trade Adjustment Assistance. This revised proposal addresses each of the nine changes that Deirdre requested in her memo of October 6. I believe that this package of proposals would go a long way to helping trade-impacted workers make the transition from one job to another.

I look forward to talking with you later today.

Sincerely yours,



Gene B. Sperling
Assistant to the President
for Economic Policy

THE WHITE HOUSE

WASHINGTON

October 4, 1997

Congressman William Jefferson
House of Representatives
Washington, DC 20515

Dear Congressman Jefferson:

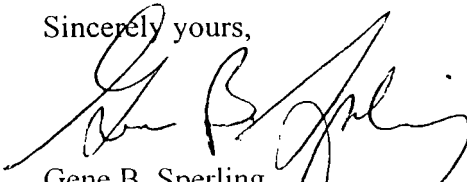
In light of our discussions and my previous conversations with Congressman Rangel, we have drafted the attached document. The package of proposals for our discussion reflect a commitment by the Administration to job-training, community-adjustment, and job-creation initiatives in the context of the passage of fast-track authority.

As we discussed, the package would contain the reauthorization of TAA and NAFTA-TAA, and an expansion of TAA to cover factories that shift production to other countries, if the Republicans would go along with this proposal. Additionally, we would implement the series of TAA reforms that you discussed previously with Secretary Herman, and the Administration would seek additional funding for the dislocated worker program. The attached proposals also include an expanded community adjustment initiative, with new funds for EDA and the creation of a coordinating body to help regions adversely impacted by trade.

Finally, to ensure that we fully tap our greatest market for growth -- the undeveloped potential in our urban centers -- the Administration would provide \$3 billion over the next five years in expansions of current initiatives that have proven records of helping to create jobs and opportunity for disadvantaged Americans. If we include the reauthorization of TAA (which does not require offsets), improvements and expansions in TAA, and the community assistance proposals, this entire package of policies is worth \$5 billion over five years. We hope these proposals would allow Democrats to support fast track in the context of a multi-billion dollar job-creation commitment.

I look forward to working with you on this discussion draft and developing a strong job-training and job-creation package. If you have any questions regarding these proposals, please feel free to call me anytime at (202) 456-2807. If I am not in the office, you can reach me through the White House operator by calling (202) 757-5000.

Sincerely yours,



Gene B. Sperling
Assistant to the President
for Economic Policy

POSSIBLE POLICY IDEAS FOR JOB CREATION AND TRADE-ADJUSTMENT ASSISTANCE PLAN

October 7, 1997

I. Reauthorization of TAA:

1. **REAUTHORIZE TAA AND NAFTA-TAA FOR FOUR YEARS.** The Senate Finance has approved an extension of TAA and NAFTA-TAA for two years. (TAA and NAFTA-TAA expire September 30, 1998.) The Finance Committee paid for NAFTA-TAA extension by extending a processing fee (\$5) for commercial passengers entering the U.S. from Mexico, Canada, and the Caribbean. The fee would be extended for a time period sufficient to pay for the two-year extension. The Administration would propose the reauthorization of TAA and NAFTA-TAA through fiscal year 2002.
 - CBO estimates the costs of the NAFTA-TAA extension for four years at about \$102 million. While TAA extension costs \$1.26 billion over four years, it does not require offsets since it is already included in the baseline.

II. Possible Improvements to TAA:

LEGISLATIVE CHANGES:

2. **GIVE WORKERS IN FIRMS WHICH SHIFT PRODUCTION TO ANOTHER COUNTRY TRADE ADJUSTMENT ASSISTANCE.** Under TAA, workers may only be certified for assistance if their firm is adversely affected by imports. Under NAFTA-TAA, workers may be certified if either their firm is adversely affected or their firm shifts production to Mexico or Canada. This proposal would give workers in firms which shift production to another country trade adjustment assistance.
 - Covering shifts in production under TAA, as well as NAFTA-TAA, would cost \$69 million per year or about \$345 million over five years.
3. **MODIFY WAIVER FOR TRAINING REQUIREMENTS FOR TAA AND NAFTA-TAA SO THAT THEY ARE SIMILAR.** Theoretically, TAA requires that a participant be enrolled in training in order to qualify for income support, but waivers are granted very often. In contrast, there is no waiver authority under NAFTA-TAA. As part of reauthorization, the Administration could propose to narrow waiver authority under TAA and loosen it under NAFTA-TAA. This would serve to both reduce the abuse of the waive provision under TAA and to harmonize the two programs.
 - The costs of this proposal are still being determined, but it is likely revenue-neutral. This proposal could also be done administratively.

ADMINISTRATIVE CHANGES:

4. **CUT CERTIFICATION TIMES BY ONE-THIRD.** In order to cut the certification time from 60 days to 40 days, the Department of Labor will take the following four steps: (1) reduce investigator caseload to allow for more timely follow-up in obtaining relevant company and customer data; (2) develop an enhanced in-house system for tracking import trends and performing import-impact analysis; (3) reduce the amount of time from 21 to 14 days between the day the Labor Department requests and receive data from companies; and (4) reduce the length of the customer survey from 21 to 14 days.
 - Technological improvements as well as possible staffing increases will allow the Department to assemble, review, and analyze investigative data and information in a more timely manner. The total cost for these improvements would be \$2.5 to \$3 million over five years.
5. **IMPLEMENT PERFORMANCE MEASURES FOR TAA/NAFTA-TAA PROGRAMS.** The Labor Department does not receive information on how workers do after they participate in either TAA or NAFTA-TAA programs. To ensure that the programs work effectively, the Labor Department is developing and implementing performance measures, and collecting outcome-based performance data for workers who receive adjustment assistance. This will permit better tracking of TAA/NAFTA-TAA program effectiveness, and thus, improved outcomes for participants.
 - These performance measures can be accomplished within current administrative cost and program budget limitations.

III. Community Adjustment Assistance and Expansion of Trade Adjustment to Include Secondary Workers:

6. **\$200 MILLION TO EXPAND EDA SO THEY CAN EFFECTIVELY DEAL WITH TRADE ADJUSTMENT.** Expand EDA's budget by \$200 million over the next five years, so that they could provide comprehensive economic development assistance to regions affected by major plant closings. Some priority could be given to trade-impacted regions.
 - So that EDA could provide more comprehensive economic development assistance, including trade-impacted areas, the Administration would propose expanding EDA's budget by \$200 million over the next five years.

7. **CREATE COORDINATING BODY TO DEAL WITH TRADE ADJUSTMENT.** DOD's Office of Economic Adjustment (OEA) was the Administration's first point of contact with communities experiencing a military base closure or defense plant closing. Learning from the defense conversion experience, we would create an OEA-type body to coordinate the Administration's response to trade-impacted regions by working with Labor, Commerce, SBA, Treasury, and other government entities. This group would provide planning grants and expertise to help communities develop credible economic adjustment strategies. They also would bring the appropriate state, local and federal groups to the table to provide adequate resources for implementing plans. The expert staff at OEA could be detailed to this body to help trade-impacted regions and workers.

- The Administration would propose \$50 million over five years for funding this coordinating body.

SECONDARY WORKERS:

We are currently working with Congressman Becerra on a package to cover secondary workers under the Trade Adjustment Assistance program. Our discussions have focused on providing more dislocated worker funding for secondary workers. We are also working to initiate an informational campaign to increase the take-up rate of dislocated worker benefits by secondary workers.

IV. Job Creation Initiatives (Combined With Proposals Outlined in Section III):

8. **MAKE FLEXIBLE FUNDING AVAILABLE FOR SECOND-ROUND URBAN EMPOWERMENT ZONES.** The Administration would request \$100 million per year -- or \$500 million over five years -- in grant funds for second-round urban EZs. This funding could be used for a wide range of activities, including economic development and housing projects, project-based rental assistance, and job training. Although the Administration requested \$100 million in flexible urban EZ funding for FY 1998, the FY98 VA-HUD conference report includes only \$5 million in EZ planning funds, with no guarantee of actual program funding for FY 1999.
- Providing flexible funding for the second-round of urban Empowerment Zones would cost \$100 million per year, or \$500 million over the next five years.
9. **EXPAND THE YOUTHBUILD PROGRAM.** YouthBuild provides high school dropouts 16-24 with general academic and job skills training, as well as apprenticeships constructing and rehabilitating affordable housing. The FY 1998 VA-HUD conference report will likely include \$35 million for YouthBuild. This proposal would provide, beginning in FY 1999, an increase of \$10 million per year for YouthBuild (above the FY 98 conference level).
- Expanding the YouthBuild program would cost \$10 million per year or \$50 million over five years.

10. **CREATE OPPORTUNITY AREAS FOR OUT-OF-SCHOOL YOUTH.** The Administration requested and continues to advocate strongly for \$250 million in competitive grants to selected high-poverty urban and rural areas, including designated EZs and ECs, to increase youth employment. The House Labor-HHS-Education Appropriations bill includes \$100 million in forward funding for FY 1999; the Senate bill \$250 million (also forward funded).
 - The Administration would work to ensure that the out-of-school youth program receive \$250 million per year or \$1.25 billion over the next five years.
11. **\$250 MILLION IN DISLOCATED WORKER FUNDING.** In order to provide training to more dislocated workers, the Administration would increase funding for the dislocated worker program.
 - The Administration will propose a \$50 million increase in JTPA Title III in our FY99 budget. Between FY99 and FY03, this expansion of dislocated worker funding would mean an additional \$250 million of resources for dislocated workers.
12. **\$500 MILLION IN WELFARE-TO-WORK TRANSPORTATION FUNDS.** The Administration requested \$100 million for an unspecified number of projects. The initial House bill provided \$42 million for 10 projects. The Senate transit legislation reported by the Banking Committee fully funds the President's request. To help move people from welfare-to-work, the Administration will continue working to secure full funding for welfare-to-work transportation funds.
 - The Administration will work to ensure that welfare-to-work transportation funds receive \$500 million over the next five years.
13. **PERMIT STATES TO SET ASIDE ON-THE-JOB TRAINING POSITIONS FOR WELFARE RECIPIENTS AND EZ/EC RESIDENTS ON FEDERALLY-FUNDED HIGHWAY PROJECTS.** The Administration would work to permit states to set aside on-the-job training positions for welfare recipients and residents of EZ/ECs on Federally-funded highway projects. This NEXTEA provision is not included as proposed in either the House or Senate transportation bills, although the House bill does include a preference for welfare recipients.
 - The annual cost of this proposal is zero.
14. **\$250 MILLION TO OPEN ADDITIONAL JOBCORPS CENTERS AND IMPROVE EXISTING ONES.** JobCorps centers provide basic education, training, work experience, and other support to economically disadvantaged youth typically from debilitating environments. The Administration would propose to increase funding for JobCorps so that additional centers could be opened and existing centers could be improved.
 - The Administration would propose a \$50 million increase in JobCorps funding -- over five years, that's an additional \$250 million.

15. **\$225 MILLION FOR CDFIs TO EXPAND THE AVAILABILITY OF CREDIT IN DISTRESSED URBAN AND RURAL AREAS.** The Community Development Financial Institution (CDFI) fund is designed to expand the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. The Administration requested \$125 million for CDFIs, but the Treasury-Postal conference report provided \$80 million for FY98.

- The Administration will propose a \$45 million increase over the conference report in our next budget -- that's \$225 million over five years for CDFIs.

V. Building On Tax Provisions for Investors in Specialized Small Business Investment Companies (SSBICs):

16. **ENHANCE AND BUILD ON TAX PROVISIONS FOR EQUITY INVESTORS IN SSBICs.** The Administration is committed to ensuring the success of the initiatives contained in the President's 1993 Economic Plan to encourage investments in specialized small business companies (SSBICs). The Administration would work with Congressman Jefferson and the tax-writing staff to enhance the effectiveness of these provisions through proposed modifications. The starting point of the discussions would be the proposals already put forward by Congressman Jefferson in his letter to National Economic Advisor Sperling on October 3, 1997. These proposed modifications would cost on the order of \$50 million over five years.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

LABOR BRANCH FAX SHEET

DATE:

8/28

TO:

Gene Sperling

FROM:

Maureen Walsh

COMMENTS:

*Info you requested
on DOL's Opportunity Areas
for Out-of-School Youth.*

NUMBER OF PAGES
(INCLUDING COVER)

9

CONFIRMATION: (202) 395-3262
FAX NUMBER: (202) 395-1596

OPPORTUNITY AREAS FOR OUT-OF-SCHOOL YOUTH (YOA)

- **1998 Budget Policy:** The FY 1998 request of \$250 M would provide first-year grants to 15-20 high poverty urban and rural areas, including EZ/ECs. Grants would average \$14 M for each of 5 years, serving about 50,000 youth annually. The program's goal is to boost the employment rate of out-of-school youth in each target area to 80% from its current rate of about 45%. DOL would conduct YOA under JTPA demonstration authority. YOA pilots are operating in 6 sites with \$16 M in JTPA funds. The YOA program is one of 17 in the Training and Employment Services (TES) account. TES is one of the 13 "Protected Domestic Discretionary Priorities" in the Balanced Budget Agreement.
- **Latest House Action:** The House committee-reported bill provides a FY 1999 Advance Appropriation (AA) of \$100 M, to be available for the Program Year (PY) beginning on July 1, 1999 "only if [the program is] specifically authorized by subsequent legislation." The committee report also indicates that \$25 M is available for YOA within JTPA's \$43 M demonstration appropriation.
- **Administration Position:** The July 28th Statement of Administration Policy on H.R. 2264, the Labor/HHS/Education appropriation bill, urges the House to provide FY 1998 resources for YOA and notes the program may be carried out under existing legislation (as pilots are now). The SAP also urges the House to fully fund the request for TES programs, in order to be consistent with the BDA.
- **Latest Senate Action:** The Senate committee bill provides a FY 1999 AA of \$250 M, to be available on October 1, 1998, "if job training reform legislation authorizing this or similar at-risk youth projects is enacted by April 1, 1998." The Senate also provides \$25 M for YOA demos.
- **Analysis:** Senate action -- without the requirement that authorizing legislation must be enacted -- would delay funding availability only for three months (the FY 1998 request finances a PY beginning on July 1, 1998). YOA funding should not be contingent on the highly uncertain outcome of training reform legislation. Similar legislation met constituent opposition and failed to emerge from a contentious conference committee in the 104th Congress. Also, in May 1997, the House passed H.R. 1385, a training reform bill that does not include an authorization for YOA. The Senate companion draft bill does authorize YOA, but introduction has been delayed.
- **FY 1997 Appropriations Action:** Both the House and Senate denied the YOA request of \$250 M in the President's 1997 Budget.

August 28, 1997

Opportunity Areas for Out-of-School Youth

Proposed in the President's FY 1998 Budget, the Youth Opportunity Areas (YOA) initiative would provide \$250 million in "seed capital" grants to Empowerment Zones, Enterprise Communities (EZ/EC), and other high poverty areas to boost the employment rate among out-of-school youth to 80 percent. Congress denied a similar request in the FY 1997 Budget.

- **Five-year grants.** The \$250 million request would provide competitive grants of about \$14 million in the first of five years to each of 15 to 20 current and future EZ/ECs. The federal investment would total \$1.3 billion over the FYs 1998-2002.
- **Matching requirement.** Grantees would be required to enlist support of schools, business, training programs, and community groups in the target area, and include a 100 percent State/local match in the first year. The matching requirement would rise over the five-year life of the grant; at the end of the grant cycle, the program would be sustained without federal funds.
- **Grant competition.** A "leading edge" competitive grant strategy would be used to distribute grant funds, as in the Administration's School-to-Work and One-Stop Career Center initiatives.
- **Administrative entity.** JTPA Private Industry Councils or local workforce development boards would be the local governing body for the YOA grants.
- **Program features.** YOA would serve about 50,000 youth annually. Its features include:
 - Immediate job placement, work-based learning opportunities, and strong links to the school system. Community involvement would occur in program planning, design, and implementation.
 - Requiring responsible behavior on the part of youth as a condition of continued participation.
 - Concentrating funds in a small "target neighborhood" within an EZ/EC of about 10,000 to 20,000 persons in an effort to saturate areas and produce positive peer pressure.
- **YOA pilots.** In Summer 1996, the Labor Department used \$9 million in existing JTPA demonstration funds to launch YOA pilots of \$3 million each in Chicago, Houston, and Los Angeles. Pending funding availability, the grants will be extended for two additional years.

News Release



U.S. Department of Labor

Office of Public Affairs
Washington, D.C.

Employment and Training Administration

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FOR RELEASE: Immediate
Wednesday, June 25, 1997

LABOR DEPARTMENT AWARDS THREE NEW GRANTS TOTALING \$6.7 MILLION TO SERVE OUT-OF-SCHOOL YOUTH IN HIGH-POVERTY AREAS

1998 Funding Expected to Reach \$250 Million

One rural and two urban communities will each receive over \$2 million to serve youth in high-poverty areas, Secretary of Labor Alexis M. Herman announced today. The 1997 Opportunity Areas for Out-of-School Youth Pilot Project grants have been awarded to Boston, New York and the Lake Cumberland Area in Kentucky.

"I am pleased that my Administration can provide these funds to ensure that young people are able to receive needed education and job training assistance," said President Clinton. "This support will be a positive step in preparing them not only for successful careers but also for rewarding futures."

The bi-partisan budget agreement recently reached between the President and Congressional leaders provides for \$250 million for an Out-of-School Youth initiative in 1998 and is critical to provide seed funds to high-poverty urban neighborhoods and rural areas--current and prospective Empowerment Zones and Enterprise Communities (EZ/ECs)--to help them increase employment among out-of-school young people as an alternative to welfare and crime.

"Through these grants, we have been able to provide much-needed hope for a few communities," said Herman. "Now we need to take everything we've learned and put it to good use across the nation."

-more-

These demonstration projects establish opportunity areas in specific neighborhoods (with populations of 15,000 or less) like those in empowerment zones and enterprise communities. The primary emphasis is to get out-of-school youth, aged 16-24, into private sector employment. To do this, a variety of successful job training and job development strategies are used. The goal is to increase employment in the target population from below 50 percent to 80 percent.

In addition, grantees work with public and private organizations in the broader community, such as schools, community colleges, community-based organizations, private sector employers and the judicial system, to reduce the high school dropout rate in the area and to provide mentoring support, leadership development and other services that young people need to start career paths with earnings sufficient to support a family.

Research suggests that unemployment is linked to crime, poverty, teen pregnancy, drug abuse and welfare dependency.

Recipients of the 1997 Opportunity Areas for Out-of-School Youth Grants were selected through a competitive process in which 21 needy communities applied. These communities were from urban and rural Service Delivery Areas located within designated empowerment zones and enterprise communities.

The Economic Development and Industrial Corporation in Boston will receive \$2,208,099. These funds will be used in the neighborhoods of Orchard Park in Roxbury and West Broadway and the Old Colony in South Boston. Approximately 3,400 youth will be served with a goal of placing 684 youth in jobs. Two employment centers will be created to provide comprehensive service delivery and to create neighborhood-based learning environments.

The New York City Department of Employment will receive \$2,214,179 to provide services in the Mott Haven/Port Morris sections of the Bronx. Approximately 3,074 out-of-school youth will have access to services as a result of this award. The goal is to place 580 youth in jobs. A Community Advisory Board will oversee program linkages.

The Lake Cumberland Area Development District in Russell Springs, Kentucky, will receive \$2,246,838 to assist this rural community. Approximately 1,136 young people from Clinton County and portions of Wayne County will benefit from the program. The project will seek to place 454 youth in jobs. Participants will learn customized skills and will receive certification of these skills.

Creating Opportunities for Out-of-School Youth

U.S. Department of Labor
June 1997

PROFILE

Name

Opportunity Areas for Out-of-School Youth Pilot Project Grant

Goal

Raise employment rate of out-of-school youth to 80 percent

Funding

\$8.9 million in Federal funds for 1996; \$6.7 million for 1997 grantees

Target Population

High-poverty urban and rural youth, aged 16-24

Overview

Only one of every two out-of-school youth lacking a high-school diploma is employed. In high-poverty areas, only one out of every three young dropouts is employed. Their joblessness, some researchers suggest, is inextricably linked to crime, poverty, teen pregnancy, drug abuse, and welfare dependency. Without intervention, many out-of-school youth may become permanently lost to the workforce. Investments in increasing the rate of employment for out-of-school youth can lead to benefits for individuals and society as a whole.

