

LEGISLATIVE FINANCE-HOUSE / SENATE FINANCE COMM. FILES 8879

HB 168 cont., HB 169 482 73

Whiteaker: That's what I'm saying why not propose -

Knowles: It could be they would say in 6 months -

Whiteaker: It could be they would say that anyway if we don't support it ... just maybe the telephone companies would support the commission with some effective date. I think we stand a better chance ... if they go against this that will happen. I don't think going against this is really a responsible reaction to what the ... industry ...

Knowles: Although I would say this, there is nothing to preclude ATA having - walking in the door tomorrow with a set of regulations which ... two recent examples - we would have to consider ... they could be noticed for the purpose of setting up the procedure that they desire. So there is presently within state law a vehicle for someone who has a particular interest to prod the commission into action. So I do think that we are not the only player in this. There is that opportunity if someone wishes to take it. I would concede there is some work in preparing such a thing.

Whiteaker: We have recently rejected two sets of regulations that have been proposed that didn't happen to fit in to what our work plan was at that moment.

Knowles: And I think that is an issue here as well.

...

Whiteaker: I think that utilities are suggesting something that this commission actually needs to do ... easier in the long run.

Sokolov: Well, how do you want to open this? Leave it as is? Do we suggest any modifications of it? Or do we reject it outright?

O'Tierney: When faced with either endorsing or rejecting a charge to adopt regs to simplify for any given segment industry, I suppose I would endorse. And if there is then to be a useful debate whether or not it should be all-inclusive in terms of lengths ... make some access line cuts or something then maybe that would be the next round. I hate to say that but by way of just starting ... I would make a motion ...

...

- Foster: Do you want to assign a time to it ... idea that it goes now or do you want to look at in terms of it is a next step after the first rounds of access charge filings if things go through?
- O'Tierney: Well, I suppose the letters weren't directed ... in terms of putting something up here ... can dig in ... however it falls I mean let it fall out. Let's just move on -
- Whiteaker: I have no problem with an effective date but I wouldn't put in the context of setting it up to happen after the round of access charges. I mean I can see it having an effective date of July 1 or something like that. ... but I wouldn't - I can't see us having to get ... leaving it open ended and tying to ... I don't see why the process can not begin before the access charge tariff is approved for example.
- O'Tierney: Mr. Chairman let me ask counsel by way of attempt to reframe my motions for clarity purposes to allow for Mark's comment ... something you might suggest in terms of reframing the motion to ... effective date or whatever the hell makes most sense.
- Hickson: Well I think the effective date is usually what you find in legislation of this sort that a date certain regulations will be adopted. Or you might find that in the intent language accompanying the piece of legislation. That would perhaps be a better place to include an effective date particularly due to the fact that you have two sections of this bill. So if it is the intent of this commission that latitude be given so that regulations can be adopted after perhaps the first day of the legislative session next year which I think - you have to think that's when they will be wondering what happened to that piece of legislation that they adopted ... You need to tell the legislature and let them perhaps figure it out. I think perhaps it may be best to put it in ... Does that answer your question? The reason I say that is because whoever is truly concerned with this piece of legislation if they are re-elected they are going to walk in and say what the heck happened to those regs. And they ought to be process - if they're in process and the telecoms are happy, then big deal. There's not a big deal if you anticipate taking longer than the beginning of the session next year then you ought indicate to the legislature - give them a time when you think you can complete the project. We're under direction, by we I mean the department of law, that regulations need to be adopted within a year from the notice period so you know you're working within that framework.
- Whiteaker: What happened on the electric co-op regs? Did we have a date?

Hickson: I don't remember.

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Hickson: There was incredible pressure ...

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Man: ... spoken to in the statute ...

Knowles: I don't know why we would want to put a date in. I can see where in our comments on it - I can understand why you would describe and attach it to a certain process but I don't know why unless asked you would put a specific date in. I guess I also don't know that the ramifications of putting a date in and not making it for some reason. I wish someone would start asking about the electric rates again. ... how many years it's been since that ...

Man: I don't know how to handle your comment ... get going ...

Knowles: It doesn't sound like Elizabeth's responding to - I mean if I understand what is being bounced around here is for a date that goes beyond the beginning of the next legislative session which I think a later date rather than a sooner date. Especially if the access charge filing is to be in ... process ... people get a hands on feeling ...

Man: How that will inform the degree and nature of simplification.