Increasing Employment for Out-of-School Youth

On June 25, 1997, the U.S. Department of Labor awarded three new grants -- to the Boston Mayor's Office of Jobs and Community Services, the New York City Department of Employment, and the Lake Cumberland Area Development District in Kentucky. These grants provide for comprehensive services to raise the employment rates for out-of-school youth aged 16-24 in high-poverty areas -- Empowerment Zones and Enterprise Communities Empowerment Zones and Enterprise

Communities (EZ/ECs). The Opportunity Areas for Out-of-School Youth Pilot Project grants combine federal, state, and local community resources with strong private-sector involvement to create a comprehensive approach to job training, education, and counseling—all focused toward the ultimate goal of getting jobs for youth living in poor communities.

The grants use federal money as a catalyst to spur long-term community investments in out-of-school youth. The grant's design is based on what has worked best among the nation's education and training programs to prepare high-risk, low-income youth for better jobs.

Last year, \$8.9 million was granted for three three-year pilot projects -- one each in Chicago, Houston and Los Angeles. These grants were made in memory of Donald J. Kulick, a federal official who devoted much of his career supporting employment programs for youth.

The High Cost of Inaction

Rescuing young dropouts from the nation's most impoverished areas is not cheap, easy or quick. But consider the cost of doing nothing:

- The average high-school dropout earns less, contributing \$230,000 less to the economy than a high-school graduate.
- The average high-school dropout pays \$70,000 less in taxes over a lifetime than a high-school graduate.
- One half of all African American male high-school dropouts under age 25—and three-quarters between the ages of 25 and 34—are under some form of justice system supervision, at an average yearly cost to the taxpayer of \$50,000.

Grant Recipients

Opportunity Areas for Out-of-School Youth Pilot Project grants are based on the following criteria:

1. Need in the target area.
2. The overall plan for reaching an employment level of 80 percent for out-of-school youth.
3. Commitments by area employers for a specific number of career track jobs.
4. School district efforts to reduce the dropout and truancy rates in middle and high schools.
5. Additional investments from state, local or other federal programs.
6. School-to-work efforts in the target area high school.

In addition, grantees agree to support public-private efforts to start an area CollegeBound program and to provide comprehensive sports and recreation programs in the area.

The grant recipients for 1997 are:

City of Boston This project will provide services to approximately 3,400 out-of-school youth in the Orchard Park and Old Colony neighborhoods, with a goal of placing 684 in jobs. Neighborhood teams will be responsible for outreach and case management, education and job training, dropout prevention, school-to-career and mentoring efforts and recreation and sports. An Advisory Council, composed of political, law enforcement, private sector, and community leadership, will be responsible for resource acquisition, policy development and advocacy, as well as building partnerships to ensure the long-term sustainability of the initiative. Under the project, two employment centers will be created to provide comprehensive service delivery and to create neighborhood-based learning environments.

New York City The focus of this project will be a youth opportunity employment area in the Mott Haven/Port Morris sections of the Bronx. It will serve 3,074 youth and have a job placement goal of 580. Three community organizations will form a partnership to deliver core services in education, support and skill training. A Youth Action Center will be established, overseen by a Community Advisory Board that includes project organization representatives, community members, parents and students from within the target area. The project will use a comprehensive model of outreach and recruitment, assessment and case management, training and employment activities, job placement and follow-up services. Links to other initiatives will support school-to-work efforts, dropout prevention

activities, industry-based job training projects, environmental and housing rehabilitation projects, sports and recreational efforts.

Lake Cumberland Area, Kentucky This project will target the 1,136 out-of-school youth who live in Clinton County and part of Wayne County, with a goal of moving 454 participants into employment. The grant will fund BRITE (Bringing Real Improvement Through Employment), a comprehensive program of intervention to assist out-of-school youth. BRITE has several components: an Employee Certification Program, which provides customized skills training to certify workers for local industries; a career assessment and counseling service; education and skills training through an Alternative High School; GED training; occupational skills training and an internship program that leads to a high school diploma or equivalency, along with occupational or skills training. Youth may also choose from several traditional development programs, such as YouthBuild, training toward a community college certificate or degree and expanded school-to-work activities. A comprehensive sports and recreation program also is part of the initiative.

The three 1996 recipients of Opportunity Areas for Out-of-School Youth Pilot Project Grants are getting their programs started toward their ambitious goals of cutting out-of-school youth unemployment rates from as high as 80 percent to 20 percent within three years:

The City of Chicago has focused on the Grand Boulevard community on the South Side, where more than half of the residents are below the poverty line, 80 percent of 16- to 24-year-olds are unemployed, and the high school dropout rate is almost 60 percent. The goal is to enroll 525 youth in the Quantum Project, which includes mentoring, academic and vocational classes, job skills and job placement services. The project emphasizes mentoring to help the young people make the transition to work. Chicago's YMCA will train the youth in computer skills, data processing, spread sheet preparation, customer service and math and science skills. The Pyramid Career Institute will offer customized vocational training based on skills levels and needs.

Houston Works, the coordinator of the Opportunity Areas for Out-of-School Youth Pilot Project Grant in Houston, Texas, is using a total immersion technique, combining work-site skills, education, recreational activities and job placement for two predominantly Black and Hispanic communities, where between 30 and 50 percent of students quit high school and 50 percent of the youth are unemployed. Currently about 75 youth are enrolled in a GED program and are taking academic classes at an employment and training center. Youth are also in vocational programs at Houston Community College, and some who need intensive remedial assistance are tutoring elementary school students to build their skills and self-esteem and to improve their financial situations. The goal is to recruit 500, or one-third of the area's young adult population.

The City of Los Angeles and several partners have targeted South Central's Watts community, where half of the high school dropouts aged 16 to 24 are jobless, for comprehensive services. A Career Options Alternative High School has opened, providing at-risk students with more flexibility in attaining a high school diploma. Partners include the University of California at Los Angeles, providing work skills training and remedial education, and the Center for Employment and Training offering vocational classes. The Los Angeles Conservation Corps is hiring participants for graffiti removal and landscaping, and the Los Angeles Private Industry Council is contacting area employers to encourage the hiring of youth. The goal is to recruit at least 1,000 young people over the three-year period.

The grants announced today will operate for 18 months. It is anticipated that funding will be extended for two additional years. The 1996 Opportunity Areas for Out-of-School Youth Grants totaled \$8.9 million and were awarded to communities in Chicago, Houston and Los Angeles.

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FAX COVER SHEET UNCLASSIFIED

DATE: 8/26/97

THIS COVER PAGE, PLUS 16 ADDITIONAL PAGES

TO: Larry Matlack, OMB phone 395-3262

Fast track options for discussion tomorrow at the
10:30a. meeting at DOL (Room S-2217)

See you there -

Best wishes.

From: Gregory Schoepfle
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ASSISTING TRADE-RELATED DISPLACED WORKERS: POLICY OPTIONS

I. Possible Administrative Actions to Improve Implementation and Delivery of Adjustment Assistance Services [cost estimates to be developed]

Outreach and Early Intervention

Improve public awareness of and access to TAA, NAFTA-TAA, and JTPA Title III services available to workers directly or indirectly affected by imports.

- Develop public information campaign
- Implement targeted approach to identify and advise workers in firms indirectly affected by NAFTA about their rights to petition for benefits under JTPA Title III (1-a & b).
- Develop guidelines for both TAA and NAFTA TAA state outreach efforts and oversee their implementation (2-a).
- Issue policy guidelines that encourage provision of rapid response assistance for all substantial layoffs and closures, prior to any notice that the event is trade-related (3-a).
- Issue policy guidelines that encourage NAFTA-TAA/TAA and JTPA Title III collaboration on worker adjustment committees and in planning the delivery of comprehensive services to trade-related dislocated workers who are entitled to benefits under TAA or NAFTA-TAA (3-b).

Program Administration

Improve the timeliness and effectiveness of program services.

- Develop and implement outcome-based performance measures for workers who received TAA or NAFTA-TAA benefits and services (2-b).
- Develop guidelines which restrict granting of waivers from the training requirement under TAA and monitor to ensure compliance by the states (2-c.1).
- Shorten the determination deadline on a TAA petition from 60 to 40 days (2-c2/ 6-2b.1)

Coverage

Extend JTPA Title III services to suppliers of products to firms whose workers have been certified eligible for TAA [may require Statement of Administrative Action] (6-2e.1/6-2e.2).

II. Possible Legislative Actions to Reauthorize or Modify Programs [cost estimates to be developed]

TAA, NAFTA-TAA

- Seek a simple 4-year extension of both the TAA and NAFTA-TAA programs (6-1).
- Add shift in production to any country to the current TAA criteria for worker certification; ~~or delete shift in production to Mexico or Canada from NAFTA-TAA criteria~~ (6-2e.1 / 6-2a.2). (we're sent up bill)
- Eliminate TAA waiver (from training requirement) authority (6-2c).
- Require early enrollment in training as a condition for income support under TAA (6-2d). Trade box
- Seek a base annual amount for adjustment assistance and a larger contingency amount whose disbursement would be triggered by a Secretary of Labor's finding that a needs test was met (OMB). (only for plant closure)

biggest push on
emergency authority
not score in year you
do it

urgent +
Cp on upside
fantasy to emergency
under Budget Act
enforce, some say
end

65-68% get jobs Title III - JTPA
58% spent for training / OJT on classrooms
33% job search assistance - apply for Pell Grants

OJT more
defined
Title III

Search 5/77
want to do this

Admin initiative

involve a team

Pell Grants

- o Require prospective income accounting for all individuals with a documented severe income loss; or use prospective income for trade-related dislocated workers (OMB).
- o Make Pell grants available for non-degree or certificate programs, and for individuals who already hold a bachelor's degree who need additional coursework.

WARN Law

To improve compliance and coverage to achieve early intervention

- o Amend WARN to provide the Secretary of Labor with enforcement authority, modeled on the Fair Labor Standards Act (5-1). *issue - no budget for 6/01*
- o Amend WARN's statutory thresholds on the proportion and absolute number of workers affected by a layoff (5-2).

III. Coordinated Community-Based Approach to Trade-Affected Areas [Possible Administrative and Legislative Actions—cost estimates to be developed]

- | | |
|-------------------|---|
| Coordination | <ul style="list-style-type: none"> o Establish an interagency coordination mechanism to avoid duplication in services; explore options and develop an action plan to respond to economic development and job creation needs (4). o To facilitate and target early adjustment assistance intervention, develop a mechanism to forecast regions and industries most likely to be affected by trade liberalization (7) o Based on the EZ/EC program, structure federal grant competitions to provide more benefits to trade-related dislocated workers and their communities (OMB). |
| Leveraging | <ul style="list-style-type: none"> o Explore options available to coordinate worker adjustment programs with the activities of the North American Development Bank and the Community Adjustment and Investment Program (4). o Require relocating firms to provide compensation equal to 3 years of property tax to communities affected by a company relocating to a foreign country; provide federal grants equal to above payment; or expand funding for Title I services for Affected School Districts (OMB). |
| Capacity Building | <ul style="list-style-type: none"> o Seek the authority and funds to offer the services of DOD's Office of Economic Assistance to NAFTA-affected regions [possible funding for ETA demonstration projects] (4; OMB). o Give priority to trade-related dislocated workers who apply for specific federal grants (OMB). |
| Legislative | Develop a new designation or assign EZ/EC status to trade-affected communities (OMB). |

1. Outreach to Secondary Workers Employed in Firms Which Supply or Provide Upstream Processing for NAFTA-TAA Certified Firms

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
The Statement of Administrative Action which accompanied NAFTA-TAA provided that secondary workers may apply for a determination under NAFTA-TAA and that eligible workers are entitled to receive services under Title III of the JTPA.	a. As part of the NAFTA-TAA investigative process to certify directly affected workers, develop a targeted approach to identify, locate, and advise potentially eligible secondarily affected workers of their right to petition for benefits. b. Provide for wider dissemination of information regarding the secondary worker provisions of NAFTA-TAA (including specialized informational materials and public service announcements)	None	Increased public awareness of the secondary workers provisions related to NAFTA-TAA. Possible increased caseload and use of JTPA Title III funds. States would be expected to accept increased federal monitoring regarding their outreach efforts.	Program improvements can be accomplished within current administrative cost and program budget limitations. Any increased caseload resulting from greater awareness of program benefits will result in increased use of JTPA Title III funds.

2. Improved Implementation of TAA and NAFTA-TAA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
a. Public Awareness of TAA and NAFTA-TAA Programs While DOL has funded outreach efforts to increase public awareness, no guidelines exist to ensure consistency of information disseminated by the states.	Develop guidelines for state outreach efforts and conduct reviews to ensure compliance.	None	Greater awareness of TAA/NAFTA-TAA programs.	Program improvements can be accomplished within current administrative cost and program budget limitations.
b. Performance Measures for the TAA and NAFTA-TAA Programs Current reporting systems do not provide for the measurement of outcomes following conclusion of services.	Develop and implement performance measures, consistent with the statutory requirements of GPRA, for outcomes of workers who receive TAA and NAFTA-TAA benefits and services.	None	Better tracking of TAA/NAFTA-TAA program effectiveness.	Restrictions on waivers and increased caseload resulting from greater awareness of programs may require an increase in budget authority.
c. Guidelines for the TAA and NAFTA-TAA Programs <i>1. Waivers from Training Requirement under TAA</i> Guidelines were issued December 1993 to narrow circumstances under which waivers are granted, but application of guidelines has been inconsistent.	1. Develop guidelines which restrict granting of waivers and conduct periodic reviews of practices by states to ensure compliance.	None	Ensure that program benefits are focused on retaining workers for satisfactory reentry to the workforce. Additional data reporting requirements may be placed upon the states.	?
<i>2. Determination Period for TAA Cases</i> While DOL has 40 days within which to issue a determination for NAFTA-TAA cases, the determination period for TAA cases has remained at 60 days.	2. Reduce the determination period for TAA cases to 40 days.	None	More timely determinations for TAA.	?

3. Early Intervention/Rapid Response for Workers Who Petition for NAFTA-TAA and TAA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Under JTPA Title III, state Dislocated Worker Units are responsible for designing and managing rapid response activities for substantial layoffs and plant closures as well as for workers who have been preliminarily certified for NAFTA-TAA. [There is no similar requirement for those certified under TAA.]	Take actions to standardize the initiation of services to all dislocated workers, including those certified for NAFTA-TAA and TAA. Issue policy guidelines to the governors that: a. Encourage the provision of rapid response for all substantial layoffs and closures prior to any notification or determination that the event may be NAFTA-related; b. Encourage NAFTA-TAA/TAA and JTPA Title III collaboration on worker/employer committees and planning for a comprehensive service strategy once it has been determined that workers are eligible for NAFTA-TAA or TAA entitlements.	None	More effective service strategies for workers affected by trade. More systematic approach to readjustment services for all dislocated workers that will facilitate their return to the workforce more quickly.	No budgetary implications are expected. Although increased levels of services beyond rapid response could put pressure on state funds, additional resources are available to the states and other entities from JTPA Title III Secretary's National Reserve Account. Any substantial increases would be reflected in budget requests for JTPA Title III. Funds for rapid response activities for dislocated workers are currently authorized and funded under a portion of the annual JTPA Title III formula allotments to the states reserved for use by the governors (about 6% of Title III funds are used for rapid response activities). Other early intervention strategies, including basic readjustment services, are funded through the formula program.

4. Coordinated Community-Wide Approach to Providing Assistance to Areas Affected by NAFTA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Current authority under NAFTA-TAA does not provide for community economic development and job creation assistance. (However, DOI has gained extensive experience through its collaboration with DOD in its defense conversion activities that include economic development and job creation programs and through similar activities undertaken to assist community efforts in the Northwest timber and salmon initiatives.) Authority under other NAFTA-related legislation provides for a North American Development Bank (NADBank) and a Community Adjustment and Investment Program (CAIP) under the supervision of the Treasury Department with participation from Agriculture, HUD, and SBA. Under the Trade Act of 1974, the Department of Commerce provides technical assistance to firms affected by trade through 12 regional technical assistance centers (TACs). Also, Commerce's Economic Development Administration administers community economic adjustment programs. At present, there is no coordinating mechanism among these various efforts.	Establish an interagency coordinating committee to explore options and develop an action plan to respond to the need for economic development and job creation in selected communities.	Seek legislative authority to permit demonstration economic development and job creation activities, in combination with other available resources, for areas affected by NAFTA.	Expand the job market in affected communities, especially those where few alternative employment opportunities exist.	Projects can be funded with resources currently available under JTPA Title III, and resources identified from other federal agencies and state and local funds (including JTPA Title III formula allocations). Funds for the Secretary's JTPA Title III National Reserve demonstration opportunities might be tapped for these activities. Additional resources would be requested through the normal budget process, if required.

5. Modification of the Worker Adjustment and Retraining Notification Act (WARN)

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
WARN requires that employers provide at least 60 days advanced notice of a plant closing or mass lay off to affected workers. There are statutorily-prescribed thresholds that trigger the notification requirement: employers of 100 or more full-time employees who lay off at a single site during a 30-day period at least one-third of the employees (but not less than 50), or at least 500 employees. The employer is also required to notify the local government and State Dislocated Workers Unit which is responsible for provision of rapid response adjustment services. Remedies for failing to notify affected workers are limited to recovery of back pay and lost benefits through civil suit and for failing to notify the local government to a civil court fine. The authority of the Secretary of Labor is limited to issuing interpretive regulations.	None	1. Amend WARN to provide enforcement authority for the Secretary of Labor. Similar to the Fair Labor Standards Act and the enforcement of other labor standards, the enforcement mechanism might provide for both civil suits and federal agency enforcement. 2. Amend WARN the statutory thresholds that trigger notification requirements for mass layoffs. For example, lower either the threshold for the proportion affected to a proportion below one-third, or lower the absolute number affected from 500 to 250.	1. Would ensure greater adherence to the Act's requirements and protect workers irrespective of their economic status or access to private legal assistance. 2. Would ensure that more workers receive the benefits attributable to early notification.	? ?

6. Reauthorization and Modifications/Merging of TAA and NAFTA-TAA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
1. Reauthorization of TAA and NAFTA-TAA Authorization for the TAA and NAFTA-TAA programs expires on September 30, 1998.	None	1. Draft legislation was transmitted on June 9 by the Administration to the relevant Congressional committees for a simple 4-year extension of the two programs.	Continues status quo.	?
2. Modifications/Merging of TAA and NAFTA-TAA: Conforming the Differences				
a. Shift in Production as a basis for Certification Under TAA, workers may only be certified for assistance if their firm is adversely affected by imports. Under NAFTA-TAA, workers may be certified if either their firm is adversely affected by imports from Mexico or Canada or their firm shifts production to Mexico or Canada.	None	a-1. Add shift in production to any country to the TAA criteria for worker certification. a-2. Delete shift in production in Mexico or Canada from the NAFTA-TAA criteria for worker certification.	Confirms with NAFTA-TAA criteria. Confirms with TAA criteria. Would renege on commitments made to workers when NAFTA was passed.	Could have significant cost implications. Might reduce the number of workers certified and associated costs of not certifying those due to a shift in production.
b. State Role in the Provision of Rapid Response Services Under TAA, the Secretary is required to make a determination within 60 days of the receipt of a petition. Under NAFTA-TAA, the governor of the state must make a preliminary finding within 10 days after which the Secretary must make a final determination within 30 days. If the governor make an affirmative finding, then the state is required to provide rapid response and basic readjustment services to the affected workers using funds available under JTPA Title III.	b-1. Institute procedures that would shorten the deadline for a determination on a TAA petition to 30 days. b-2. Devise a mechanism that would trigger the provision of rapid response services for workers certified under TAA.	None None	Confirms with NAFTA-TAA procedures. Confirms with NAFTA-TAA procedures.	? ?

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
<i>c. Waiver of Training Requirement</i> TAA generally requires that a participant be enrolled in training in order to qualify for income support, but waivers may be granted if it is determined that training is not feasible or appropriate. There is no waiver authority under NAFTA-TAA.	Issue administrative guidance to narrow TAA waiver authority.	Seek legislation to limit TAA waiver authority.	Would conform more nearly to conditions under NAFTA-TAA. Would reduce the abuse of the waiver authority under TAA.	?
<i>d. Early Enrollment in Training</i> To qualify for income support, NAFTA-TAA requires that a participant be enrolled in training by the 16th week in which the individual is receiving unemployment compensation, or if later, 6 weeks after the petition is approved. TAA contains no such requirement.	Issue administrative guidance to require early enrollment in training to qualify for income support under TAA.	None?	Conforms with NAFTA-TAA procedures. Would accelerate TAA participants' adjustment and prevent them from enrolling in training after exhaustion of UI benefits simply to continue income support.	?
<i>e. Coverage of Secondary Workers</i> Neither TAA (except for oil and gas workers) nor NAFTA-TAA provide for assistance to workers in firms indirectly affected by trade (e.g., firms that supply or provide services to directly affected firms). A Statement of Administrative Action that accompanied the NAFTA Implementation Act committed the Secretary of Labor's discretionary authority under ITFA, Title II to provide assistance to secondarily affected workers. Other adversely affected workers, such as those in tertiary firms including restaurants, grocery stores, etc., that are indirectly affected are eligible for assistance under the general ITFA Title III program.	e-1. Issue a Statement of Administrative Action to extend the Secretary's discretionary authority under ITFA Title III to assist secondary workers under TAA.	e-2. Propose legislation to expand coverage under TAA and/or NAFTA-TAA to secondarily affected workers.	Would conform with NAFTA-TAA procedures. Would need to address the issue of defining appropriate limits to eligibility (first tier, second tier, etc.) that would be equitable and administrable at a reasonable cost.	? Might triple the cost of the program, based on an estimate from the early 1980s for extending benefits to secondary workers under the TAA program.

7. Establishment of an Early Warning System for Targeted Assistance				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Lack of a targeted and coordinated intervention strategy to bring resources to areas and industries where trade impacts are concentrated. Need for an Early Warning System to identify trade-impacted regions and industries before dislocations occur. Elements of an effective strategy might include: — Enhancement of WARN legislation on advanced notice of mass layoffs; — Analysis and profiling of TAA and NAFTA-TAA certifications by industry and region; — Development of a forecasting tool (an Early Warning System) to identify regions and industries that are most likely to be adversely affected by specific trade liberalizations; — Establishment of a coordination mechanism to facilitate coordination among the various federal agencies responsible for the delivery of adjustment assistance to workers, firms, and communities affected by trade liberalization.				

OMB-1. Contingency Approach to Spending for Trade Adjustment Assistance

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Estimating the need for adjustment assistance services is inherently difficult and resource estimates are often made arbitrarily. Seeking a large amount in advance can give a misleading impression that an agreement may have a substantial negative effects.	None	Seek "Rate plus Contingency" authority for the TAA and NAFTA-TAA programs by establishing a base annual account and a larger contingency account (or an uncapped "such sums" authority), above the base, to be used only if the Secretary of Labor determines that the contingency terms (triggers) have been met	The contingent amount is sought as prudent management. Contingent amounts would be triggered in a supplemental appropriation request by the President (based on the advice of the Secretary of Labor) designating the triggering event is tantamount to an emergency.	The contingency amount would not be scored in the President's budget, but CBO might score an estimate of the likelihood of the use of such authority.

OMB-2. Prospective Income Accounting in Federal Student Financial Aid (SFA) Programs

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
The Higher Education Act's (HEA's) income eligibility system of prospective accounting disqualifies persons with recent low income from eligibility for Pell Grants and other SFAs unless school aid officers exercise their authority to use prospective accounting. In the early 1990, dislocated workers' pre-layoff earnings were excluded from the SFA family income calculation; this practice was eliminated by the 1992 HEA amendments.	None	a. Amend the HEA to require the use of prospective income accounting for trade-related dislocated workers. DOL would be required to certify trade-related dislocated workers to school aid officers. b. Amend the HEA to require the use of prospective income accounting for all individuals with a documented severe income loss.	a. Data for 1992-93 show that about 107,000 persons in post secondary education identified themselves as "dislocated workers" on their student financial aid application. It is impossible to estimate how many of the dislocated workers enrolling in post secondary education or training lost their jobs because of trade-related reasons.	a. Based on 1992-93 Pell Grant experience with dislocated workers, an average Pell Grant awarded for such workers would cost about \$2,060 per student, or \$206 million per year for each 100,000 workers. b. This option would have broader appeal, but cost much more than option (a). Based on analysis done in March, the estimated annual cost could be as high as \$1.6 billion. This estimate assumes a 25% take-up rate for that population.

OMB-3. Targeted Assistance to Schools Affected by a Company Relocation

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Relocation of a company from the United States to a foreign country as the result of a trade agreement may have a negative impact on local communities and their schools. Unless a company is very small or receives a tax break, it is likely to contribute significantly to local schools through property and income taxes paid to local and state governments. Abrupt loss of these revenues could result in a decrease in the quality of local educational services, especially for low-income and low-achieving students.	None	a. Seek legislation that would require a transitional payment from the relocating company to the local community that would be equal to the amount of the local property tax that the company would have paid for the next three years. (The size of the payment could be based upon the size of the company.) b. Seek legislation that would require the federal government (rather than the relocating company) to make a similar payment as in (a) above, through a grant program, to the affected school district. A trigger for this payment might be that the school district lost 5% or more of its revenue from local property tax due to company relocations. c. Expand funding for Title I services for school districts affected by a company relocation to help compensate for lost revenue. This would require the federal government to designate "affected school districts." Designated districts could receive a three-year increase in their Title I allocations as the needs of low-achieving and poor students would be most affected by the loss of revenue from the firm. A trigger for this payment might be that the school district lost 5% or more of its revenue from local property tax due to company relocations.		a. No federal cost other than administrative. b. No cost estimate available yet. c. No cost estimate available yet.

OMB-4. Expansion of Federal Program Eligibility for Dislocated Workers				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Some federal grant programs give priority to a particular set of applicants for various programmatic reasons. For example, the School-to-Work initiative recognizes the special challenges faced by an Empowerment Zone and Enterprise Community (EZ/EC) by giving preferential treatment to applicants serving youths residing or schools located in an EZ/EC. A similar approach could be used in the case of communities affected by a company relocation abroad.	None	Structure federal grant competitions to provide more benefits to dislocated workers and their communities. a. For a specific list of competitive federal grant programs (e.g., EDA, HUD, HHS, ED, and DOL), give priority to applicants serving dislocated workers as well as their families and communities. b. Establish a new designation for communities affected by trade agreements or an automatic designation of EZ/EC status to communities that meet certain criteria, such as loss of 25% of their revenues as the result of documented trade impact.		Since competitive federal grant programs are often not funded very well, neither option might be effective at current funding levels

OMB-5. Loosening Enrollment Eligibility Requirements in the Pell Grant Program

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Some dislocated workers require only one or two specific skill courses rather than a degree or certificate program to prepare for new careers. Under the Higher Education Act (HEA), individuals are eligible to receive federal student financial aid (SFA) only if they pursue a bachelor or associate degree or certificate at an eligible institution of higher education. In addition, individuals with a BA/BS degree are ineligible for federal SFA. To receive student loans, an individual must enroll at a postsecondary institution on at least a half-time basis; however, there is no minimum enrollment requirement in the Pell Grant program.	None	Eliminate certain enrollment eligibility requirements in the Pell Grant program for trade-related dislocated workers certified by DOL. a. Waive the requirement that SFA recipients enroll in programs leading to a degree/certificate. b. Waive the BA/BS eligibility restriction for SFA.		a. An average award for those who do not have a BA/BS degree that take one or two skill courses at an institution of higher education is estimated to be \$750, using Pell minimum award rules and assuming no living allowance adjustments. The annual cost per 100,000 persons served would be about \$75 million. b. About one in six dislocated workers are estimated to hold a BA/BS degree; the number affected by trade-related changes is not known.

NEC-I. Provision of DoDs Office of Economic Adjustment (OEA) Services to NAFTA-Affected Regions				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
OEA was created in 1961 to help communities cope with military base closures and typically helps communities organize a planning group, provides a planning grant, guides the group through government requirements for base closures, and helps develop a reuse plan for base redevelopment.	None	Seek authority and funding for OEA to provide its services (project managers plus planning grants) to NAFTA-affected regions.	Because Congress refused to approve another Base Realignment and Closure (BRAC) round, OEA has a shrinking portfolio and should be in a position to assign project managers to non-DoD projects.	A single OEA project manager oversees 3-4 communities simultaneously and planning grants, which are usually staged over several years, are in the range of \$500,000 to \$3 million per community. Funding should not come from DoDs budget since that might be viewed as a diversion of resources from defense, but should be transferred to DoD from DOE, DOC, or some other civilian agencies.

Employment & Training Administration
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fax transmittal

for:

Anne Lewis

fax #:

2878

from:

Mary Ann Wyrusch (MAW)

date:

10/2

re:

Trunk of the Loom

pages

2

(including this cover sheet)

NOTES:

NOTE FOR ANNE LEWIS

FROM: MARY ANN WYRSCH

SUBJECT: FRUIT OF THE LOOM

1. Secretary Herman visited Louisiana over the weekend, and received extremely positive feedback on the federal Department of Labor and the Louisiana Department of Labor's rapid response to the announcement of the layoffs from three Fruit of the Loom plants in Louisiana. A press release has been forwarded under separate cover outlining the positive feedback.

2. At the same time, DOL has received correspondence from workers at the Fruit of the Loom plant, expressing their outrage at being laid off, and noting that they are not sure that the appropriate training will be available in a timely manner. They also complain about the level of UI benefits available to them. *(UI benefit levels are a function of previous wage, and other factors, and are a state call, and not subject to federal intervention. The UI benefit level will be the basic level of the extended trade assistance payments, once the UI is exhausted.)*. So, there are alternative views of what has occurred with the FOL layoffs, and these may be reflected in contacts with Louisiana Congressmen.

THE WHITE HOUSE
WASHINGTON

October 7, 1997

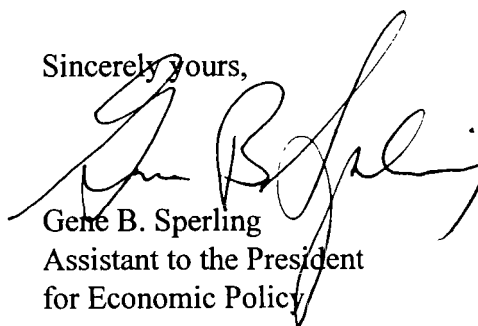
Congressman Xavier Becerra
House of Representatives
Washington, DC 20515

Dear Congressman Becerra:

Please find attached a revised version of our 12-point action plan to cover secondary workers and improve Trade Adjustment Assistance. This revised proposal addresses each of the nine changes that Deirdre requested in her memo of October 6. I believe that this package of proposals would go a long way to helping trade-impacted workers make the transition from one job to another.

I look forward to talking with you later today.

Sincerely yours,



Gene B. Sperling
Assistant to the President
for Economic Policy

12-POINT ACTION PLAN TO COVER SECONDARY WORKERS AND EXPAND AND IMPROVE TAA

\$455 MILLION OVER FIVE YEARS FOR SECONDARY WORKERS:

- I. \$200 MILLION OVER FIVE YEARS IN SECRETARY'S DISCRETIONARY FUND EARMARKED FOR SECONDARY WORKERS.** In conjunction with the passage of fast track authority, the Department of Labor will issue a Statement of Administrative Action extending the Secretary's discretionary authority to use JTPA Title III funds to serve secondary workers in firms doing business with primary firms eligible for or certified for TAA. To ensure that adequate funding is available the Secretary of Labor will fence off \$200 million over the next five years to ensure job training and income support for secondary workers.

- II. \$250 MILLION IN DISLOCATED WORKER FUNDING EARMARKED TO SECONDARY WORKERS.** The Administration will propose a \$50 million increase in JTPA Title III in our FY99 budget and will earmark this money to help secondary workers receive the job training and income support they need and deserve. Between FY99 and FY03, this expansion of dislocated worker funding for secondary workers would mean an additional \$250 million of resources. As with Action Item #1, this proposal would serve secondary workers affected by trade.
 - In addition to basic education, training and income support, the \$455 million over five years the Administration will spend on secondary workers will be used to develop better approaches to serving special targeted groups. These grants will be flexible, customized and aimed at filling in the gaps in our training system. Cities, states and local non-profit groups will participate in developing innovating new approaches. For example:
 - The Department will develop a competitive demonstration program to better develop bilingual and literacy training strategies, and contextual learning strategies which incorporate language skills into job training programs and have been shown to be effective. This demonstration program would fund 5 projects -- similar to the CET model -- of \$2 million each from FY97 funds. The awards would be given by March 1998 and providers would be in place by June 1998.
 - The Department will also plan to leverage these grants to support and complement other federal, state and local efforts for economic development and community adjustment.

III. CLARIFY THAT SECONDARY FIRMS CAN BE CERTIFIED FOR TAA/NAFTA-TAA EVEN IF PRIMARY FIRM IS NOT CERTIFIED. Some have expressed concern that secondary firms were being denied benefits because the relevant primary firm had not obtained certification. There are cases when the primary firm does not go through the certification process, but the secondary firm is adversely impacted from trade. Therefore, the Secretary of Labor will clarify that secondary firms -- adversely affected as a result of business lost with a primary firm -- can be certified for TAA or NAFTA-TAA, even if the primary firm is not certified.

- In order to certify these firms, the Labor Department will need to do broader, two-tiered investigations. This will cost an estimated \$5 million over five years.

INFORMATION CAMPAIGN TO INCREASE TAKE-UP RATE OF SECONDARY WORKERS:

IV. LABOR DEPARTMENT GUIDELINES TO STATES TO URGE THEM TO FIND OUT INFORMATION ABOUT SECONDARY FIRMS. The best way for the Labor Department to find secondary workers is to start with the primary firm and work outwards. By December 1997, the Labor Department's Employment Training Administration will issue guidelines to the states requesting that they seek information from primary firms about their suppliers during or immediately following the certification process. This information will form the basis for a systemic effort to identify and locate potentially eligible secondary workers.

V. ISSUE GUIDELINES TO TAKE A PROACTIVE STANCE AND CONTACT SECONDARY FIRMS POTENTIALLY IMPACTED BY LOSS OF BUSINESS. By December 1997, the Labor Department will issue a set of guidelines so that direct contact with potentially eligible secondary firms and their workers is made. The Labor Department will also disseminate fact sheets and posters to these secondary businesses, and will make information available to personnel offices. The Labor Department will also set up a bilingual web site to help contact secondary workers.

VI. PUBLIC SERVICE CAMPAIGN IN ENGLISH AND SPANISH ABOUT THE BENEFITS SECONDARY WORKERS CAN RECEIVE. In order to increase the take-up rate among secondary workers, the Labor Department would run a public education campaign using public service announcements in English and Spanish in trade-impacted areas. Specifications for the bidding process will be in place by December 1997 and the competition will begin soon thereafter. In seeking bids for the project, the Department will include in the specifications a requirement that the firm have experience with the Hispanic media in the region and will ask bidding firms to submit evidence of prior successful public education campaigns. National Economic Advisor Sperling and Secretary of Labor Herman will choose two staff members to monitor the Department's activity in implementing this campaign. (Anne Lewis, Special Assistant to the President for Economic Policy and former Assistant Secretary of Labor for Public Affairs, will be the NEC's representative.)

VII. DISTRIBUTE INFORMATION ON BENEFITS AVAILABLE TO SECONDARY WORKERS AT UNEMPLOYMENT OFFICES. The Labor Department will distribute information to State Employment Service Offices where workers go to file unemployment benefits.

- This information campaign will increase the take-up rate among secondary workers. Outreach efforts can successfully reach many workers who are not, but should be, receiving job training and income support. The resulting increased case load will require 4-5 FTEs, at a cost of \$2 million over five years.

EXPAND AND IMPROVE TAA:

VIII. ISSUE GUIDELINES URGING STATES TO GIVE WORKERS 30 DAY EXTENSION IF THEY ARE RECEIVING REMEDIAL EDUCATION. While the 6/16 requirement -- that is, the requirement that certified workers enroll in training by their 16th week on unemployment insurance, or enroll in training by their 6th week after being certified under NAFTA/TAA -- is statutory and can not be changed administratively, the Labor Department will issue guidelines to the states requesting that they provide 30 additional days for dislocated workers who are receiving English as a second language (ESL) or another form of remedial education to get into training. The statutory language gives certified workers up to 30 additional days on the 6/16 requirement if there are "extenuating circumstances" that do not allow them to be in training by the specified time periods. The Labor Department guidelines will state the ESL or other remedial education programs classify as "extenuating circumstances."

IX. CUT CERTIFICATION TIMES BY ONE-THIRD. In order to cut the certification time from 60 days to 40 days, the Department of Labor will take the following four steps: (1) reduce investigator caseload to allow for more timely follow-up in obtaining relevant company and customer data; (2) develop an enhanced in-house system for tracking import trends and performing import-impact analysis; (3) reduce the amount of time from 21 to 14 days between the day the Labor Department requests and receive data from companies; and (4) reduce the length of the customer survey from 21 to 14 days. See attached time lines for changes in certification process.

- Technological improvements as well as possible staffing increases will allow the Department to assemble, review, and analyze investigative data and information in a more timely manner. The total cost for these improvements would be \$2.5 to \$3 million over five years.

X. IMPLEMENT PERFORMANCE MEASURES FOR TAA/NAFTA-TAA PROGRAMS. The Labor Department does not receive information on how workers do after they participate in either TAA or NAFTA-TAA programs. To ensure that the programs work effectively, the Labor Department is developing and implementing performance measures, and collecting outcome-based performance data -- including, for example, age, gender, family status, work experience, pre- and post-training wage levels, education levels, type of service received, ethnicity -- for workers who receive adjustment assistance. This will permit better tracking of TAA/NAFTA-TAA program effectiveness, and thus, improved outcomes for participants.

- These performance measures can be accomplished within current administrative cost and program budget limitations.

XI. CREATE COORDINATING BODY TO DEAL WITH TRADE ADJUSTMENT. DOD's Office of Economic Adjustment (OEA) was the Administration's first point of contact with communities experiencing a military base closure or defense plant closing. Learning from the defense conversion experience, we would create an OEA-type body to coordinate the Administration's response to trade-impacted regions by working with Labor, Commerce, SBA, Treasury, and other government entities. This group would provide planning grants and expertise to help communities develop credible economic adjustment strategies. They also would bring the appropriate state, local and federal groups to the table to provide adequate resources for implementing plans. The expert staff at OEA could be detailed to this body to help trade-impacted regions and workers.

- The Administration would propose \$10 million per year -- or \$50 million over five years -- for funding this coordinating body, which would require approximately 8 FTEs.

XII. AN ADMINISTRATION COMMITMENT TO WORKING WITH CONGRESS TO ENSURE FUNDING IS APPROPRIATED. National Economic Advisor Sperling will coordinate a quarterly meeting between the relevant Administration representatives and Congressman Becerra and other Members of Congress. The purpose of this quarterly meeting would be to evaluate the progress of the Administration's efforts to help trade-impacted workers and regions. Moreover, the Administration's commitment to ensure that funding for trade-impacted workers is achieved would be made: first, in the President's FY99 budget, and second, in writing at the time of the Appropriations process.

Employment & Training Administration
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fax transmittal

for: Anne Lewis c/o Gene Sperling

fax #: 456-2878

from: Mary Ann Wyrsh

date: 10/2/97

re: Fruit of the Loom

pages 4 (including this cover sheet)

NOTES:

SEP-29-1997 20:48



MIKE FORSTER, JR.
GOVERNOR

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P. 01

GAREY J. FORSTER
SECRETARY

P R E S S R E L A S E

Date: September 29, 1997

Release: Immediately

Contact: Allen Johnson
Communications Director
Metairie, (504) 736-7057

Labor Continues to Assist FOL Workers

BATON ROUGE--Secretary of Labor Garey Forster stressed the ongoing efforts of Louisiana Job Service to assist both the Fruit of the Loom (FOL) workers who are being laid off effective October 6 and the workers who were laid off effective Sept. 18.

"I would like to encourage area employers to consider helping place these workers," Governor Mike Foster said, "so that we can retain their job skills in Louisiana."

Since Fruit of the Loom's announcement of 2,381 layoffs, as of last Friday, nearly 50% have either found other jobs, gone back to school, moved out of the area, or quit without giving reason. Out of those, 328 were reassigned within FOL.

In addition, the Fruit of the Loom Warehouse/Distribution Center in Vidalia informed the Ferriday Job Service Office that they want to hire an additional 100 employees between now and the end of December which has caused an influx of job applicants in the Ferriday Office, according to Raymond Rabb, manager of the Ferriday Job Service Office. "The Ferriday Office has been working closely with the Plant since it opened 2 years ago," said Raymond Rabb.