Knowles: I mean January 10th, 12th, 9th whatever date it will be will be too soon.

...

Sokolov: Kathy said July of 1991 and in that regard as far as a date ... indicate ... next legislative session because of ... access charges ... but a year later like 1992 ...

Knowles: I think we are debating on ... here - frankly as far as just think this will be adopted and there will not be some expectation of relatively prompt reaction. I just don't think that's what will happen. And if I were affected entity, I'm not sure that I would find that acceptable having argued actively for this legislation.

Whiteaker: All you would have to do is have a regulation that says thou shall not do the simplified process unless you have had a revenue requirement filing that is as recent - as current as 1988 to do one and you're not going to have anyone able to use it. I mean ... anyway you look at it you have to have a basis to move forward on and in discussion with the telephone companies on this last year they acknowledged and they realized that - I mean I don't think that it's reasonable to assume that these companies are going to be going out of their way to undermine effectiveness and credibility of the commission. And they're going to have to have - I think they are going to cooperate

Knowles: I guess I'm not suggesting that but you have said ... concur that there may be some companies who are feeling pressured to come in especially since they haven't been in maybe never. And for those companies ... I've heard testimony ... they are really hoping that this will be the beacon - I think -

Whiteaker: Which it may be -

Knowles: I guess I feel that this is getting to be a bit like a contortionist after something ... We conceptually see merit to an idea here. We are going to be well positioned to implement an idea, but I feel that we are sort of forcing ourselves into a mold because this particular legislation is on the table at this time. ...

Whiteaker: I don't disagree with you but unfortunately I happen to think that's the only way that some things get done - to force them to. ... It prioritizes things. It has an impact as far as prioritizing and that is the one benefit I guess to any constituency that tries to do this sort of thing.

Knowles: ... doesn't necessarily prioritize things ... the legislative process is a very lumpy process. It fills priorities for the group ... it isn't just our ... this is generally for a group that may be advocating something. But whether or not that is a priority in the larger picture may or may not be the case.

Whiteaker: I agree with you.

...

Whiteaker: What I think is fortunate in this instance is that we have a situation where we're being asked to prioritize something that is probably in our best interest to prioritize.

O'Tierney: ... don't even have a second ...

...

Whiteaker: ... I didn't second it because I don't like it.

O'Tierney: Right, well -

Whiteaker: ... the fact that you've split into small versus large utilities. As far as I'm concerned the motion ...

O'Tierney: I just moved ...

Whiteaker: So you're moving either approval or rejection of what is there?

O'Tierney: That's right. It seems to me that ... now that I read the ... regs the - whatever timelines are applicable aren't invoked until a notice period commenced. Is that right?

Hickson: That's right.

O'Tierney: So, to that extent we have control over - at least I think we will have control over how we proceed on this. I'll just ... I'm just going to move that we endorse the legislation as it amends 381(b) -

Whiteaker: I second.

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Sokolov: My turn? - I feel that it's a year premature so I'm opposed to it.

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Man: ... roll call vote so ...

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Sokolov: ... Let's vote

...

Woman: Was that a vote? Was that a no, no, no?

I'm an aye.

O. TIERNEY

WHITEAKER: I'm an aye.

SOKOLOV: I'm a no.

KNOWLES: I'm a no.

FOSTER: I'm a no.

SOKOLOV: Motion fails.

Sokolov: Next step, shall we look at some modifications?

Woman: ... was there another motion with respect ... is that your question?

Sokolov: Yes.

Woman: I don't have one. Do you have one to propose? It seems like if there's one to be generated here it should come from the no's. How could you change this so they would find it acceptable?

Sokolov: This is where ...

Man: I think the problem inherent is when it's limited to ... discussion that you attempt to instill some timeframe on it ... sending a mixed signal that I think may be inappropriate.

Whiteaker: Can I ask a question about this? Isn't it possible that your ... shoved down your throats because you've just sat here and proven that the majority of the commission doesn't want to deal with this in the next year?

Knowles: I don't want my vote being interpreted that way.

Whiteaker: That's why I asked the question.

...

Whiteaker: I think that risk is there.

Knowles: I suppose that risk is always there.

...

O'Tierney: I don't think we have any obligation to and I think we voted on that we ought to - if there's another motion on the issue we ought to ... let's consider that and if not let's we have a second section of legislation I believe.