"We are very pleased with the number of employees who have

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Id: Joe Juspey. 10/02/97

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already found new jobs or enrolled in training and with Fruit of the Loom for reassigning and adding jobs," said Secretary Forster. "With the help of area employers, we hope to have the remaining half of the employees placed in new jobs or training by Christmas."

Job Service interviewers from Lafayette, New Iberia, Opelousas, Lake Charles, and Houma are taking claims for unemployment at Port Barre and Abbeville Mills today. Unemployment claims processing is complete at St. Martin Mills. Approximately 573 workers from St. Martin Mills filed for unemployment.

When the layoff was announced in mid-August, shortly after taking office, Secretary Forster visited the Fruit of the Loom plants to offer the services of the Department of Labor.

On Saturday, Secretary Forster met with U.S. Department of Labor Secretary Alexis Herman who said she hopes that the federal and state cooperation exhibited in Louisiana in dealing with the Fruit of the Loom situation will become a model for the nation in dealing with losses of jobs through NAFTA.

Secretary Forster urged dislocated workers to maintain contact with Job Service for job placement services, job training, readjustment services, relocation assistance, needs assessment, on-the-job training, skills upgrade, and the many other available services and benefits.

Secretary Forster wants to remind FOL workers and employers in the area looking for good, hard working employees that they can reach the Rapid Response Team at (800) 417-7878 if they have any questions.

TOTAL P.02

STEPS TO IMPROVE AND REFORM NADBANK

REFORMS INCLUDED IN SEPTEMBER 21 LETTER TO CONGRESSIONAL HISPANIC CAUCUS

Community Adjustment

- **El Paso Meeting of the Presidential Advisory Committee:** The CAIP will hold a public meeting of the Presidential Advisory Committee in El Paso, Texas to hear first-hand from members of a trade-impacted community.
- **Full-time Staffing:** Both the Department of Agriculture and the Small Business Administration are currently in the process of selecting staff that will be dedicated full-time to administering the CAIP program.
- **Coordination with NAFTA-TAA:** The Departments of Labor and Treasury will establish formal links in the administration of NAFTA-TAA and CAIP, including on marketing and outreach, in order to magnify the effectiveness of both programs in assisting individual workers and communities affected by trade.
- **Significant New Lending from the Small Business Administration (SBA):** SBA estimates that the new CAIP/SBA program could increase SBA's loan volume by about \$146 million over the duration of the program. With this increased funding capacity, SBA could guarantee loans to over 1,000 small firms. CAIP/SBA will afford greater access to capital, and eligible small firms will not be charged a guaranty fee.
- **Increased Outreach and Marketing by SBA:** SBA will significantly increase marketing and outreach efforts this fall. This will include extensive briefings of SBA resource partners such as SCORE and the SBDCs to help them provide management assistance to CAIP borrowers.

Environmental Protection along the Border

- **Making Environmental Infrastructure Affordable:** To address the needs of poor border communities, the NADBank is establishing cofinancing arrangements with U.S. and Mexican grant programs. NADBank has recently entered into a cooperative agreement with EPA for a Border Environment Infrastructure Fund that will provide access to up to \$170 million in EPA grants. NADBank is working on a proposal that would help smaller U.S. communities to access the tax exempt bond market by working with the State Revolving Funds in the U.S. border states to establish reserve funds for debt servicing.

- **Assisting Communities in Project Development:** In cooperation with the EPA, the BECC is establishing a Project Development Assistance Program (PDAP) that will begin committing and disbursing up to \$10 million in funds to communities by the end of the year.
- **Upgrading Management Capabilities:** NADBank has established an Institutional Development Program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage and solid waste management services. So far, NADBank has approved \$1.8 million in technical assistance for 12 projects under this program, and it now plans to double total IDP resources to \$4 million.
- **Accelerating Project Development:** The NADBank and BECC have developed a work plan for accelerating project development. They have identified more than 30 projects and potential projects with a total cost of more than \$500 million as the core of their 1997-99 work plan.

POTENTIAL NEW REFORMS

NADBank Community Adjustment and Investment Plan (CAIP)

Expand Finance Committee to Include the Department of Labor (DOL) and Economic Development Administration (EDA): To ensure high-level coordination with NAFTA-TAA and EDA, the membership of the NADBank CAIP Finance Committee will be expanded to include representatives from the Departments of Labor and Commerce. This group will meet as frequently as once a week for the next six months to provide oversight to the CAIP, including determinations of community eligibility and loan approvals.

El Paso Meeting of the Presidential Advisory Committee: The CAIP will hold a public meeting of the Presidential Advisory Committee in El Paso, Texas on November 21 to learn first-hand the needs of this trade-impacted community.

Increased Outreach and Marketing by SBA: SBA will significantly increase marketing and outreach efforts this fall. This will include extensive briefings of SBA resource partners such as SCORE and the SBDCs to help them provide management assistance to CAIP borrowers.

Outreach Roundtables: In eligible communities, CAIP will hold roundtables with community groups, bankers, elected officials, and community leaders to market the program.

Technical Assistance to Identify Eligibility: The CAIP will provide technical assistance both directly and through outside contractors to help communities determine whether they are eligible for CAIP assistance.

Quarterly Evaluations: The Department of Treasury is required to report to Congress on the operation of the CAIP on an annual basis. In order to accelerate identification and correction of problems with the program in the first year of its operation, Treasury proposes increasing the frequency of evaluations to a quarterly basis.

Provide Technical Assistance: Trade-impacted communities are in need of significant technical assistance to develop strategic plans to help identify opportunities and attract investment. For a cost of \$8 million over four years, CAIP could provide such assistance to eligible communities, working closely with EDA.

Expand Direct Lending: The direct lending program allows the CAIP to assist a wide range of commercial and nonprofit borrowers who would otherwise lack access to commercial lending institutions. This program allows loans to be extended directly or used for innovative credit enhancements through intermediaries such as establishing loan loss reserves or taking a "first loss" position on a participated loan. The direct lending program, which is currently funded at \$7 million, could benefit from an expansion of \$20 million over four years.

Environmental Protection along the Border

Helping Small Communities Access Tax-Exempt Financing: NADBank is working on a proposal that would help smaller U.S. communities access the tax exempt bond market by working with the State Revolving Funds in the U.S. border states to establish reserve funds for debt servicing. This would leverage \$4 million per year in NADBank financing to make available an additional \$16 million per year for smaller communities in the border states.

STEPS TO IMPROVE AND REFORM NADBANK

REFORMS INCLUDED IN SEPTEMBER 21 LETTER TO CONGRESSIONAL HISPANIC CAUCUS

Community Adjustment

- **El Paso Meeting of the Presidential Advisory Committee:** The CAIP will hold a public meeting of the Presidential Advisory Committee in El Paso, Texas to hear first-hand from members of a trade-impacted community.
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- **Assisting Communities in Project Development:** In cooperation with the EPA, the BECC is establishing a Project Development Assistance Program (PDAP) that will begin committing and disbursing up to \$10 million in funds to communities by the end of the year.
- **Upgrading Management Capabilities:** NADBank has established an Institutional Development Program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage and solid waste management services. So far, NADBank has approved \$1.8 million in technical assistance for 12 projects under this program, and it now plans to double total IDP resources to \$4 million.
- **Accelerating Project Development:** The NADBank and BECC have developed a work plan for accelerating project development. They have identified more than 30 projects and potential projects with a total cost of more than \$500 million as the core of their 1997-99 work plan.

POTENTIAL NEW REFORMS

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WILLIAM J. JEFFERSON
SECOND DISTRICT, LOUISIANA

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COMMITTEES:
WAYS AND MEANS
SUBCOMMITTEES:
TRADE
SOCIAL SECURITY

DEMOCRATIC STEERING AND
POLICY COMMITTEE
WHIP AT-LARGE

October 3, 1997

Mr. Gene Sperling
Assistant to the President for Economic
Policy & Director, National Economic Council
The White House
Second Floor, West Wing
Washington, D.C. 20502

Dear Gene:

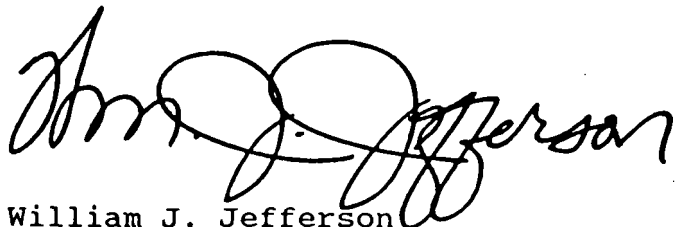
Enclosed is information on legislation that, if enacted, will create jobs especially for those American workers who may be displaced as a result of trade related employment dislocation.

The capital gains tax incentive that I propose is designed to help increase the amount of equity capital available to expand small disadvantaged businesses. My proposal will enhance and build upon certain existing tax provisions for individuals and corporate taxpayers who make equity investments in Specialized Small Business Investment Companies (SSBICs). SSBICs are SBA-licensed investment companies that make long-term loans to, or equity investments in small firms owned by persons who are socially or economically disadvantaged. The draft legislation was developed with the assistance of the House Legislative Counsel and the Democratic staff of the Ways and Means Committee.

Targeted capital formation strategies are an essential, but often overlooked, requirement to address the capital gap that plagues disadvantaged businesses. In fact, access to capital represents the most formidable barrier to the aggregation of financial resources that can be invested to grow successful small disadvantaged firms, and more importantly, produce employment.

Once again, I appreciate your concern and support on this important matter and look forward to hearing from you soon.

Sincerely,



William J. Jefferson
Member of Congress

WILLIAM J. JEFFERSON
SECOND DISTRICT, LOUISIANA

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October 3, 1997

**Summary of the Legislation Regarding Specialized Small
Business Investment Companies**

Conversion to Pass-Through Treatment

Most specialized small business investment companies (SSBIC's) have been organized as regular corporations subject to the corporate income tax. This has been done because of program requirements under the Small Business Investment Company Act. In order for existing SSBIC's to attract new capital, they would like to be able to be treated as pass-through entities, either as regulated investment companies or as partnerships. Pass-through treatment would eliminate the corporate tax imposed at the entity level, but persons holding interest in the SSBIC would be subject to tax on their share of the entity's income.

The proposed bill would make modifications to the regulated investment company provisions of the Code in order to permit SSBICs to utilize those provisions. Income and assets qualifying under the Small Business Investment Company Act would be treated as qualifying income and assets for tax purposes. The bill would disregard earnings and profits accumulated while the entity was an SSBIC. One of the modifications would be a waiver of the requirement to distribute 90 percent of income. The undistributed income would be subject to corporate tax.

The proposed bill would also permit tax free conversions of an SSBIC into a partnership.

Modifications to Rollover Provisions

Under current law gain from the sale of publicly traded securities can be excluded from income to the extent that the proceeds from the sale are reinvested in an interest as a shareholder or partner in an SSBIC. The bill makes several modifications to that rollover provision.

1. The bill extends the period during which the reinvestment can be made from 60 to 180 days.
2. Under current law, there is both an annual cap on the amount of gain that can be excluded under the rollover provision. The bill eliminates the annual cap and increases the lifetime cap from \$500,000 to \$750,000 for individuals and from \$250,000 to \$2,000,000 for corporations.

Modifications to Fifty Percent Exclusion for Gain from Qualified Small Business Stock

Current law provides individuals a 50% exclusion for gain on the sale of the stock acquired at original issue in small business corporations. Stock in an SSBIC which is organized and taxed as a C corporation is eligible for the exclusion. The bill makes several modifications to this exclusion.

1. The bill would provide that corporate investors would be eligible for the exclusion with respect to qualifying gains from an SSBIC.
2. The bill increases from 50 to 60 percent the exclusion for qualifying gains from an SSBIC.
3. The bill liberalizes the flow-through treatment for SSBICs which would make it easier for investors in SSBICs organized as partnerships or regulated investment companies to qualify for the exclusion on qualifying investments held by the SSBIC.

SBIC PROGRAM AND REGULATIONS

Overview of SBIC Program

The SBIC program is authorized by the Small Business Investment Act (the "SBIA"), as amended, and regulations promulgated pursuant thereto. The SBIA authorizes the licensing of SBICs as vehicles for providing equity capital, long term financing and management assistance to small businesses. Any corporation, limited partnership or limited liability company formed solely for the purpose of operating as a licensee under the SBIA may apply for a license.

A small business, as defined by the SBIA and the SBIA regulations, is a business independently owned and operated that has a net worth (together with any affiliates) of \$18 million or less and average annual net income after U.S. Federal income taxes for the preceding two years of \$6 million or less (or which satisfies alternative criteria under the SBIA regulations that focus on the industry in which the business is engaged and the number of persons employed by the business or its gross revenues). In addition, at the end of an SBIC's fiscal year, at least twenty percent (20%) of the total amount of a licensee's loans must be made to a subclass of small business which net worth of \$6.0 million or less and average two-year after-tax net income of \$2.0 million or less.

As further described below, licensees are either "regular" SBICs or "specialized" SBICs ("SSBICs") which are specifically oriented toward the needs of entrepreneurs whose opportunities to own or operate businesses have been limited by social or economic disadvantage. Such disadvantaged entrepreneurs include African-Americans, Hispanic-Americans, Asian-Subcontinent Americans, Eskimos, Native Americans, Vietnam-era veterans and other groups identified by SBA. With few exceptions, the same rules and regulations apply to both "regular" and to "specialized" SBICs. (As used hereafter, the term "SBIC" refers to both types of licensees.)

Private Capital and Management Requirements

As noted above, SBICs may be organized as corporations, limited partnerships or limited liability companies. As mandated by the SBIA, an SBIC must have sufficient private capital and management expertise to be operated with safety and soundness.

Investments in an SBIC may be made by "sophisticated investors", corporations, public or private pension plans and, subject to certain limits, by state or local governments. For licensing and regulatory purposes, an SBIC's capital base may include firm commitments from institutional investors (as defined in the SBIA regulations). In addition to raising sufficient capital to support its operations, a prospective licensee must demonstrate to SBA that its management team has more than general business experience (*i.e.*, that it has experience making the types of small business investments of the types and sizes contemplated in its business plan). Once licensed, an SBIC must adhere to certain statutory and regulatory restrictions governing types of investments and manner of operation and becomes subject to certain financial reporting requirements and on-site compliance examinations.

SBIC Program Leverage

SBICs in good standing are eligible to apply for Government funds called "leverage". Specifically, leverage refers to the funds received by an SBIC's issuance of its securities either directly to the SBA or to the private market with a Government guarantee. A regular SBIC may receive leverage of as much as 300 percent of its private capital and a specialized SBIC up to 400 percent. The amount of leverage which may be received is dependent upon the type of leverage requested, the amount of an SBIC's private capital, the types of investments being made by the licensee and the amount of guarantee authority or funds provided by Congress, as well as demand by other licensees.

The most basic type of leverage is a five-year or ten-year debenture that is sold in the public markets which carries a "full faith and credit" guarantee of both principal and interest by the U.S Government. Typically, debentures require the payment of semi-annual interest with principal repayment at term. SBICs which make only equity investments may apply for SBA participating security leverage. This instrument has a maximum 15-year term and provides for repayment of dividends or interest to the SBA and a profit participation only when the SBIC has earnings (as defined in the SBIA regulations).

SBIC Regulations

Within the SBIC program, SBA does not directly or indirectly approve or disapprove specific financing decisions. Investment decisions are made independently by an SBIC's management.

However, licensees are subject to certain restrictions and requirements under the SBIA and the SBIA regulations; and SBA does monitor SBICs to assure compliance with applicable rules. In summary, the SBIC program regulatory requirements include, but are not limited to, the following:

(a) Types of Financing. A licensee may make equity investments, loans and combination financings, including the use of convertible debt and warrants. Loans may be secured and amortizable, generally for a term of between five and twenty years. However, loans to a disadvantaged small business may have a four-year term (e.g., loans by an SSBIC). Under certain circumstances where longer term financing is contemplated, short-term loans are permissible. All financings may be made in conjunction with other lenders or investors, public or private, including other SSBICs (i.e., syndications).

(b) Loan Interest Rates. The interest rate charged by a licensee on loans to a small business is governed by applicable state laws and by the SBIA regulations. Under the SBIA rules, the interest rate may not exceed the higher of (i) the higher of 19% and (ii) the sum of (a) the higher of (I) the licensee's weighted average cost of funds or (II) the current SBA debenture rate, plus (b) 11%, rounded off to the next lower eighth of one percent.

(c) Lines of Business. SBICs may not invest in other SBICs, in passive or casual businesses (i.e., those not engaged in regular and continuous business operations), or in companies with less than one-half of their assets and operations outside the United States. In addition, SBICs may not invest in small businesses whose primary business is lending or relending, purchasing debt obligations or factoring receivables. However, firms owned by persons who are socially or economically disadvantaged and that are engaged in relending or reinvesting may be financed provided the entity is insured by an agency of the Federal Government. There are also certain restrictions on real estate-related investments.

(d) Portfolio Diversity. The aggregate financing commitment to any single small business as a percentage of the SBIC's total paid-in capital is limited. For an SSBIC, no more than 30% of its paid-in capital may be invested in any single small business.

(e) SBIC Cash Management. Funds that are not invested in small businesses must be invested in certain short-term instruments such as Federal Government securities or certificates of deposit with a Federally insured financial institution.

(f) Control of Small Businesses. Generally, an SBIC may not control a small business which it has financed. In certain cases, where the risk to the SBIC is inordinately high, an SBIC may assume temporary control to protect its investment.

(g) Active Operations. An SBIC must conduct active operations. A licensee is inactive if at the close of its fiscal year it has more than 25% of its assets in idle funds and it has failed to provide financings aggregating 25% of the average amount of its idle funds during the previous 18 months.

(h) Conflicts of Interest. An SBIC may not engage in self-dealing to the advantage of, or with favoritism to, its "associates". Also, an SBIC may not directly or indirectly provide financings to its associates nor borrow money from a small business that it has financed. Under the SBIA regulations, the term "associates" includes officers, directors or employees of a corporate licensee; a general partner of an unincorporated licensee, an investment advisor of an SBIC, or a person or entity owning or controlling 10% or more of the stock or partnership interests of the licensee.

(i) Change of Ownership/Transfer of Control. Prior written consent of SBA is required in the event of any proposed transfer of control of an SBIC and/or any proposed transfer of 15% or more of any class of a licensee's stock or partnership interests.

(j) Examinations. SBICs are subject to examinations by SBA at least bi-annually and are required to pay examination fees and maintain certain records, files, internal control programs and reports. Moreover, if an SBIC engages in a pattern of serious regulatory violations, the SBA is authorized to suspend a licensee's eligibility for leverage, issue cease and desist orders, apply for injunctions to the appropriate Federal District Court and apply for other acts of enforcement.

Small Business Program Improvement Act of 1996

The recently enacted Small Business Program Improvement Act of 1996 (the "Improvement Act"), among other things, amended the

SBIA by consolidating the leverage available to SBICs and by establishing new licensing requirements for program applicants. The Improvement Act, which became effective September 30, 1996, repealed the authority of the SBA to issue new SSBIC-only licenses or provide certain subsidized leverage for which only SSBICs were eligible. The Improvement Act specifically "grandfathers" all existing SSBICs and makes clear that they may participate fully in the SBIC program. Following the enactment of the Improvement Act, the SBA established procedures for existing SSBICs to convert to regular SBICs. The effect of such a conversion would be to modify and expand a licensee's financing options to small businesses generally (as opposed to small businesses owned by persons who are socially or economically disadvantaged). The General Partner of the Fund has no present intention to seek the conversion of the Fund's license to that of a regular SBIC.

The foregoing summary of the SBIC program and certain requirements under the SBIA and regulations thereunder does not purport to be complete and investors are urged to consult the SBIA and regulations promulgated pursuant thereto for more detailed information.

[DISCUSSION DRAFT]

105TH CONGRESS
1ST SESSION

H. R. _____

IN THE HOUSE OF REPRESENTATIVES

Mr. JEFFERSON introduced the following bill; which was referred to the
Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to permit tax-free reorganizations of specialized small business investment companies into partnerships and regulated investment companies, to expand the exclusion for gain from small business stock for such stock held by such companies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Entrepreneurial Eq-
5 uity Capital Formation Act".