Woman: That's right.

Woman: So there's no motion.

Sokolov: Let's go with the second part. This is ... the bill proposes ... period may be no longer than 6 months. In other words, this asks that all rate cases for telephone utilities be completed within one year. The second part of this proposal is that the - if an interim is requested, it would automatically go into effect after 6 months and that it would be equal to what is requested. Discussion?

Whiteaker: ... you have a lot of ... to deal with all of this ... 8 lines ... I support part of the proposal ...

Sokolov: Let's look at the overall period for a rate case.

Knowles: The non-rate case - the 6 months is for non-revenue requirement proceedings. A filing that does not include an increase in the utility's revenue requirement.

O'Tierney: The decrease might involve ... would that involve a revenue requirement filing?

Man: No they're never done.

...

Knowles: They are done, but pretty rarely. I guess that would ... change in the utility's revenue requirement to generalize ...

Sokolov: Let's talk about the non-rate case ...

Whiteaker: ... you've got the non-revenue requirement section and the revenue requirement section ... if you do I would propose changing to say that this does not include a change in the utility's rates - which I think affects revenue requirement and rate design - which otherwise puts rate design in the 6 months category.

- Knowles: Can I suggest that we may want to say revenue requirement for rate design rather than rates because there are a lot of non-recurring minor - I think this was designed - part of this came from earlier suggestions we made - I think it was designed to weed out those kinds of minor rate changes from full blown whatever -
- Sokolov: Shall we take a vote on that one?
- Man: One question before we vote, if we're talking about a 6 month processing standard for ... regulations ... in terms of commission type tariff changes, would that standard, in the commission's mind, apply to things like wholesale as in huge comprehensive changes that have been produced as a result of service and safety standards - those kinds of filings. And of course even before we add service and safety standards, we had utilities who would periodically come in and make major housekeeping changes to their entire tariff with ... standard ...
- Whiteaker: I think it would, but I don't know why that's unreasonable. Right now ... operate ... your 6 months suspension period to begin with. And some of those types of filings ... and some of them are in response to commission findings ... which are certainly within the control of this commission as far as ... as far as filing ... and that sort of thing goes. And you also have - we're really talking about - are you talking about 7 1/2 months also? It says ... I assume - this appears to be attached to schedule 45 ... now if it's meant - maybe it needs clarification. I don't know if it's meant to supercede the 45 days and do away with the 45 day requirement. But I would think we don't want to do away with the 45 day requirement.
- Knowles: There is also the catch-all standard period for due cause. I think that should be invoked truly on an exception basis, but if we got something ... you're suggesting Ted, I think it may follow from that category. Statistically most of them are SRAs. As you know, if you look at the non-rate case filings, most of them do very easily meet those standards but there will be those exceptions. I think that can be handled with this - within this proposal.
- Sokolov: So are we all in agreement with that portion? ...
- Whiteaker: ... an increase change ...
- Sokolov: Does not include a change in the utility's revenue requirement or rate design. 6 months to process ... or something longer ...

O'Tierney: Yes, that's what ...

Woman: Well, either move it, second, or vote yes whichever is appropriate at this point.

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Woman: I think we need to move it first.

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Man: Second it. Let's vote.

Sokolov: Aye.

Knowles: Aye.

Whiteaker: Aye.

Foster: Aye.

O'Tierney: Aye.

Sokolov: And now comes the real difficult part ... includes an increase ... also a change in the utility's ...

Woman: Could you split this into an issue that would ... interim ... at what point a permanent ...

Sokolov: I would like to - what would make more - the sequence - first to look for the overall period. So, this proposes 12 months unless - for good cause more time is required. Discussion.

Foster: Question to staff. ... if go beyond that ... period, what are nature of those case where we are going longer than that?

Man: Only in general terms. I don't have the statistics immediately at hand, but there certainly are numbers of cases that could extend beyond that. They tend to be cases that are submitted by very large utilities that are very complex that may require the assistance of external resources and the time associated with bringing those resources ... in general those are the types of cases ... in fact at one point in time I proposed to the commission as it considered some earlier version of this bill a mechanism the court system uses which is a major case litigation

designation. The court's not obligated to process cases within a timeframe but they oppose some timeframes upon themselves and they do it by distinguishing between major case litigation and other litigation. They fast-track one or the other ...

Whiteaker: Ted, I realize you don't have any statistic in front of you, but could you hazard a guess at how many cases per year might fall into that category out of all the rate related filings that come in?

Man: Numbers that stick in my mind as to just how many of these kinds of cases we get in a year would range anywhere from 5 to 7 on the low end to 15 to 20 on the high end - revenue requirement and rate design type proceedings.

Whiteaker: It used to be up to 24 a year ... they may be going down ... I suggest they're going to go up again.

Man: ... and with the telephone situation they may be going up again. The question really is of that number how many are taking longer to process than a year -

Woman: That aren't related to what might be utility ...

...

Woman: Right, that wouldn't related to a utility coming in and asking for a change or revision or that sort of thing. A lot of the lengthy ones seem to involve that sort of situation which might suggest a different process ... reaction ...

Man: I did an analysis of that and ... because it's so dated. But I did an analysis again on an earlier version of this bill a long time ago. And the order of magnitude number I came up with was about 75% of those cases were being processed in a year because of very old number and it was not a completely scientific analysis but it did - I wanted to ball-park it for myself - about 75% of those cases are processed within a year. Of the 25% that were over a year, I can't tell you whether it was because the utility came in and made a major revision to the filing which required extended periods of time or whether we needed outside consultants ...

Woman: You can ... how many cases a year in the last 3 years for example that had outside consultants on them.

Man: Less than 5.

Woman: Over 3 years.

Man: Looking at this - and I don't know which way this was thought of in Ted's discussion - I think we tend to look - in general we tend to feel that we have met the suspension date if we've come out on a substantive revenue requirement decision. But I think that's pretty tenuous. Without substantive revenue requirement decisions only comes out with decisions that someone has to go take add, subtract, divide, and come up with a percentage rate increase which is not - which the utility doesn't actually ever get to start collecting for another 2 months sometimes depending upon how complex it is. I think probably that 2 month later date could well be considered the date by - I mean that's the action that you have to get done within a certain period of time. I think would be fairly arguable and at that - given the length of time to do those computations in the cases which are the ones you are worried about, it really makes it even more difficult that the time period's shortened.

Woman: You're still talking about that handful of cases too.

Man: Yes.

Sokolov: But in addition we also have to give us perhaps a little leeway - what if we have 2 or 3 or 5 over the course - filed simultaneously and I'm not sure that would qualify under the cause because the commission doesn't have resources. ... Under normal procurement procedures ... you say ok with this one we need a consultant what is the normal period between going to Juneau, jumping through all the hoops, and actually engaging the consultants so we can start - hop a plane and go the ... to audit.

Man: Mr. Chairman if you asked me that question day before yesterday, I would have given you an answer that may have been completely wrong. The game plan is constantly evolving as a result of new procurement code and I found out yesterday that it is evolving even more. We're going to be receiving a 12 point check list which will service as contracts and there are 2 more levels of review in the RFP process that are being added to the procedure as a result of considerable amount of concern on the part of procurement officers at the departmental level, but there's not enough oversight of the process. I'm not sure I know the answer to that question anymore. At one time I would have said typical - normal circumstances - we could bring a contractor on

board in 90 days. That's what I used to quote. I don't think that's possible anymore under normal contracting.

Whiteaker:

It's really interesting that I am hearing a lot of emphasis and comment about the exception - I mean about the 5 cases in 3 years - or about a handful more that don't involve consultants that are just very complicated and take a lot of time. Yet, when I think of something that belongs in statute - and I may be totally off base - I think of something that should be handling the norm and allowing for the exception which it seems as though this does just based on the discussion we've had here. In fact, I guess I'd like to hear some discussion about what impact this proposed statute might have on the norm. Right now we have a statute that has a 6 month suspension period. It's an initial 6 month suspension period so - and which we've interpreted I guess to mean that we can have however many additional ones we want. And I don't know whether that 6 month suspension period needs anything any more because of that. And maybe Ted you can tell me that staff really strives to schedule a case and staff's involvement in the case in such a manner that it gets cleared in 6 months. Or maybe you could say that given the resources we don't do that anymore. We used to do that, but given resources we really do that anymore because we know we're not tied to that ... Well it seems to me if you put - if you change this statute and you put a new date in, you run the risk of - that's truly influencing the norm. I can see where 12 months may result in all cases being set up on a track that balances out so that they are completed within 12 months. Whereas if right now the - if the 6 months means anything - right now there's a 6 month track maybe will slow down. Maybe some things that staff would like to do or the commission would like to do, but you know staff really sort of drives these things. So maybe other things will be able to be worked on in the 6 months doesn't mean so much anymore - I mean it's not 12 months. At the same time it scares me to no end to think that someone might propose to put an 18 month, because I'm afraid that really will affect the norm - it will affect those 75% or more of the cases that right now hopefully are on a 6 month track - 5 or 6 month track I should say.