1 **TITLE I—TAX-FREE CONVER-**
2 **SIONS OF SPECIALIZED**
3 **SMALL BUSINESS INVEST-**
4 **MENT COMPANIES INTO**
5 **PASS-THRU ENTITIES**

6 **SEC. 101. MODIFICATIONS TO PROVISIONS RELATING TO**
7 **REGULATED INVESTMENT COMPANIES.**

8 (a) IN GENERAL.—Section 851 of the Internal Reve-
9 nue Code of 1986 (relating to definition of regulated in-
10 vestment company) is amended by adding at the end the
11 following new subsection:

12 “(i) SPECIAL RULES FOR SPECIALIZED SMALL BUSI-
13 NESS INVESTMENT COMPANIES.—

14 “(1) IN GENERAL.—For purposes of determin-
15 ing whether a specialized small business investment
16 company is a regulated investment company for pur-
17 poses of this subchapter—

18 “(A) income derived in connection with ac-
19 tivities as a specialized small business invest-
20 ment company (including compensation for
21 services rendered in connection with invest-
22 ments made as part of such activities) shall be
23 treated as qualifying income under subsection
24 (b)(2),

25 “(B) subsection (b)(3) shall not apply, and

1 “(C) the requirements of subsection (b)(4)
2 shall be treated as met if, at the close of each
3 quarter of the taxable year, at least 50 percent
4 of the value of its total assets is represented
5 by—

6 “(i) assets described in subsection
7 (b)(4)(A)(i), and

8 “(ii) other investments permitted
9 under the Small Business Investment Act
10 of 1958.

11 “(2) WAIVER OF DISTRIBUTION REQUIREMENT;
12 CERTAIN EARNINGS AND PROFITS DISREGARDED.—
13 In the case of a specialized small business invest-
14 ment company—

15 “(A) section 852(a)(1) and section 4982(a)
16 shall not apply, and

17 “(B) earning and profits accumulated
18 while the company is a specialized small busi-
19 ness investment company shall be disregarded
20 for purposes of section 852(a)(2).

21 “(3) SPECIALIZED SMALL BUSINESS INVEST-
22 MENT COMPANY.—For purposes of this subsection,
23 the term ‘specialized small business investment com-
24 pany’ means any corporation which—

1 “(A) as of September 30, 1996, held a li-
2 cense to operate under section 301(d) of the
3 Small Business Investment Act of 1958, or

4 “(B) holds a license from the Small Busi-
5 ness Administration, issued after such date, to
6 operate as a specialized small business invest-
7 ment company.”

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to taxable years beginning after
10 December 31, 1996.

11 **SEC. 102. TAX-FREE REORGANIZATION OF SPECIALIZED**
12 **SMALL BUSINESS INVESTMENT COMPANY AS**
13 **A PARTNERSHIP.**

14 (a) IN GENERAL.—If, during the 180-day period be-
15 ginning on the date of the enactment of this Act, a cor-
16 poration which is a specialized small business investment
17 company transfers substantially all of its assets to a part-
18 nership (including its license to operate as a specialized
19 small business investment company) solely in exchange for
20 partnership interests in such partnership, no gain or loss
21 shall be recognized to the corporation on such a transfer
22 if—

23 (1) immediately after such exchange, such cor-
24 poration holds partnership interests in such partner-
25 ship having a value equal to at least 80 percent of

1 the total value of all partnership interests in such
2 partnership, and

3 (2) before the close of such period, such cor-
4 poration transfers all partnership interests held by
5 the corporation in such partnership, and all remain-
6 ing assets of the corporation, to its shareholders in
7 the complete liquidation of such corporation.

8 If, prior to the date of enactment of this Act or at any
9 time before the close of the 120-day period beginning on
10 such date, a corporation files an application with the Small
11 Business Administration for approval of a transfer de-
12 scribed in the preceding sentence, the 180-day period re-
13 ferred to in the preceding sentence shall not expire before
14 the date which is 180 days after the date such Administra-
15 tion grants preliminary approval of such transfer.

16 (b) NONRECOGNITION OF GAIN OR LOSS TO COR-
17 PORATION ON DISTRIBUTION OF PARTNERSHIP INTER-
18 ESTS.—In the case of any distribution of a partnership
19 interest acquired by the liquidating corporation in an ex-
20 change to which subsection (a) applies—

21 (1) no gain or loss shall be recognized to the
22 liquidating corporation by reason of such distribu-
23 tion, and

1 (2) such distribution shall not be treated as a
2 sale or exchange for purposes of section
3 708(b)(1)(B) of the Internal Revenue Code of 1986.

4 (c) GAIN RECOGNIZED BY SHAREHOLDERS ON RE-
5 CEIPT OF PROPERTY OTHER THAN PARTNERSHIP INTER-
6 ESTS.—

7 (1) IN GENERAL.—No gain or loss shall be rec-
8 ognized to a shareholder of a corporation on the
9 transfer of such shareholder's stock in such corpora-
10 tion to such corporation solely in exchange for a
11 partnership interest in the partnership referred to in
12 subsection (a)(1).

13 (2) RECEIPT OF PROPERTY.—If paragraph (1)
14 would apply to an exchange but for the fact that
15 there is received, in addition to the partnership in-
16 terests permitted to be received under paragraph
17 (1), other property or money, then—

18 (A) gain (if any) to such recipient shall be
19 recognized, but not in excess of—

20 (i) the amount of money received, plus
21 (ii) the fair market value of such
22 other property received, and

23 (B) no loss to such recipient shall be rec-
24 ognized.

1 (d) BASIS.—The basis of property received in any ex-
2 change to which this section applies shall be determined
3 in accordance with rules similar to the rules of section 358
4 of the Internal Revenue Code of 1986.

5 (e) IMPOSITION OF TAX IN CERTAIN CASES.—If, at
6 any time during the 3-year period beginning on the date
7 of the transfer referred to in subsection (a) to a partner-
8 ship, such partnership ceases its investment activities or
9 ceases to have at least 75 percent of the value of its assets
10 (at cost) represented by investments permitted for special-
11 ized small business investment companies under the Small
12 Business Investment Act of 1958, there is hereby imposed
13 a tax on the income of such partnership equal to the ag-
14 gregate amount of tax which would have been imposed
15 under chapter 1 of the Internal Revenue Code of 1986
16 but for subsections (a) and (b). Any tax imposed by this
17 subsection shall be treated for purposes of such Code as
18 a tax imposed by chapter 1.

19 (f) SPECIALIZED SMALL BUSINESS INVESTMENT
20 COMPANY.—For purposes of this section, the term “spe-
21 cialized small business investment company” has the
22 meaning given such term by section 1202(k) of the Inter-
23 nal Revenue Code of 1986 (as added by this Act).

1 **TITLE II—ADDITIONAL INCEN-**
2 **TIVES RELATED TO INVEST-**
3 **ING IN SPECIALIZED SMALL**
4 **BUSINESS INVESTMENT COM-**
5 **PANIES**

6 **SEC. 201. EXPANSION OF NONRECOGNITION TREATMENT**
7 **FOR SECURITIES GAIN ROLLED OVER INTO**
8 **SPECIALIZED SMALL BUSINESS INVESTMENT**
9 **COMPANIES.**

10 (a) **EXTENSION OF ROLLOVER PERIOD.**—Paragraph
11 (1) of section 1044(a) of the Internal Revenue Code of
12 1986 (relating to nonrecognition of gain) is amended by
13 striking “60-day period” and inserting “180-day period”.

14 (b) **INCREASE OF MAXIMUM EXCLUSION.**—

15 (1) **IN GENERAL.**—Paragraphs (1) and (2) of
16 section 1044(b) of such Code (relating to limita-
17 tions) are amended to read as follows:

18 “(1) **LIMITATION ON INDIVIDUALS.**—In the
19 case of an individual, the amount of gain which may
20 be excluded under subsection (a) for any taxable
21 year shall not exceed—

22 “(A) \$750,000, reduced by

23 “(B) the amount of gain excluded under
24 subsection (a) for all preceding taxable years.

1 “(2) LIMITATION ON C CORPORATIONS.—In the
2 case of a C corporation, the amount of gain which
3 may be excluded under subsection (a) for any tax-
4 able year shall not exceed—

5 “(A) \$2,000,000, reduced by

6 “(B) the amount of gain excluded under
7 subsection (a) for all preceding taxable years.”

8 (2) CONFORMING AMENDMENT.—Subparagraph
9 (A) of section 1044(b)(3) of such Code (relating to
10 special rules for married individuals) is amended to
11 read as follows:

12 “(A) SEPARATE RETURNS.—In the case of
13 a separate return by a married individual, para-
14 graph (1) shall be applied by substituting
15 ‘\$375,000’ for ‘\$750,000’.”

16 (c) EXTENSION TO PREFERRED STOCK.—Paragraph
17 (1) of section 1044(a) of such Code is amended by striking
18 “common”.

19 (d) DEFINITION OF SPECIALIZED SMALL BUSINESS
20 INVESTMENT COMPANY.—Paragraph (3) of section
21 1044(c) of such Code (relating to definitions and special
22 rules) is amended to read as follows:

23 “(3) SPECIALIZED SMALL BUSINESS INVEST-
24 MENT COMPANY.—The term ‘specialized small busi-

1 ness investment company' means any partnership or
2 corporation which—

3 “(A) as of September 30, 1996, is licensed
4 by the Small Business Administration under
5 section 301(d) of the Small Business Invest-
6 ment Act of 1958, or

7 “(B) holds a license from the Small Busi-
8 ness Administration, issued after such date, to
9 operate as a specialized small business invest-
10 ment company.”

11 (e) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to sales occurring after the date
13 of the enactment of this Act.

14 **SEC. 202. MODIFICATIONS TO EXCLUSION FOR GAIN FROM**
15 **QUALIFIED SMALL BUSINESS STOCK.**

16 (a) IN GENERAL.—Section 1202 of the Internal Rev-
17 enue Code of 1986 (relating to 50-percent exclusion for
18 gain from certain small business stock) is amended by re-
19 designating subsection (k) as subsection (l) and by insert-
20 ing after subsection (j) the following new subsection:

21 “(k) SPECIAL RULES FOR SPECIALIZED SMALL
22 BUSINESS INVESTMENT COMPANIES.—

23 “(1) INCREASE IN EXCLUSION; CORPORATE IN-
24 VESTORS ELIGIBLE.—In the case of—

1 “(A) the sale or exchange of stock in a
2 specialized small business investment company,
3 and

4 “(B) any amount treated under subsection
5 (g) or paragraph (2) of this subsection as gain
6 described in subsection (a) by reason of the
7 holding, sale, or exchange of an interest in a
8 specialized small business investment company,
9 subsection (a) shall be applied by substituting ‘60
10 percent’ for ‘50 percent’ and, in the case of interests
11 acquired after the date of the enactment of this sub-
12 section, without being limited to taxpayers other
13 than corporations.

14 “(2) EXCLUSION ALLOWABLE FOR CERTAIN
15 GAIN ON SALE OR EXCHANGE OF INTERESTS IN CER-
16 TAIN SPECIALIZED SMALL BUSINESS INVESTMENT
17 COMPANIES.—

18 “(A) IN GENERAL.—If any interest in a
19 specialized small business investment company
20 which is a pass-thru entity (as defined in sub-
21 section (g)(4)) is sold or exchanged, gain on
22 such sale or exchange shall be treated as gain
23 described in subsection (a) to the extent attrib-
24 utable to unrealized small business stock gain.

1 “(B) UNREALIZED SMALL BUSINESS
2 STOCK GAIN.—For purposes of subparagraph
3 (A), the term ‘unrealized small business stock
4 gain’ means the amount which would be eligible
5 gain if the qualified small business stock held
6 by such company had been sold at the time of
7 the sale of the interest referred to in subpara-
8 graph (A).

9 “(C) CERTAIN RULES TO APPLY.—Rules
10 similar to the rules of paragraphs (2)(B) and
11 (3) of subsection (g) shall apply for purposes of
12 this subsection.

13 “(3) APPLICATION OF ACTIVE BUSINESS RE-
14 QUIREMENT TO STOCK HELD BY SPECIALIZED
15 SMALL BUSINESS INVESTMENT COMPANIES.—For
16 purposes of determining whether stock held by a
17 specialized small business investment company is
18 qualified small business stock, subsection (e) shall be
19 applied by treating as a qualified trade or business
20 any trade or business in which such company is per-
21 mitted to invest under the Small Business Invest-
22 ment Act of 1958.

23 “(4) SPECIALIZED SMALL BUSINESS INVEST-
24 MENT COMPANY.—For purposes of this subsection,

1 the term 'specialized small business investment com-
2 pany' means any partnership or corporation which—

3 “(A) as of September 30, 1996, is licensed
4 by the Small Business Administration under
5 section 301(d) of the Small Business Invest-
6 ment Act of 1958, or

7 “(B) holds a license from the Small Busi-
8 ness Administration, issued after such date, to
9 operate as a specialized small business invest-
10 ment company.”

11 (b) DEFINITION OF SPECIALIZED SMALL BUSINESS
12 INVESTMENT COMPANY FOR PURPOSES OF WAIVER OF
13 ACTIVE BUSINESS REQUIREMENT.—Subparagraph (B) of
14 section 1202(c)(2) of such Code is amended to read as
15 follows:

16 “(B) SPECIAL RULE FOR SPECIALIZED
17 SMALL BUSINESS INVESTMENT COMPANIES.—
18 Notwithstanding any provision of subsection
19 (e), a corporation shall be treated as meeting
20 the active business requirements of such sub-
21 section for any period during which such cor-
22 poration qualifies as a specialized small busi-
23 ness investment company (as defined in sub-
24 section (k)(4)).”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1996.

WILLIAM J. JEFFERSON
SECOND DISTRICT, LOUISIANA

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CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-1802

COMMITTEES:
WAYS AND MEANS
SUBCOMMITTEES:
TRADE
SOCIAL SECURITY

DEMOCRATIC STEERING AND
POLICY COMMITTEE

WHIP AT-LARGE

October 3, 1997

Dear Colleague:

I invite you to join me as an original co-sponsor of the **Entrepreneurial Equity Capital Formation Act**, legislation that is designed to help increase the amount of equity capital available to grow small disadvantaged businesses. This bill will enhance certain existing tax provisions for individual and corporate taxpayers who make equity investments in Specialized Small Business Investment Companies (SSBICs). SSBICs are SBA-licensed investment companies that make long-term loans or equity investments in small firms or those owned by persons who are otherwise "socially or economically disadvantaged".

As you know, small entrepreneurs have a difficult time accessing financing -- particularly patient, equity-type capital. Targeted capital formation strategies are an essential, but often overlooked, requirement to address the capital gap that plagues disadvantaged businesses. In fact, access to capital represents the most formidable barrier to the aggregation of financial resources that can be invested to grow successful minority-owned firms, and more importantly, produce employment.

SSBICs are employed in the bill as vehicles to pool equity capital because they represent the only federally sponsored venture capital network. The SSBIC program began in 1971. Since the program's inception, SSBICs have invested \$1.8 billion in disadvantaged businesses. For example, in 1996 \$134 million of such investments were made in a variety of industries ranging from computer technology, health care, franchises and wholesaling, retail outlets to telecommunications.

More could be done but the demand for SSBIC financing exceeds the supply of capital. SSBICs' themselves have great difficulty in accessing capital and my bill is designed to encourage more private market responses to increase the size of SSBIC funds. Specifically, the bill would amend sections 1044 and 1202 of the tax code. These two provisions provide investors with tax benefits for equity investments in small businesses. Both provisions were enacted as part of the 1993 Budget Reconciliation legislation. Experience since 1993 has shown that the SSBIC provisions need fine-tuning if we are to achieve the intended incentive effects.

Code section 1044 defers the payment of capital gains tax on the sale of publically traded stock if the gain is rolled-over (i.e., reinvested) in an SSBIC. My bill increases the amount of taxable gain that can be deferred and makes the reinvestment

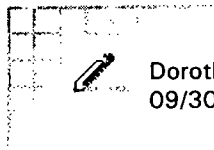
process easier. Code section 1202 provides taxpayers a 50% capital gains tax exclusion for long-term equity investments in small businesses, however, my legislation provides a 60% exclusion. This legislation will make it easier for taxpayers to invest in SSBICs and potentially receive the exclusion.

The revisions of tax policy proposed in this bill will be a catalyst for aggregating considerable capital that can be invested with small entrepreneurs. I hope you will be able to join me and co-sponsor this legislation. If you would like to be an original co-sponsor, please contact Terri McField at 5-6636.

Sincerely,

A handwritten signature in black ink, reading "Wm. J. Jefferson". The signature is fluid and cursive, with the first name "Wm." and last name "Jefferson" clearly legible.

William J. Jefferson
Member of Congress



Dorothy Robyn
09/30/97 10:11:47 AM

Record Type: Record

To: Gene B. Sperling/OPD/EOP

cc: Ann F. Lewis/WHO/EOP, Lael Brainard/CEA/EOP, Jonathan Orszag/OPD/EOP, Russell W. Horwitz/OPD/EOP

Subject: Trade & Community Economic Development Adjustment Initiative

Attached is a quick update of the community-adjustment proposal I wrote up last week but which you had not seen; it puts more flesh on the bones of OEA and EDA, which to me are the key to this approach. Based on our conversation of last evening, I will flesh out the OEA piece still more; expand on the NADBank component; and add in some of the other suggestions, such as additional Export Assistance Centers and expanded SBA assistance.

TRADE & COMMUNITY ECONOMIC ADJUSTMENT INITIATIVE

September 30, 1997

Background: The Administration has had considerable success in helping regions hurt by defense downsizing through its coordinated, community-based approach to providing economic adjustment assistance. Initially developed to respond to communities experiencing a military base closure, this approach has been used effectively as well in regions suffering from defense industry cutbacks. Three features distinguish the approach:

Focus on community organization and planning: Staff from DoD's superb Office of Economic Adjustment intervene early to help a community organize itself and develop a credible economic adjustment strategy. In addition to providing generous planning grants, OEA staff help communities access other sources of federal assistance as well as state, local and private resources.

Targeted support for implementation: Defense-impacted regions have received dedicated funds for worker training/assistance from the Department of Labor, and for economic development (primarily infrastructure grants and revolving loan funds) from Commerce's Economic Development Administration. Other sources of support include: DOT funds for converting military airports to civilian use, SBA loan guarantees, and competitively awarded R&D grants from DoD and elsewhere.

Close interagency coordination: Although the NEC coordinates the Administration's defense economic adjustment *policy*, day-to-day implementation is coordinated through an interagency committee established in 1970 and formalized by executive order in 1992. OEA effectively chairs this group, and each OEA staffmember is responsible for coordinating with one or more participating agencies.

Proposal: Undertake a Trade & Community Economic Adjustment Initiative modeled after the Administration's defense economic adjustment effort. At a minimum, the initiative would a) establish a mechanism for better interagency coordination of trade adjustment assistance and b) detail OEA staff to the Department of Commerce and give them the resources to award planning grants and provide on-site expertise and help in accessing federal funds for implementing the adjustment plan. Existing programs such as EDA grants, SBA loan guarantees and NADBank would be part of any community-adjustment option. A more ambitious initiative would make additional, dedicated EDA resources available for trade-impacted communities.

Interagency Coordination: Establish a President's Interagency Trade and Economic Adjustment Committee, chaired by the Secretaries of Commerce and Labor and staffed by OEA project managers on detail to and funded by the Commerce Department. (To avoid delay, this should be done by executive memorandum rather than EO.) The committee's mandate would be to improve outreach to and assistance for trade-impacted regions.

Planning Grants and Expertise to Help Communities Develop an Economic Adjustment Strategy: Provide funds to allow detailed OEA project managers to award planning grants and help trade-impacted communities bring the appropriate local groups to the table to develop a credible economic adjustment plan. Project managers also would help communities tap into federal funds for worker training, economic development and other implementation activities. (Estimated cost: \$10 million/year) [See OEA attachment for more detail.]

Targeted Support for Worker Training, Business Assistance and Economic Development: Trade-impacted communities currently can receive funds for economic adjustment activities under several programs dedicated to trade adjustment, including DOL's Trade Adjustment Assistance (TAA) and NAFTA-TAA programs; the North American Development Bank (NADBank); the Community Adjustment & Investment Program (CAIP); and Commerce's Trade Adjustment Assistance Centers (see program descriptions, attached).

Trade-impacted communities also can apply for EDA Title IX funds (technical assistance, revolving loan funds, infrastructure grants) and SBA loans and loan guarantees. EDA is the single most valuable source of federal assistance for implementing an economic development plan. However, EDA's funds (which have been critical to defense adjustment) are heavily oversubscribed.

Options: The Administration could pursue the Trade-Impacted Community Adjustment Initiative in one of three ways. The key difference has to do with the level of funding for EDA.