Sokolov:

Kathy, from what I hear you it's - if we have to do the regs ... you need a little bit of leeway. I mean if you look at a rate case alone - on a stand alone basis - then you can squeeze it into 12 months, but there's a little bit of leeway we overlap immediately. In the last 2 out of 4 rate cases for telephone utilities, TUA and ATU, they went over 12 months.

Whiteaker: First of all ATU, I think would fall in the exception category for a couple of reasons. One is - let me tell you what happened on ATU - there were a few different things happen - one didn't we have a consultant on ATU? Ok so it's one of the 5 cases in the last 3 years. There was a 6 week hearing - I don't know if we've had any 6 week hearings except in certification proceedings. Plus the hearing was delayed at ... request of the staff and the utility which seems to me also impacts justification for an extension period. And then as I recall, there were several things that were competing for actually making the decision. But I think the decision came itself ...

Man: That will always happen ...

Whiteaker: That's right. But I think - I think ... was leaving then, we had a commissioner who was on the case resign which meant we had to put another panel member on who was responsible - who was just coming back to work - who was responsible for looking at the entire case. It was rather a special situation. Even then we came extremely close to initial - to issuing the initial decision within 12 months. Instead we had to go through the 2 month process that Jimmy's talking about to complete the revenue requirement. ... we came real close to doing it in 12 months, yet there are all sorts of things which would have provided - even under this statute - to get - to certainly be a case that would fall under ... TUA/TUNI had no business being here for all that time. I mean for as many revisions as there were that's a case that could have easily been cut the door - sent back to that utility and come back in as a new case. In addition it involved a depreciation filing which since then the commission has determined ought not to come in with rate cases. ... ought to be in regulations somewhere.

Man: Mr. Chair let me back this up just a second - just so I am fully with the program. What we have now is initial period of suspension of 6 months, renewable thereafter with no ceiling?

Man: Yes.

Man: All this would do - what this would do is require a 6 month ceiling - no, absent good cause for extension, this would require a 6 month ceiling on interim determinations ...

...

Man: And a 12 month cap if you will on full disposition absent good cause for extension. ...

...

Man: Only on the overall cap.

Man: So as I hear what you're - I mean I've already heard some other members suggest, I certainly agree, that the good cause ought to be for the exceptions - that's what it ought to be for. I guess what I want to know is what you're making a point about is what the record would suggest the exceptional cases ...

Whiteaker: I made that point but I'm also reacting to ... Peter saying - which frightens me - that maybe things are going to start taking 12 to 18 months on average.

Sokolov: I am not saying that at all.

Whiteaker: That - when you put it in there it changes the standard. You can set ultimates of internal ... but it changes - the people who deal with this commission have a right to know what the norm is and what they could expect or should expect. And the faces and attitudes change.

Sokolov: Up to now we have no ceiling and we process most of the cases within 12 months. I agree in having a ceiling, but I also know if 2 out of 4 rate cases for telephone companies the last 2 are exceptions.

Whiteaker: I think so.

Sokolov: So with all the things happening - if you want a cap, I would go for 18 months on a cap and at the same time maybe add some other incentives for us to process this stuff within 12 months.

Whiteaker: You just voted down simplified rate making.

Knowles: This applies to every utility we regulate. We have to keep that in mind. I don't think we should let it get totally ... this applies to everybody ... we have to keep that in mind.

Whiteaker: I agree.

Man: What's the best objection to - as I understand it that apparently there is some receptivity to 18 even on the part of the industry -

Sokolov: They don't like it but ...

Man: It's better than nothing.

Sokolov: ... they want something.

Man: I don't know - is that true Gordon?

...

Parker: I think that we are willing to consider 18 months as a possibility given other sections of the bill but I would say at this point we've been offered no section 1 and 18 months in section 2 - it is not much of an offer.