- Option 1 would request no new funds for EDA; the Administration would simply try to do a better job of serving trade-impacted communities using existing resources (and the steps described in the first two bullets above).
- A second option would be to give trade-impacted communities priority in the allocation of scarce economic development funds -- notably EDA Title IX funds.
- A third option would be to request additional, **dedicated** EDA funds for trade-impacted communities. (Estimated cost: \$10-50M/year)

EDA's appropriators would oppose Option 2, as borrowing from Peter to pay Paul. Thus, realistically, the choice is between Options 1 and 3.

ATTACHMENTS

1. Office of Economic Adjustment
2. President's (Defense) Economic Adjustment Committee
3. Selected Program Descriptions
 - a. NADBank/CAIP
 - b. Trade Adjustment Assistance Centers
 - c. EDA economic adjustment programs
4. Details on Option 3 (EDA funds dedicated to trade economic adjustment)
 - a. Budget
 - b. Community Assistance Scenario
 - c. Communities Assisted per Year
5. Eligibility Criteria

Office of Economic Adjustment

A key ingredient in the Administration's successful defense economic adjustment strategy has been DoD's Office of Economic Adjustment. OEA was created in 1961 to help communities cope with military base closures, and that has been its traditional role. Typically, OEA helps communities organize a planning group, provides a planning grant, guides the group through government requirements for base closures, and helps it develop a "reuse" plan for redevelopment of the base.

With the end of the Cold War, OEA's responsibilities have expanded to include help for communities hit by closings and cutbacks of defense plants. For example, in St. Louis, where McDonnell Douglas laid off 30,000 workers, OEA was instrumental in helping the region develop a broad strategy for worker adjustment and firm diversification.

OEA's superb reputation is due to several factors:

- Intervention typically comes early, before serious impact has occurred;
- OEA staff catalyze a local, grassroots adjustment planning process, using planning grants as financial carrot to get all key stakeholders at the table;
- OEA's 30 project managers are economic adjustment experts, with skill at helping communities create an appropriate economic adjustment strategy or vision;
- OEA is at center of network of federal adjustment specialists, and skilled at helping communities tap into JTPA, EDA and other programs at the appropriate time.

Because OEA's focus is on the planning stage, it does a lot with relatively few resources: a single OEA project manager oversees 3-4 communities simultaneously. And planning grants (which are typically staggered over several years) are in the range of \$500,000-\$3 million per community.

As part of a Trade & Community Economic Adjustment Initiative, [6-8] OEA staff would be "detailed" (either physically or in a virtual sense) to the Department of Commerce. Although Commerce would host and pay for them, OEA staff would retain the key characteristics that make their organization so effective within DoD: small, flexible and with a focused mission on planning.

An individual project manager would handle 3-4 trade-impacted communities. Their major function would be to: make early and frequent site visits to trade-impacted communities; provide planning grants; using those grants as the carrot, bring the key local stakeholders to the table and help them develop a credible economic adjustment plan; assemble a federal team representing the agencies with resources appropriate to a particular community and (where desirable) bring the team to the community.

PRESIDENT'S ECONOMIC ADJUSTMENT COMMITTEE AND DEFENSE ECONOMIC ADJUSTMENT PROGRAM

Introduction

On January 15, 1992, the President signed Executive Order (E.O.) 12788. This Order updates and replaces E.O. 12049. It reaffirms the President's Economic Adjustment Committee (EAC), established in 1970, and the Defense Economic Adjustment Program. It also incorporates statutory requirements for this Program.

Background

The Program was established in 1961 by the Secretary of Defense to help mitigate adverse effects of Defense closures and contract cutbacks. The Committee was first designated as the President's Interagency Economic Adjustment Committee in 1970 by an Executive Memorandum. This Committee and Program were subsequently formalized in 1978 under Executive Order 12049, "Defense Economic Adjustment Program," which broadened program support to include Defense expansion.

Composition

The Chair is the Secretary of Defense. The Vice Chair is the Assistant Secretary of Defense who oversees the Office of Economic Adjustment (OEA) which serves as the Committee staff. The Committee is presently composed of 23 Cabinet-level departments and agencies. Three levels of representation are:

Members - Department and agency heads. They meet at the discretion of the Chair. Also, they or their designee, formally identify the Members of the Advisory and Working Groups for their respective departments or agencies.

Advisory Group - Undersecretaries or their equivalent. They address policies peculiar to member departments and agencies and appropriate support to be given to the Defense economic adjustment program.

Working Group - Department and agency officials who can address the daily technical and program issues of the community Defense economic adjustment projects.

Committee Functions

Mandate - The Committee gives priority consideration to requests for Federal technical assistance, financial resources, excess or surplus property, and other requirements for communities adversely affected by Defense program changes. These changes include: military base closures and realignments, new military bases and expansions, and Defense contract reductions. Committee program support is also given to projects addressing the encroachment of incompatible development around military installations.

(over)

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Benefits - The Committee and the affected community mutually benefit from their coordinated efforts. EAC assistance helps Defense impacted communities proceed quickly toward economic recovery. Member agency program objectives are attained through coordinated economic adjustment assistance programs.

Meetings - Normally, the Working Group meets to address the operational matters of the Defense economic adjustment program and individual community needs. They are apprised of current Defense impact situations and their support is requested.

Member and Advisory Group meetings are held when policy decisions are required, or immediate Committee support is needed to offset impacts caused by critical program changes.

Task Forces - When required, Committee task forces can be created to support major economic adjustment problems or new initiatives. Task forces may be organized at the headquarters level, but are more likely to be formed in the Federal regions.

A task force may be established on the recommendation of a member agency or by an OEA project manager with the concurrence of the OEA Director. Notification occurs through a memorandum from the Director to the appropriate Federal agencies at headquarters, requesting the designation of a point of contact to support the project. The memorandum includes a brief explanation of the need and expected agency participation level.

OEA Support to EAC And Defense EAP

Each member of the OEA staff is assigned to one or more EAC agencies for policy coordination and program liaison purposes. Each apprises the other of project support requirements or program funding potential.

OEA project managers identify, as early as possible, EAC support requirements. OEA transmits these requirements to the EAC for consideration in current and following year budgets.

Selected Program Descriptions

The NAFTA North American Development Bank (NADBank):

In mid-1994 agreement was reached between the U.S. and Mexico on two new organizations to support border environmental clean-up and to provide support for community adjustment and investment related to NAFTA. The Border Environment Cooperation Commission (BECC) was developed to help border states and local communities in coordinating, designing and financing environmental infrastructure projects with cross-border impacts. The North American Development Bank (NADBank) was created to address two problems: the financing of border environmental projects and adjustment assistance to address NAFTA-related community trade adjustment problems. NADBank was provided with funding that should support \$2 to \$3 billion worth of projects over four years, however, only ten percent of its funds were to be allocated to the Community Adjustment and Investment Program (CAIP).

NADBank CAIP assistance is limited to loans and loan guarantees to businesses located in communities designated as eligible for assistance under the CAIP. There is no authority for supporting community capacity building, planning or technical assistance, and no provision for funding of infrastructure improvements to support local economic conversion in areas hard hit by import impacts when such areas aren't part of the NADBank border program. Only three loans or loan guarantees have been provided under the NADBank CAIP in the three years of its existence.

The Treasury Department made its first designations under the CAIP on August 1, 1997, when it designated 35 communities as eligible, which should make it possible for companies in those communities to apply for CAIP assistance. To be designated as eligible for the CAIP, a community must provide evidence of two factors: first, it must demonstrate job losses associated with the passage of NAFTA and second, it must suffer from an unemployment rate significantly higher than the national rate. The job loss test can be met by having a significant number of recent Department of Labor TAA worker group certifications, or by showing the loss of a significant number of jobs to business relocations to Canada or Mexico. At this point, the CAIP can only be viewed as an experiment.

Trade Adjustment Assistance for Firms and Industries:

The Department of Commerce has implemented the Trade Adjustment Assistance (TAA) Program for Firms and Industries since the late 1970's. (See attachment B - a detailed program description and fact sheet.) Although funding for the TAA Program for Firms and Industries has fluctuated significantly over the years and responsibility for the program has been transferred from EDA to the International Trade Administration (ITA) and the back to EDA, the program has proven itself to be an efficient and effective way to help U.S. firms and industries injured by imports regain the ability to compete in the global marketplace. While the program included loan

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and loan guarantee authority in its early years, those authorities were later eliminated because they were cumbersome to implement and firms were generally able to obtain conventional financing once they had developed and implemented their Adjustment Proposals.

Most of the assistance provided under the TAA Program for Firms and Industries has been provide through a network of twelve Trade Adjustment Assistance Centers (TAACs) which provide direct, hands-on assistance to trade injured firms. The TAACs, established in 1978, were among the first government-sponsored providers of comprehensive assistance to manufacturers to help them improve their operations. TAACs work with firms to help them complete the necessary documentation to become certified under the program, develop a comprehensive Adjustment Proposal that identifies the company's strengths and weaknesses as well as the steps they need to take to become competitive, and then implement the proposal, generally through the cost-shared (50/50) hiring of outside consultants with expertise in the necessary business discipline. While the majority of TAACs are overseen by university-based entities, three are sponsored by private non-profit organizations, one by a state agency and one by a regional manufacturers' association.

The assistance provided through the TAACs is unique in a number of ways. First, unlike most business assistance programs, manufacturers must demonstrate injury due to imports and go through a certification process. Since they must have suffered lost sales and employment and those losses have to be at least partly due to increased imports of like or directly competitive products, firms receiving assistance from the TAACs are generally facing declining fortunes. This is another difference between the TAA Program and other business assistance programs that generally work with either start-ups or healthy firms seeking to improve operations. Because of the generally weak condition of their client firms, the TAACs also tend to work with their clients for a longer period of time and provide a higher level of assistance. It is not unusual for a TAAC to work with a client for over three years and to provide over \$100,000 in cost-shared consultant assistance to the firm.

In spite of the condition of the clients when they enter the program, however, the results of TAAC assistance have been impressive. A TAAC analysis of 651 firms completing assistance under the program between FY 1990 and FY 1996 showed that while sales had declined 11 percent (from \$7.3 billion to \$6.5 billion) in the two years prior to entering the program, they had increased 40 percent (from \$6.5 billion to \$9.1 billion) after receiving assistance. Employment also showed significant recovery, having dropped nearly 15 percent in the period before the firms entered the program and then recovering nearly 14 percent after assistance.

While recent years have seen limited funding going into industry assistance efforts because of reduced appropriations for the TAA Program for Firms and Industries, there have been a number of innovative and effective industry-government cooperative efforts undertaken through the program. Among the industry projects funded were the original American Electronics Association (AEA) and Semiconductor Industry Association (SIA) representative offices in Japan working to resolve trade issues with that nation; initial funding for the Tailored Clothing Technology Center (TC2) developing automated apparel technology on behalf of the U.S. apparel

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industry; and a program with the Gear Research Institute to develop austempered ductile iron materials technology as a lower cost, lightweight and strong material for drive train applications. The TAA program for Firms and Industries should be viewed as the U.S. Government's "turnaround" consulting program for trade injured companies and industries, and a major source of support for community business retention efforts.

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EXISTING TRADE ADJUSTMENT ASSISTANCE PROGRAMS:

Economic Development Administration:

The Economic Development Administration (EDA) was established under the Public Works and Economic Development Act of 1965, as amended (42 USC 3121 *et seq.*), to generate new jobs, retain existing jobs and stimulate industrial and commercial growth in economically-distressed areas of the United States. EDA assistance is available to rural and urban areas of the Nation experiencing high unemployment, low-income levels, extensive poverty, outmigration, or sudden and severe economic distress.

The basic principle underlying all EDA programs is that economic development is a local process that must be based on locally identified economic development plans and/or adjustment strategies. EDA works in partnership with state and local governments, regional economic development districts, public and private non-profit organizations and Indian tribes to support local development efforts. EDA's capacity building tools (planning, technical assistance, economic adjustment strategy and technical assistance, national technical assistance and research, and trade adjustment assistance) are used to provide communities with the resources needed to support the development and implementation of a comprehensive approach to the rebuilding of the local economic base. The Agency then uses its other program tools (public works, economic adjustment infrastructure and revolving loan funds) to support local efforts to implement their economic development programs. (See attachment A - EDA Fact Sheet and Program Booklet)

While originally created to address areas of the country suffering from general long-term economic decline, EDA's role in recent years has evolved to include a significant component of strategic adjustment assistance to help communities deal with defense cutbacks and natural disasters. The Agency has demonstrated effective coordinated use of its multitude of program tools in helping communities meet the challenge of significant short-term negative economic dislocations. A recent study of EDA's public works program conducted by a consortium led by Rutgers University, for instance, showed that for every \$1 million of funds EDA provided under its public works program, over \$10 million in private investment were leveraged resulting in the creation of 327 jobs at an EDA cost of \$3,058 per job.

Chapter 4 - Adjustment Assistance for Communities. The major program tools that would be brought to bear on trade injured communities include:

- **Planning/economic adjustment strategy funding** to provide the framework and support for the creation of a comprehensive community adjustment planning process that will involve local officials, business leaders, labor organizations, citizen groups and other interested community players in the development of an adjustment strategy for the rebuilding of the local economy. For example, EDA provided a \$45,000 grant to the City of Yuma, AZ, to prepare a comprehensive economic development strategy covering neighboring communities in Yuma County to emphasize industrial diversification linked to economic development in adjacent Mexican towns.
- **Technical assistance** support to evaluate the feasibility of proposed investments and to provide assistance to meet specific technical needs of the strategy such as an

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environmental assessment or financial restructuring. In Owensboro, KY, for instance, a \$16,000 technical assistance project to prepare an airport industrial park master plan led to the funding of an infrastructure project to provide improvements to support the Mid American Air Industrial Park.

- **Public works/infrastructure investments** to meet the development needs of a restructured economy including industrial or commercial site development, incubator buildings, skill training centers or improved water and sewer systems. EDA provide the City of Mission, TX, and Mission Economic Development Authority with a \$1,500,000 public works grant to provide infrastructure improvements to develop a 90-acre industrial area to meet the need for new and expanding industrial and commercial business development. The Mission area has been hard hit by peso devaluations that hurt its retail trade and harsh freezes that devastated the citrus industry.
- **Revolving loan funds (RLF's)** for business assistance and infrastructure needs not met by the CAIP. While we would expect the comprehensive Community Trade Empowerment Initiative to play a significant role in developing investment opportunities for the CAIP, there may also be gaps in the financial resources available to these communities that only a RLF could meet. In St. Louis, MO, EDA provided a \$1,350,000 RLF grant as part of a defense adjustment effort to develop creative responses to meet the significant impacts on the local defense industry caused by defense procurement cutbacks. The RLF is targeted to providing assistance for small and medium-sized defense contractors seeking to diversify their businesses away from dependence on defense contracting.
- **Trade Adjustment Assistance (TAA) for Firms and Industries Program** authorities will be used to provide assistance to trade injured companies in these communities to develop and implement a comprehensive Adjustment Plan to restructure their firm and regain the ability to compete in the global marketplace, and to help industries facing growing imports undertake collective activities to help their member companies compete more effectively. The TAA Program helped a western provider of high quality electroplating and metal finishing services to the aerospace and micro-electronics industry who was losing sales to both Mexican and Asian companies. Employment had dropped from 27 to 18 while sales and profits were eroding. Company and TAAC staff developed a recovery strategy based on both addressing pressing environmental problems while also lowering production costs and expanding production capabilities. With TAAC assistance, a new water and metal reclamation system was developed which allowed the firm to isolate its operation from the city sewage system and reclaim metals in a useful form. As a result of the assistance, sales increased by over 25 percent, profitability was restored and employment has grown to 30.

In addition to the individual examples cited above, an example of EDA's program tools being used in a coordinated manner to address the adjustment needs of a community facing a significant dislocation may be useful. The 1991 round of Base Realignment and Closure (BRAC) decisions

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

LABOR BRANCH FAX SHEET

DATE:

10/2

TO:

Anne Lewis62878

FROM:

Carol Ratti

COMMENTS:

See p. 2, # 4 on TAA.

Only NAFTA-TAA needs
offset; regular TAA is
in baseline; TAA for firms
is discretionary

NUMBER OF PAGES
(INCLUDING COVER)

4

CONFIRMATION: (202) 395-3262
FAX NUMBER: (202) 395-1596

BNA

Daily Report for Executives

No.

Thursday October 2, 1997

Regulation, Law & Economics

International Trade

Finance Approves Fast-Track Compromise, Ways and Means Expected to Vote October 8

The Senate Finance Committee Oct. 1 approved a compromise fast-track proposal that would extend the president's authority to negotiate trade deals to at least Oct. 1, 2001 with a possible extension to Oct. 1, 2005.

Senate Finance Committee members approved the measure by voice vote after a closed door session where they agreed to certain changes in the proposal put forward by Committee Chairman William Roth (R-Del).

Roth, in a press release issued after the vote, said that the legislation approved makes clear that agreements modifying U.S. labor and environmental laws would not get fast-track treatment. Fast-track authority bars amendments after formal introduction.

The House Ways and Means Committee is expected to vote on fast-track legislation Oct. 8.

President Clinton, in an Oct. 1 press statement, welcomed the committee's action. "I look forward to working with the congressional leadership to build on the bipartisan spirit we saw in the Senate Finance Committee today to secure passage of this important legislation this year," Clinton said.

CBI Extension Passed

In other action, the Finance Committee also reported out by voice vote Roth's proposal to give Caribbean Basin Initiative beneficiaries parity with certain benefits Mexico receives under the North American Free Trade Agreement.

The proposal would expand CBI preferences through the year 2000 to products not currently eligible, including certain textile and apparel products, footwear, canned tuna, petroleum and derivatives, and watches and watch parts. However, the benefits would be conditioned based on the countries' trade policies, participation in the Free Trade Area of the Americas Initiative and other factors. The committee only approved one change to Roth's CBI proposal-i.e. the extension of the passenger processing fee (\$5) for passengers from Canada, Mexico, and the Caribbean arriving on commercial vessels and aircraft until Feb. 28, 2000.

USTR Gratified by Action

U.S. Trade Representative Charlene Barshefsky, after the vote, told reporters she was "very gratified" by the strong showing of bipartisan support for fast-track. She expressed confidence that the measure, which she said was consistent with the president's negotiating objectives, would move forward successfully.

Barshefsky said at a news conference later in the day that the committee's bill will allow the administration "to advance trade, labor, and environmental objectives as we move ahead."

She said that the legislation, in particular, will allow the president to pursue a "full trade agreements agenda as his predecessors have done."

Barshefsky said that, with the bill, the president will have the "flexibility" he requires to address labor and environmental issues in the context of trade negotiations.

Fast-track authority, which expired in 1993, allows Congress to consider legislation implementing trade agreements on a straight up or down vote.

The compromise reported out includes a new section that would extend the Trade Adjustment Assistance program for workers, the North American Free Trade Agreement TAA program for workers, and the TAA program for firms for two years. To pay for these extensions, the compromise would extend the passenger processing fee (\$5) applicable to passengers from Mexico, Canada, and the Caribbean arriving on commercial vessels and aircraft for a time sufficient to cover the costs of the TAA extension.

Under the compromise, a fast-track bill could include provisions that are "necessary" to implement the trade agreement or "otherwise related to the implementation, enforcement, and adjustment to the effects of such trade agreement and are directly related to trade." The legislation also links the negotiating objectives to provisions that can be included in the fast-track bill. The fast-track bill could also include provisions necessary to comply with current pay-as-you-go budget rules in implementing the trade agreement.

The proposal includes, as a principal trade negotiating objective, preventing foreign governments from using regulation or other practices, including the lowering of existing environmental, labor, and health and safety standards, to inhibit U.S. exports. The compromise makes clear that this section shall not be construed as authorizing inclusion in a fast-track bill of provisions that would restrict the autonomy of the United States in these areas.

Modifications to Roth Draft

The modifications to Roth's original proposal includes new language on agricultural products, including references to the Food Security Act of 1985. Also, the compromise includes export practices that would impact perishable agricultural commodities or cyclical products as an area where the United States will seek to develop and clarify rules.

The compromise also added new language to the section on "international economic policy objectives." Roth's proposal stated that it is U.S. policy to reinforce the trade agreements process by developing mechanisms to insure greater coordination between international trade and monetary institutions. The compromise added language to the effect that developing such mechanisms was "to protect against the trade consequences of dramatic and unanticipated currency movements."

The compromise also directs the USTR to consult closely with the relevant committees during the course of the negotiations.

The compromise also includes expanded tariff proclamation authority.

Asked after giving a speech at a Commodity Club luncheon Oct. 1 whether President Clinton will get aggressively behind fast-track, Barshefsky replied, "The president is very aggressively behind fast track. He ... has put together this initiative, announced it, has spoken to many constituent groups, both those in favor and those opposed. He has met with a variety of members of Congress and those meetings will continue. And he will find various ways to communicate the message to the American people."

Clean Fast-Track Bill

In other developments, Thomas J. Donohue, the new president of the U.S. Chamber of Commerce, Oct. 1 declared that "passing a clean fast track bill and passing it this year is essential for businesses of all size."

He predicted the legislation would pass, though he also said the needed votes aren't there yet.

"We're early in this game. We don't have the votes to pass the legislation.... If we don't pass this legislation now, we're liable to not pass it in an election year," Donohue told a National Press Club audience, adding that failure to grant the president fast-track trade negotiating authority would mean U.S. businesses would "sit on the sidelines" while their foreign competitors gain new markets.

"Over 20 such [trade] agreements, penalizing our exports, have been negotiated while the U.S. has been without fast-track authority," Donohue said.

He said the Chamber would mount a grassroots efforts to get approval for fast-track, adding, "I predict it'll pass."

□

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from: Mary Ann Wyrsh

date: 10/2/97

re: Fruit of the Loom

pages 4 (including this cover sheet)

NOTES:

SEP-29-1997 28:48

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P.81

GAREY J. FORSTER
SECRETARY

P R E S S R E L A S E

Date: September 29, 1997

Release: Immediately

Contact: Allen Johnson
Communications Director
Natairie, (504) 736-7057

Labor Continues to Assist FOL Workers

BATON ROUGE--Secretary of Labor Garey Forster stressed the ongoing efforts of Louisiana Job Service to assist both the Fruit of the Loom (FOL) workers who are being laid off effective October 6 and the workers who were laid off effective Sept. 18.

"I would like to encourage area employers to consider helping place these workers," Governor Mike Foster said, "so that we can retain their job skills in Louisiana."

Since Fruit of the Loom's announcement of 2,381 layoffs, as of last Friday, nearly 50% have either found other jobs, gone back to school, moved out of the area, or quit without giving reason. Out of those, 328 were reassigned within FOL.

In addition, the Fruit of the Loom Warehouse/Distribution Center in Vidalia informed the Ferriday Job Service Office that they want to hire an additional 100 employees between now and the end of December which has caused an influx of job applicants in the Ferriday Office, according to Raymond Rabb, manager of the Ferriday Job Service Office. "The Ferriday Office has been working closely with the Plant since it opened 2 years ago," said Raymond Rabb.

"We are very pleased with the number of employees who have

(more)

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already found new jobs or enrolled in training and with Fruit of the Loom for reassigning and adding jobs," said Secretary Forster. "With the help of area employers, we hope to have the remaining half of the employees placed in new jobs or training by Christmas."

Job Service interviewers from Lafayette, New Iberia, Opelousas, Lake Charles, and Houma are taking claims for unemployment at Port Barre and Abbeville Mills today. Unemployment claims processing is complete at St. Martin Mills. Approximately 373 workers from St. Martin Mills filed for unemployment.

When the layoff was announced in mid-August, shortly after taking office, Secretary Forster visited the Fruit of the Loom plants to offer the services of the Department of Labor.

On Saturday, Secretary Forster met with U.S. Department of Labor Secretary Alexis Herman who said she hopes that the federal and state cooperation exhibited in Louisiana in dealing with the Fruit of the Loom situation will become a model for the nation in dealing with losses of jobs through NAFTA.

Secretary Forster urged dislocated workers to maintain contact with Job Service for job placement services, job training, readjustment services, relocation assistance, needs assessment, on-the-job training, skills upgrade, and the many other available services and benefits.

Secretary Forster wants to remind FOL workers and employers in the area looking for good, hard working employees that they can reach the Rapid Response Team at (800) 417-7878 if they have any questions.

TOTAL P.02



FAX COVER SHEET UNCLASSIFIED

DATE: 8/26/97

THIS COVER PAGE, PLUS 16 ADDITIONAL PAGES

TO: Larry Matlack, OMB phone 395-3262

Fast track options for discussion tomorrow at the
10:30a. meeting at DOL (Room S-2217)

See you there -

Best Wishes,

From: Gregory Schoepfle
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ASSISTING TRADE-RELATED DISPLACED WORKERS: POLICY OPTIONS

I. Possible Administrative Actions to Improve Implementation and Delivery of Adjustment Assistance Services [cost estimates to be developed]

Outreach and Early Intervention

Improve public awareness of and access to TAA, NAFTA-TAA, and JTPA Title III services available to workers directly or indirectly affected by imports.

- Develop public information campaign
- Implement targeted approach to identify and advise workers in firms indirectly affected by NAFTA about their rights to petition for benefits under JTPA Title III (1-a & b).
- Develop guidelines for both TAA and NAFTA TAA state outreach efforts and oversee their implementation (2-a).
- Issue policy guidelines that encourage provision of rapid response assistance for all substantial layoffs and closures, prior to any notice that the event is trade-related (3-a).
- Issue policy guidelines that encourage NAFTA-TAA/TAA and JTPA Title III collaboration on worker adjustment committees and in planning the delivery of comprehensive services to trade-related dislocated workers who are entitled to benefits under TAA or NAFTA-TAA (3-b).

Program Administration

Improve the timeliness and effectiveness of program services.

- Develop and implement outcome-based performance measures for workers who received TAA or NAFTA-TAA benefits and services (2-b).
- Develop guidelines which restrict granting of waivers from the training requirement under TAA and monitor to ensure compliance by the states (2-c.1).
- Shorten the determination deadline on a TAA petition from 60 to 40 days (2-c2/ 6-2b.1)

Coverage

Extend JTPA Title III services to suppliers of products to firms whose workers have been certified eligible for TAA [may require Statement of Administrative Action] (6-2e.1/6-2e.2).

II. Possible Legislative Actions to Reauthorize or Modify Programs [cost estimates to be developed]

TAA, NAFTA-TAA

- Seek a simple 4-year extension of both the TAA and NAFTA-TAA programs (6-1).
- Add shift in production to any country to the current TAA criteria for worker certification; ~~or delete shift in production to Mexico or Canada from NAFTA TAA criteria~~ (6-2e.1 / 6-2a.2). (we're setting bill)
- Eliminate TAA waiver (from training requirement) authority (6-2c). Trade-based
- Require early enrollment in training as a condition for income support under TAA (6-2d). (only for plant closing)
- Seek a base annual amount for adjustment assistance and a larger contingency amount whose disbursement would be triggered by a Secretary of Labor's finding that a needs test was met (OM3).

biggest push on energy authority not score in year you do it

try get it off on upside

need to energy under Dept Labor Act enforcement, concept even

65-68% get jobs Title III - JTPA
50% spent for training / OJT on classrooms
30% job search assistance - apply for Pell grants

OJT must be funded Title III

Search 5977
want to do this

Administrative
write a case

Pell Grants

- o Require prospective income accounting for all individuals with a documented severe income loss; or use prospective income for trade-related dislocated workers (OMB).
- o Make Pell grants available for non-degree or certificate programs, and for individuals who already hold a bachelor's degree who need additional coursework.

WARN Law

To improve compliance and coverage to achieve early intervention

- o Amend WARN to provide the Secretary of Labor with enforcement authority, modeled on the Fair Labor Standards Act (5-1). *issue - no to agency + help 60071*
- o Amend WARN's statutory thresholds on the proportion and absolute number of workers affected by a layoff (5-2).

III. Coordinated Community-Based Approach to Trade-Affected Areas [Possible Administrative and Legislative Actions—cost estimates to be developed]

Coordination

- o Establish an interagency coordination mechanism to avoid duplication in services; explore options and develop an action plan to respond to economic development and job creation needs (4).
- o To facilitate and target early adjustment assistance intervention, develop a mechanism to forecast regions and industries most likely to be affected by trade liberalization (7)
- o Based on the EZ/EC program, structure federal grant competitions to provide more benefits to trade-related dislocated workers and their communities (OMB).

Leveraging

- o Explore options available to coordinate worker adjustment programs with the activities of the North American Development Bank and the Community Adjustment and Investment Program (4).
- o Require relocating firms to provide compensation equal to 3 years of property tax to communities affected by a company relocating to a foreign country; provide federal grants equal to above payment; or expand funding for Title I services for Affected School Districts (OMB).

Capacity Building

- o Seek the authority and funds to offer the services of DOD's Office of Economic Assistance to NAFTA-affected regions [possible funding for ETA demonstration projects] (4; OMB).
- o Give priority to trade-related dislocated workers who apply for specific federal grants (OMB).

Legislative

Develop a new designation or assign EZ/EC status to trade-affected communities (OMB).

1. Outreach to Secondary Workers Employed in Firms Which Supply or Provide Upstream Processing for NAFTA-TAA Certified Firms				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
The Statement of Administrative Action which accompanied NAFTA-TAA provided that secondary workers may apply for a determination under NAFTA-TAA and that eligible workers are entitled to receive services under Title II of the JTPA.	a. As part of the NAFTA-TAA investigative process to certify directly affected workers, develop a targeted approach to identify, locate, and advise potentially eligible secondarily affected workers of their right to petition for benefits. b. Provide for wider dissemination of information regarding the secondary worker provisions of NAFTA-TAA (including specialized informational materials and public service announcements)	None	Increased public awareness of the secondary workers provisions related to NAFTA-TAA. Possible increased caseload and use of JTPA Title III funds. States would be expected to accept increased federal monitoring regarding their outreach efforts.	Program improvements can be accomplished within current administrative cost and program budget limitations. Any increased caseload resulting from greater awareness of program benefits will result in increased use of JTPA Title III funds.

2. Improved Implementation of TAA and NAFTA-TAA				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
a. Public Awareness of TAA and NAFTA-TAA Programs While DOL has funded outreach efforts to increase public awareness, no guidelines exist to ensure consistency of information disseminated by the states.	Develop guidelines for state outreach efforts and conduct reviews to ensure compliance.	None	Greater awareness of TAA/NAFTA-TAA programs.	Program improvements can be accomplished within current administrative cost and program budget limitations.
b. Performance Measures for the TAA and NAFTA-TAA Programs Current reporting systems do not provide for the measurement of outcomes following conclusion of services.	Develop and implement performance measures, consistent with the statutory requirements of GPRA, for outcomes of workers who receive TAA and NAFTA-TAA benefits and services.	None	Better tracking of TAA/NAFTA-TAA program effectiveness.	Restrictions on waivers and increased caseload resulting from greater awareness of programs may require an increase in budget authority.
c. Guidelines for the TAA and NAFTA-TAA Programs <i>1. Waivers from Training Requirement under TAA</i> Guidelines were issued December 1993 to narrow circumstances under which waivers are granted, but application of guidelines has been inconsistent.	1. Develop guidelines which restrict granting of waivers and conduct periodic reviews of practices by states to ensure compliance.	None	Ensure that program benefits are focused on retaining worker for satisfactory reentry to the workforce.	?
<i>2. Determination Period for TAA Cases</i> While DOL has 40 days within which to issue a determination for NAFTA-TAA cases, the determination period for TAA cases has remained at 60 days.	2. Reduce the determination period for TAA cases to 40 days.	None	Additional data reporting requirements may be placed upon the states.	?
			More timely determinations for TAA.	?

3. Early Intervention/Rapid Response for Workers Who Petition for NAFTA-TAA and TAA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Under JTPA Title III, state Dislocated Worker Units are responsible for designing and managing rapid response activities for substantial layoffs and plant closures as well as for workers who have been preliminarily certified for NAFTA-TAA. (There is no similar requirement for those certified under TAA.)	Take actions to standardize the initiation of services to all dislocated workers, including those certified for NAFTA-TAA and TAA. Issue policy guidelines to the governors that: a. Encourage the provision of rapid response for all substantial layoffs and closures prior to any notification or determination that the event may be NAFTA-related; b. Encourage NAFTA-TAA/TAA and JTPA Title III collaboration on worker/employer committees and planning for a comprehensive service strategy once it has been determined that workers are eligible for NAFTA-TAA or TAA entitlements.	Note	More effective service strategies for workers affected by trade. More systematic approach to readjustment services for all dislocated workers that will facilitate their return to the workforce more quickly.	No budgetary implications are expected. Although increased levels of services beyond rapid response could put pressure on state funds, additional resources are available to the states and other entities from JTPA Title III Secretary's National Reserve Account. Any substantial increases would be reflected in budget requests for JTPA Title III. Funds for rapid response activities for dislocated workers are currently authorized and funded under a portion of the annual JTPA Title III formula allotments to the states reserved for use by the governors (about 6% of Title III funds are used for rapid response activities). Other early intervention strategies, including basic readjustment services, are funded through the formula program.

4. Coordinated Community-Wide Approach to Providing Assistance to Areas Affected by NAFTA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Current authority under NAFTA-TAA does not provide for community economic development and job creation assistance. [However, DOL has gained extensive experience through its collaboration with DOD in its defense conversion activities that include economic development and job creation programs and through similar activities undertaken to assist community efforts in the Northwest timber and salmon initiatives.] Authority under other NAFTA-related legislation provides for a North American Development Bank (NADBANK) and a Community Adjustment and Investment Program (CAIP) under the supervision of the Treasury Department with participation from Agriculture, HUD, and SBA. Under the Trade Act of 1974, the Department of Commerce provides technical assistance to firms affected by trade through 12 regional technical assistance centers (TACs). Also, Commerce's Economic Development Administration administers community economic adjustment programs. At present, there is no coordinating mechanism among these various efforts.	Establish an interagency coordinating committee to explore options and develop an action plan to respond to the need for economic development and job creation in selected communities.	Seek legislative authority to permit demonstration economic development and job creation activities, in combination with other available resources, for areas affected by NAFTA.	Expand the job market in affected communities, especially those where few alternative employment opportunities exist.	Projects can be funded with resources currently available under JTPA Title III, and resources identified from other federal agencies and state and local funds (including JTPA Title III formula allocations). Funds for the Secretary's JTPA Title III National Reserve demonstration opportunities might be tapped for these activities. Additional resources would be requested through the normal budget process, if required.

5. Modification of the Worker Adjustment and Retraining Notification Act (WARN)

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
WARN requires that employers provide at least 60 days advance notice of a plant closing or mass lay off to affected workers. There are statutorily-prescribed thresholds that trigger the notification requirement: employers of 100 or more full-time employees who lay off at a single site during a 30-day period at least one-third of the employees (but not less than 50), or at least 500 employees. The employer is also required to notify the local government and State Dislocated Workers Unit which is responsible for provision of rapid response adjustment services. Remedies for failing to notify affected workers are limited to recovery of back pay and lost benefits through civil suit and for failing to notify the local government to a civil court fine. The authority of the Secretary of Labor is limited to issuing interpretive regulations.	None	1. Amend WARN to provide enforcement authority for the Secretary of Labor. Similar to the Fair Labor Standards Act and the enforcement of other labor standards, the enforcement mechanism might provide for both civil suits and federal agency enforcement. 2. Amend WARN the statutory thresholds that trigger notification requirements for mass layoffs. For example, lower either the threshold for the proportion affected to a proportion below one-third, or lower the absolute number affected from 500 to 250.	1. Would ensure greater adherence to the Act's requirements and protect workers irrespective of their economic status or access to private legal assistance. 2. Would ensure that more workers receive the benefits attributable to early notification.	? ?

6. Reauthorization and Modifications/Merging of TAA and NAFTA-TAA

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
1. Reauthorization of TAA and NAFTA-TAA Authorization for the TAA and NAFTA-TAA programs expires on September 30, 1998.	None	1. Draft legislation was transmitted on June 9 by the Administration to the relevant Congressional committees for a simple 4-year extension of the two programs.	Continues status quo.	?
2. Modifications/Merging of TAA and NAFTA-TAA: Conforming the Differences <i>a. Shift in Production as a basis for Certification</i> Under TAA, workers may only be certified for assistance if their firm is adversely affected by imports. Under NAFTA-TAA, workers may be certified if either their firm is adversely affected by imports from Mexico or Canada or their firm shifts production to Mexico or Canada.	None	a-1. Add shift in production to any country to the TAA criteria for worker certification. a-2. Delete shift in production in Mexico or Canada from the NAFTA-TAA criteria for worker certification.	Confirms with NAFTA-TAA criteria. Confirms with TAA criteria. Would renege on commitments made to workers when NAFTA was passed.	Could have significant cost implications. Might reduce the number of workers certified and associated costs of not certifying those due to a shift in production
<i>b. State Role in the Provision of Rapid Response Services</i> Under TAA, the Secretary is required to make a determination within 60 days of the receipt of a petition. Under NAFTA-TAA, the governor of the state must make a preliminary finding within 10 days after which the Secretary must make a final determination within 30 days. If the governor make an affirmative finding, then the state is required to provide rapid response and basic readjustment services to the affected workers using funds available under JFPA Title III.	b-1. Institute procedures that would shorten the deadline for a determination on a TAA petition to 30 days. b-2. Devise a mechanism that would trigger the provision of rapid response services for workers certified under TAA	None None	Confirms with NAFTA-TAA procedures. Confirms with NAFTA-TAA procedures.	? ?

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
<i>c. Waiver of Training Requirement</i> TAA generally requires that a participant be enrolled in training in order to qualify for income support, but waivers may be granted if it is determined that training is not feasible or appropriate. There is no waiver authority under NAFTA-TAA.	Issue administrative guidance to narrow TAA waiver authority.	Seek legislation to limit TAA waiver authority.	Would conform more nearly to conditions under NAFTA-TAA. Would reduce the abuse of the waiver authority under TAA.	?
<i>d. Early Enrollment in Training</i> To qualify for income support, NAFTA-TAA requires that a participant be enrolled in training by the 16th week in which the individual is receiving unemployment compensation, or if later, 6 weeks after the petition is approved. TAA contains no such requirement.	Issue administrative guidance to require early enrollment in training to qualify for income support under TAA.	None?	Conforms with NAFTA-TAA procedures. Would accelerate TAA participants' adjustment and prevent them from enrolling in training after exhaustion of UI benefits simply to continue income support.	?
<i>e. Coverage of Secondary Workers</i> Neither TAA (except for oil and gas workers) nor NAFTA-TAA provide for assistance to workers in firms indirectly affected by trade (e.g., firms that supply or provide services to directly affected firms). A Statement of Administrative Action that accompanied the NAFTA Implementation Act committed the Secretary of Labor's discretionary authority under JTPA Title II to provide assistance to secondarily affected workers. Other adversely affected workers, such as those in tertiary firms including restaurants, grocery stores, etc., that are indirectly affected are eligible for assistance under the general JTPA Title III program.	e-1. Issue a Statement of Administrative Action to extend the Secretary's discretionary authority under JTPA Title III to assist secondary workers under TAA.	e-2. Propose legislation to expand coverage under TAA and/or NAFTA-TAA to secondarily affected workers.	Would conform with NAFTA-TAA procedures. Would need to address the issue of defining appropriate limits to eligibility (first tier, second tier, etc.) that would be equitable and administrable at a reasonable cost.	? Might triple the cost of the program, based on an estimate from the early 1980s for extending benefits to secondary workers under the TAA program.

7. Establishment of an Early Warning System for Targeted Assistance				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Lack of a targeted and coordinated intervention strategy to bring resources to areas and industries where trade impacts are concentrated. Need for an Early Warning System to identify trade-impacted regions and industries before dislocations occur. Elements of an effective strategy might include: — Enhancement of WARN legislation on advanced notice of mass layoffs; — Analysis and profiling of TAA and NAFTA-TAA certifications by industry and region; — Development of a forecasting tool (an Early Warning System) to identify regions and industries that are most likely to be adversely affected by specific trade liberalizations; — Establishment of a coordination mechanism to facilitate coordination among the various federal agencies responsible for the delivery of adjustment assistance to workers, firms, and communities affected by trade liberalization.				

OMB-1. Contingency Approach to Spending for Trade Adjustment Assistance				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Estimating the need for adjustment assistance services is inherently difficult and resource estimates are often made arbitrarily. Seeking a large amount in advance can give a misleading impression that an agreement may have a substantial negative effects.	None	Seek "Base plus Contingency" authority for the TAA and NAFTA-TAA programs by establishing a base annual account and a larger contingency account (or an uncapped "such sums" authority), above the base, to be used only if the Secretary of Labor determines that the contingency terms (triggers) have been met.	The contingent amount is sought as prudent management. Contingent amounts would be triggered in a supplemental appropriation request by the President (based on the advice of the Secretary of Labor) designating the triggering event is tantamount to an emergency.	The contingency amount would not be scored in the President's budget, but CBO might score an estimate of the likelihood of the use of such authority.