Whiteaker: You know there is only - there's only one thing that I can think of that would support an 18 months ... rather than 12 months, and that's a fear that the exception would become the rule. ... this commission to have the benefit of not being a higher law if the exception becomes the rule. I'll tell you if the exception is going to become the rule, then we ought to be doing something else. We either ought to be going to the legislature and succeeding in getting resources or we need to change the way we regulate because you cannot deal - you can't live with the exception becoming the rule without information and filings becoming so outdated as to not be useful, without pancaking - having it become ...

Man: Is there some consensus about 12 months for the most part ...?

Knowles: I'm not sure - I have a couple of concerns about that because one we've already eliminated all non-revenue requirement rate design cases. I think any of those that are on this sort of experimental fast-track we have would fall by the wayside. I'm not sure that every fully adjudicated revenue requirement and rate design case doesn't eventually become that exception that you are talking about. I guess I'd like to ask the attorneys a question as to what the legal standard will be for the good cause because I do not necessarily concur that it is ... any time we have so many a year the costs sprouts up and we get to extend it.

Whiteaker: I'm not saying that either.

Knowles: Well, I'd like to hear what the legal standard is for good cause because I think it has some bearing on the discussion as what we are talking about as far as exceptions versus norms.

Hickson: Well it certainly is the issue that will be the focus ... and litigated perhaps and Mr. Jackson and I ... have some concerns regarding what would qualify for good cause. And I can not tell you right now what would qualify for good cause in every case because it's going to turn on the individual case itself and the complexity involved in that case. I can tell you that the courts do not place administrative inconvenience in the same category as say complexity in say an ATU case, an Alascom case or the individual characteristics of the utility and what's before the commission. And so I don't have a list of what's going to qualify. That is going to have to be based on what's filed before you, your expertise in reviewing that, clearly the utilities expectations - Mr. Jackson and I were just talking about what happens if the utility doesn't agree with the commission that this - that ... are good cause ... but the utility doesn't agree the commission is going to have to make a greater showing of why in fact good cause does exist.

...

Woman: We haven't had much problem to getting an utility to agree to an extension.

Hickson: No. In my experience of the cases I've been involved in ...

Whiteaker: ... related to the utility wanting to do something.

Jackson: I don't think that really proves anything. We've been asking for an extension under which the current theory is that we have almost an absolute right to extension and therefore they haven't had a good bargaining position and their bargaining position will change with the legislation.

Whiteaker: I assumed that they were being cooperative and maybe that's a bad assumption on my part ... tend to have some faith that utilities aren't out there just to somehow take advantage of the process.

...

Hickson: My experience has been that the utilities are generally cooperative unless ...

...

Hickson: ... whenever you've got - let's look at the Alascom case, I mean that had been around forever and at varying times the utility was more

cooperative than at other times. But generally speaking we did agree on extension of times due to the complexity, due to the extensive discovery.

Woman: For good cause?

Hickson: I think that whenever you have parties to an action asking for an extension of time that translates as good cause unless the commission decides otherwise and they would do that by denying the extension. Because the parties had not presented you with reasons that amounted to good cause.

Woman: What's the ... like to the 12 months with good cause exception.

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Woman: That the legal standard for us invoking the good cause exception is not totally clear for starters and two I think it's a burden on the commission for justifying the extension in a context which ultimately will be found legally acceptable to the courts. But I'm just worried about the time line. If you look at - I think it's realistic in a rate proceeding to allow a minimum of 60 to 90 days before the decision goes out. Given our adjudicatory meeting cycle, given the review time, I think if you add to that 30 days for reconsideration, if you add in the two months that Jimmy's saying, I think it's very easy - and this is a standard that's accepted in court circles - for it to take 6 months for us after the proceeding has ended to issue the decision. And I'm not sure that I would feel that using normal procedures to conclude a case constitutes good cause. That only leaves 6 months to do the substantive part of processing the case. I just don't know why we would put ourselves in this position. And I say that without in any manner disagreeing with your administrative objectives because I support them wholeheartedly. But I don't know that that is the issue here. What we have is a statutory constraint that is being proposed to us on every single utility that we would handle a rate case for -

Woman: ... statutory constraint that we used to have. Didn't we use to have 6 months - or was it always an initial 6 months?

Woman: I think it has always been a - there has been several different ...

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Woman: ... proposal to leave that ...