OMB-2. Prospective Income Accounting in Federal Student Financial Aid (SFA) Programs

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
The Higher Education Act's (HEA's) income eligibility system of prospective accounting disqualifies persons with recent low income from eligibility for Pell Grants and other SFAs unless school aid officers exercise their authority to use prospective accounting. In the early 1990, dislocated workers' pre-layoff earnings were excluded from the SFA family income calculation; this practice was eliminated by the 1992 HEA amendments.	None	a. Amend the HEA to require the use of prospective income accounting for trade-related dislocated workers. DOL would be required to certify trade-related dislocated workers to school aid officers. b. Amend the HEA to require the use of prospective income accounting for all individuals with a documented severe income loss.	a. Data for 1992-93 show that about 107,000 persons in post secondary education identified themselves as "dislocated workers" on their student financial aid application. It is impossible to estimate how many of the dislocated workers enrolling in post secondary education or training lost their jobs because of trade-related reasons.	a. Based on 1992-93 Pell Grant experience with dislocated workers, an average Pell Grant awarded for such workers would cost about \$2,060 per student, or \$206 million per year for each 100,000 workers. b. This option would have broader appeal, but cost much more than option (a). Based on analysis done in March, the estimated annual cost could be as high as \$1.6 billion. This estimate assumes a 25% take-up rate for that population.

OMB-3. Targeted Assistance to Schools Affected by a Company Relocation

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Relocation of a company from the United States to a foreign country as the result of a trade agreement may have a negative impact on local communities and their schools. Unless a company is very small or receives a tax break, it is likely to contribute significantly to local schools through property and income taxes paid to local and state governments. Abrupt loss of these revenues could result in a decrease in the quality of local educational services, especially for low-income and low-achieving students.	None	a. Seek legislation that would require a transitional payment from the relocating company to the local community that would be equal to the amount of the local property tax that the company would have paid for the next three years. (The size of the payment could be based upon the size of the company.) b. Seek legislation that would require the federal government (rather than the relocating company) to make a similar payment as in (a) above, through a grant program, to the affected school district. A trigger for this payment might be that the school district lost 5% or more of its revenue from local property tax due to company relocations. c. Expand funding for Title I services for school districts affected by a company relocation to help compensate for lost revenue. This would require the federal government to designate "affected school districts." Designated districts could receive a three-year increase in their Title I allocations as the needs of low-achieving and poor students would be most affected by the loss of revenue from the firm. A trigger for this payment might be that the school district lost 5% or more of its revenue from local property tax due to company relocations.		a. No federal cost other than administrative. b. No cost estimate available yet. c. No cost estimate available yet.

OMB-4. Expansion of Federal Program Eligibility for Dislocated Workers				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Some federal grant programs give priority to a particular set of applicants for various programmatic reasons. For example, the School-to-Work initiative recognizes the special challenges faced by an Empowerment Zone and Enterprise Community (EZ/EC) by giving preferential treatment to applicants serving youths residing or schools located in an EZ/EC. A similar approach could be used in the case of communities affected by a company relocation abroad.	None	Structure federal grant competitions to provide more benefits to dislocated workers and their communities. a. For a specific list of competitive federal grant programs (e.g., EDA, HUD, HHS, ED, and DOL), give priority to applicants serving dislocated workers as well as their families and communities. b. Establish a new designation for communities affected by trade agreements or an automatic designation of EZ/EC status to communities that meet certain criteria, such as loss of 25% of their revenues as the result of documented trade impact.		Since competitive federal grant programs are often not funded very well, neither option might be effective at current funding levels

OMB-5. Loosening Enrollment Eligibility Requirements in the Pell Grant Program

Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
Since dislocated workers require only one or two specific skill courses rather than a degree or certificate program to prepare for new careers. Under the Higher Education Act (HEA), individuals are eligible to receive federal student financial aid (SFA) only if they pursue a bachelor or associate degree or certificate at an eligible institution of higher education. In addition, individuals with a BA/BS degree are ineligible for federal SFA. To receive student loans, an individual must enroll at a postsecondary institution on at least a half-time basis; however, there is no minimum enrollment requirement in the Pell Grant program.	None	Eliminate certain enrollment eligibility requirements in the Pell Grant program for trade-related dislocated workers certified by DOL. a. Waive the requirement that SFA recipients enroll in programs leading to a degree/certificate. b. Waive the BA/BS eligibility restriction for SFA.		a. An average award for those who do not have a BA/BS degree that take one or two skill courses at an institution of higher education is estimated to be \$753, using Pell minimum award rules and assuming no living allowance adjustments. The annual cost per 100,000 persons served would be about \$75 million. b. About one in six dislocated workers are estimated to hold a BA/BS degree; the number affected by trade-related changes is not known.

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NEC-I. Provision of DoDs Office of Economic Adjustment (OEA) Services to NAFTA-Affected Regions				
Current Practice	Administrative Changes	Statutory Changes	Effects of Changes	Costs of Changes
OEA was created in 1961 to help communities cope with military base closures and typically helps communities organize a planning group, provides a planning grant, guides the group through government requirements for base closures, and helps develop a reuse plan for base redevelopment.	None	Seek authority and funding for OEA to provide its services (project managers plus planning grants) to NAFTA-affected regions.	Because Congress refused to approve another Base Realignment and Closure (BRAC) round, OEA has a shrinking portfolio and should be in a position to assign project managers to non-DoD projects.	A single OEA project manager oversees 3-4 communities simultaneously and planning grants, which are usually staged over several years, are in the range of \$100,000 to \$3 million per community. Funding should not come from DoDs budget since that might be viewed as a diversion of resources from defense, but should be transferred to DoD from DOI, DOC, or some other civilian agencies.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

LABOR BRANCH FAX SHEET

DATE:

8/28

TO:

Gene Sperling

FROM:

Maureen Walsh

COMMENTS:

*Info you requested
on DOL's Opportunity Areas
for Out-of-School Youth.*

NUMBER OF PAGES
(INCLUDING COVER)

9

CONFIRMATION: (202) 395-3262
FAX NUMBER: (202) 395-1598

OPPORTUNITY AREAS FOR OUT-OF-SCHOOL YOUTH (YOA)

- **1998 Budget Policy:** The FY 1998 request of \$250 M would provide first-year grants to 15-20 high poverty urban and rural areas, including EZ/ECs. Grants would average \$14 M for each of 5 years, serving about 50,000 youth annually. The program's goal is to boost the employment rate of out-of-school youth in each target area to 80% from its current rate of about 45%. DOL would conduct YOA under JTPA demonstration authority. YOA pilots are operating in 6 sites with \$16 M in JTPA funds. The YOA program is one of 17 in the Training and Employment Services (TES) account. TES is one of the 13 "Protected Domestic Discretionary Priorities" in the Balanced Budget Agreement.
- **Latest House Action:** The House committee-reported bill provides a FY 1999 Advance Appropriation (AA) of \$100 M, to be available for the Program Year (PY) beginning on July 1, 1999 "only if [the program is] specifically authorized by subsequent legislation." The committee report also indicates that \$25 M is available for YOA within JTPA's \$43 M demonstration appropriation.
 - **Administration Position:** The July 28th Statement of Administration Policy on H.R. 2264, the Labor/HHS/Education appropriation bill, urges the House to provide FY 1998 resources for YOA and notes the program may be carried out under existing legislation (as pilots are now). The SAP also urges the House to fully fund the request for TES programs, in order to be consistent with the BBA.
- **Latest Senate Action:** The Senate committee bill provides a FY 1999 AA of \$250 M, to be available on October 1, 1998, "if job training reform legislation authorizing this or similar at-risk youth projects is enacted by April 1, 1998." The Senate also provides \$25 M for YOA demos.
 - **Analysis:** Senate action -- without the requirement that authorizing legislation must be enacted -- would delay funding availability only for three months (the FY 1998 request finances a PY beginning on July 1, 1998). YOA funding should not be contingent on the highly uncertain outcome of training reform legislation. Similar legislation met constituent opposition and failed to emerge from a contentious conference committee in the 104th Congress. Also, in May 1997, the House passed H.R. 1385, a training reform bill that does not include an authorization for YOA. The Senate companion draft bill does authorize YOA, but introduction has been delayed.
- **FY 1997 Appropriations Action:** Both the House and Senate denied the YOA request of \$250 M in the President's 1997 Budget.
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August 28, 1997

Opportunity Areas for Out-of-School Youth

Proposed in the President's FY 1998 Budget, the Youth Opportunity Areas (YOA) initiative would provide \$250 million in "seed capital" grants to Empowerment Zones, Enterprise Communities (EZ/EC), and other high poverty areas to boost the employment rate among out-of-school youth to 80 percent. Congress denied a similar request in the FY 1997 Budget.

- **Five-year grants.** The \$250 million request would provide competitive grants of about \$14 million in the first of five years to each of 15 to 20 current and future EZ/ECs. The federal investment would total \$1.3 billion over the FYs 1998-2002.
- **Matching requirement.** Grantees would be required to enlist support of schools, business, training programs, and community groups in the target area, and include a 100 percent State/local match in the first year. The matching requirement would rise over the five-year life of the grant; at the end of the grant cycle, the program would be sustained without federal funds.
- **Grant competition.** A "leading edge" competitive grant strategy would be used to distribute grant funds, as in the Administration's School-to-Work and One-Stop Career Center initiatives.
- **Administrative entity.** JTPA Private Industry Councils or local workforce development boards would be the local governing body for the YOA grants.
- **Program features.** YOA would serve about 50,000 youth annually. Its features include:
 - Immediate job placement, work-based learning opportunities, and strong links to the school system. Community involvement would occur in program planning, design, and implementation.
 - Requiring responsible behavior on the part of youth as a condition of continued participation.
 - Concentrating funds in a small "target neighborhood" within an EZ/EC of about 10,000 to 20,000 persons in an effort to saturate areas and produce positive peer pressure.
- **YOA pilots.** In Summer 1996, the Labor Department used \$9 million in existing JTPA demonstration funds to launch YOA pilots of \$3 million each in Chicago, Houston, and Los Angeles. Pending funding availability, the grants will be extended for two additional years.

● News Release



U.S. Department of Labor

Office of Public Affairs
Washington, D.C.

Employment and Training Administration

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LABOR DEPARTMENT AWARDS THREE NEW GRANTS TOTALING \$6.7 MILLION TO SERVE OUT-OF-SCHOOL YOUTH IN HIGH-POVERTY AREAS

1998 Funding Expected to Reach \$250 Million

One rural and two urban communities will each receive over \$2 million to serve youth in high-poverty areas, Secretary of Labor Alexis M. Herman announced today. The 1997 Opportunity Areas for Out-of-School Youth Pilot Project grants have been awarded to Boston, New York and the Lake Cumberland Area in Kentucky.

"I am pleased that my Administration can provide these funds to ensure that young people are able to receive needed education and job training assistance," said President Clinton. "This support will be a positive step in preparing them not only for successful careers but also for rewarding futures."

The bi-partisan budget agreement recently reached between the President and Congressional leaders provides for \$250 million for an Out-of-School Youth initiative in 1998 and is critical to provide seed funds to high-poverty urban neighborhoods and rural areas--current and prospective Empowerment Zones and Enterprise Communities (EZ/ECs)--to help them increase employment among out-of-school young people as an alternative to welfare and crime.

"Through these grants, we have been able to provide much-needed hope for a few communities," said Herman. "Now we need to take everything we've learned and put it to good use across the nation."

-more-

These demonstration projects establish opportunity areas in specific neighborhoods (with populations of 15,000 or less) like those in empowerment zones and enterprise communities. The primary emphasis is to get out-of-school youth, aged 16-24, into private sector employment. To do this, a variety of successful job training and job development strategies are used. The goal is to increase employment in the target population from below 50 percent to 80 percent.

In addition, grantees work with public and private organizations in the broader community, such as schools, community colleges, community-based organizations, private sector employers and the judicial system, to reduce the high school dropout rate in the area and to provide mentoring support, leadership development and other services that young people need to start career paths with earnings sufficient to support a family.

Research suggests that unemployment is linked to crime, poverty, teen pregnancy, drug abuse and welfare dependency.

Recipients of the 1997 Opportunity Areas for Out-of-School Youth Grants were selected through a competitive process in which 21 needy communities applied. These communities were from urban and rural Service Delivery Areas located within designated empowerment zones and enterprise communities.

The Economic Development and Industrial Corporation in Boston will receive \$2,208,099. These funds will be used in the neighborhoods of Orchard Park in Roxbury and West Broadway and the Old Colony in South Boston. Approximately 3,400 youth will be served with a goal of placing 684 youth in jobs. Two employment centers will be created to provide comprehensive service delivery and to create neighborhood-based learning environments.

The New York City Department of Employment will receive \$2,214,179 to provide services in the Mott Haven/Port Morris sections of the Bronx. Approximately 3,074 out-of-school youth will have access to services as a result of this award. The goal is to place 580 youth in jobs. A Community Advisory Board will oversee program linkages.

The Lake Cumberland Area Development District in Russell Springs, Kentucky, will receive \$2,246,838 to assist this rural community. Approximately 1,136 young people from Clinton County and portions of Wayne County will benefit from the program. The project will seek to place 454 youth in jobs. Participants will learn customized skills and will receive certification of these skills.

Creating Opportunities for Out-of-School Youth

U.S. Department of Labor
June 1997

PROFILE

Name

Opportunity Areas for Out-of-School Youth Pilot Project Grant

Goal

Raise employment rate of out-of-school youth to 80 percent

Funding

\$8.9 million in Federal funds for 1996; \$6.7 million for 1997 grantees

Target Population

High-poverty urban and rural youth, aged 16-24

Overview

Only one of every two out-of-school youth lacking a high-school diploma is employed. In high-poverty areas, only one out of every three young dropouts is employed. Their joblessness, some researchers suggest, is inextricably linked to crime, poverty, teen pregnancy, drug abuse, and welfare dependency. Without intervention, many out-of-school youth may become permanently lost to the workforce. Investments in increasing the rate of employment for out-of-school youth can lead to benefits for individuals and society as a whole.

Increasing Employment for Out-of-School Youth

On June 25, 1997, the U.S. Department of Labor awarded three new grants -- to the Boston Mayor's Office of Jobs and Community Services, the New York City Department of Employment, and the Lake Cumberland Area Development District in Kentucky. These grants provide for comprehensive services to raise the employment rates for out-of-school youth aged 16-24 in high-poverty areas -- Empowerment Zones and Enterprise Communities Empowerment Zones and Enterprise

Communities (EZ/ECs). The Opportunity Areas for Out-of-School Youth Pilot Project grants combine federal, state, and local community resources with strong private-sector involvement to create a comprehensive approach to job training, education, and counseling—all focused toward the ultimate goal of getting jobs for youth living in poor communities.

The grants use federal money as a catalyst to spur long-term community investments in out-of-school youth. The grant's design is based on what has worked best among the nation's education and training programs to prepare high-risk, low-income youth for better jobs.

Last year, \$8.9 million was granted for three three-year pilot projects -- one each in Chicago, Houston and Los Angeles. These grants were made in memory of Donald J. Kulick, a federal official who devoted much of his career supporting employment programs for youth.

The High Cost of Inaction

Rescuing young dropouts from the nation's most impoverished areas is not cheap, easy or quick. But consider the cost of doing nothing:

- The average high-school dropout earns less, contributing \$230,000 less to the economy than a high-school graduate.
- The average high-school dropout pays \$70,000 less in taxes over a lifetime than a high-school graduate.
- One half of all African American male high-school dropouts under age 25—and three-quarters between the ages of 25 and 34—are under some form of justice system supervision, at an average yearly cost to the taxpayer of \$50,000.

Grant Recipients

Opportunity Areas for Out-of-School Youth Pilot Project grants are based on the following criteria:

1. Need in the target area.
2. The overall plan for reaching an employment level of 80 percent for out-of-school youth.
3. Commitments by area employers for a specific number of career track jobs.
4. School district efforts to reduce the dropout and truancy rates in middle and high schools.
5. Additional investments from state, local or other federal programs.
6. School-to-work efforts in the target area high school.

In addition, grantees agree to support public-private efforts to start an area CollegeBound program and to provide comprehensive sports and recreation programs in the area.

The grant recipients for 1997 are:

City of Boston This project will provide services to approximately 3,400 out-of-school youth in the Orchard Park and Old Colony neighborhoods, with a goal of placing 684 in jobs. Neighborhood teams will be responsible for outreach and case management, education and job training, dropout prevention, school-to-career and mentoring efforts and recreation and sports. An Advisory Council, composed of political, law enforcement, private sector, and community leadership, will be responsible for resource acquisition, policy development and advocacy, as well as building partnerships to ensure the long-term sustainability of the initiative. Under the project, two employment centers will be created to provide comprehensive service delivery and to create neighborhood-based learning environments.

New York City The focus of this project will be a youth opportunity employment area in the Mott Haven/Port Morris sections of the Bronx. It will serve 3,074 youth and have a job placement goal of 580. Three community organizations will form a partnership to deliver core services in education, support and skill training. A Youth Action Center will be established, overseen by a Community Advisory Board that includes project organization representatives, community members, parents and students from within the target area. The project will use a comprehensive model of outreach and recruitment, assessment and case management, training and employment activities, job placement and follow-up services. Links to other initiatives will support school-to-work efforts, dropout prevention

activities, industry-based job training projects, environmental and housing rehabilitation projects, sports and recreational efforts.

Lake Cumberland Area, Kentucky This project will target the 1,136 out-of-school youth who live in Clinton County and part of Wayne County, with a goal of moving 454 participants into employment. The grant will fund BRITE (Bringing Real Improvement Through Employment), a comprehensive program of intervention to assist out-of-school youth. BRITE has several components: an Employee Certification Program, which provides customized skills training to certify workers for local industries; a career assessment and counseling service; education and skills training through an Alternative High School; GED training; occupational skills training and an internship program that leads to a high school diploma or equivalency, along with occupational or skills training. Youth may also choose from several traditional development programs, such as YouthBuild, training toward a community college certificate or degree and expanded school-to-work activities. A comprehensive sports and recreation program also is part of the initiative.

The three 1996 recipients of Opportunity Areas for Out-of-School Youth Pilot Project Grants are getting their programs started toward their ambitious goals of cutting out-of-school youth unemployment rates from as high as 80 percent to 20 percent within three years:

The City of Chicago has focused on the Grand Boulevard community on the South Side, where more than half of the residents are below the poverty line, 80 percent of 16- to 24-year-olds are unemployed, and the high school dropout rate is almost 60 percent. The goal is to enroll 525 youth in the Quantum Project, which includes mentoring, academic and vocational classes, job skills and job placement services. The project emphasizes mentoring to help the young people make the transition to work. Chicago's YMCA will train the youth in computer skills, data processing, spread sheet preparation, customer service and math and science skills. The Pyramid Career Institute will offer customized vocational training based on skills levels and needs.

Houston Works, the coordinator of the Opportunity Areas for Out-of-School Youth Pilot Project Grant in Houston, Texas, is using a total immersion technique, combining work-site skills, education, recreational activities and job placement for two predominantly Black and Hispanic communities, where between 30 and 50 percent of students quit high school and 50 percent of the youth are unemployed. Currently about 75 youth are enrolled in a GED program and are taking academic classes at an employment and training center. Youth are also in vocational programs at Houston Community College, and some who need intensive remedial assistance are tutoring elementary school students to build their skills and self-esteem and to improve their financial situations. The goal is to recruit 500, or one-third of the area's young adult population.

The City of Los Angeles and several partners have targeted South Central's Watts community, where half of the high school dropouts aged 16 to 24 are jobless, for comprehensive services. A Career Options Alternative High School has opened, providing at-risk students with more flexibility in attaining a high school diploma. Partners include the University of California at Los Angeles, providing work skills training and remedial education, and the Center for Employment and Training offering vocational classes. The Los Angeles Conservation Corps is hiring participants for graffiti removal and landscaping, and the Los Angeles Private Industry Council is contacting area employers to encourage the hiring of youth. The goal is to recruit at least 1,000 young people over the three-year period.

The grants announced today will operate for 18 months. It is anticipated that funding will be extended for two additional years. The 1996 Opportunity Areas for Out-of-School Youth Grants totaled \$5.9 million and were awarded to communities in Chicago, Houston and Los Angeles.

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