Whiteaker: I agree with you that the normal administrative process would necessarily follow from the definition of good cause. And I agree with you that there is certainly risk involved with good cause not being clearly defined, however my experience with this commission is this typically turned broad or undefined language to its advantage in its use of its own statute in the past and I can't see why that would be different in the future - until challenged. It also concerns me Susan - as I hear your main concern suggesting that the normal process is very likely to go outside of 12 months, that this might be difficult to live with

...

Knowles: I think that is true Kathy ...

...

Whiteaker: I think we have a bigger problem in cases if other than a handful of cases gets solved outside a 12 month processing, it's a much bigger problem because you're dealing with cases that involved financial figures for the most part and once you cross somebody calendar fiscal year and you get into another fiscal year I think you raise serious questions about the applicability of that case, about the fairness of the whole process, you open it up to more complication because of repeated requests for modifications which causes the case to grow even more and ...

Knowles: ... talking about a handful of cases and the 6 months I am talking about is post hearing. I think it is very conceivable - yes time will go on but I'm not sure - a lot of your arguments - if we were holding the hearing well into the last 6 months of a ... time frame, I think some of your arguments Kathy as to staleness of data might very well be pertinent. But I'm really saying that I think this cuts us too short in that handful of cases that this bill already address - when there is a change in an utility's revenue requirement or rate design. There aren't that many cases that presently fall in that category if you consider the total body of TAs that are filed before this commission. The resources the an entity that makes a filing is able to bring into the process they are - they know they are planning to come in - we don't necessarily know - we don't control how many come in simultaneously. All these things have to be factored in to coming up with what I want to be a good faith statutory closure not a good faith or a beginning of exercising a loophole - but a good faith statutory closure. And I think 18 months is much more realistic and practical.

Whiteaker: I don't know whether it's realistic or not. I think statistic would probably prove that a very large majority of commission cases are

completed within 12 months even considering all the odds and ends in the case ... I'm afraid you put 18 months in here it will change.

...

Man: I think ...

Woman: And I don't know the fear is. I just don't know what the fear is. If that's the way we operate and that's the way we feel we should operate and if we have an exception for good cause and in good faith wouldn't go outside that period if it wasn't good cause anyway, I don't understand why we would risk the possibility of people who don't feel the way we do - of causing the norm to change to something that is really disadvantageous.

Sokolov: I think there should be a maximum which 18 months would provide. What is the fear ... on the regs for simplifying rate cases and everything else ... try to have the attorneys argue before a judge that some - that good cause is the fact is the procurement of a consultant took 6 months.

Whiteaker: But Peter you can't set aside a rate case because you're working on regulations.

...

Sokolov: I'm not setting aside ... you misunderstood me. I'm not saying that I was setting aside the rate case, I'm going over the rate case - I don't want to use resources in arguing what good cause is before every major rate case.

O'Tierney: I have two questions that need answering. Liz, with regard to the good cause ... did I hear you say that would ... be the utility ... that the commission would not be ...

Hickson: I think that whenever you have the utility agreeing to an extension of time ... that would then place you beyond the allowable period of time that certainly adds - I mean who's going to protest ...

O'Tierney: That's my next question.

Hickson: I think that if the utility - let's just say - maybe a typical situation would be staff wants to hire a consultant and you get a utility that figures well, heck I don't want them to have a consultant, so I'm going to oppose

any extension of time that may be necessary ... that doesn't mean that good cause cannot be found by the commission because of that but it would be a complication if the utility opposed. That does not add up to that good cause cannot be ...

O'Tierney: I guess what I'm asking is what you're saying is the extent that staff is a party, staff would be the only - it's the only other option for making - for moving for a basic good cause extension - it's not the utility. If it is the utility ...

Hickson: Who cares.

O'Tierney: ... well ok ... they could be the other movant ...

Hickson: Right. I'm think of a situation ... intervene also -and I'm not speaking to the merits of this piece of legislation here, I'm just trying to give you examples of what might come up. For instance, let's say that you are book up - the hearing calendar is booked up - which fortunately that's not necessarily the situation right now. There have been times in the last 2 1/2 years where we could not slip in one other hearing. Is that sufficient for good cause? Administrative inconvenience is the category I would place that in. I don't know.

Man: ... sounds like administrative impossibility ...

Hickson: It may very well amount to impossibility.

Whiteaker: And something that has to be provided to the utility for its own due process. You can't do the case without the hearing.

Hickson: If you're going to have the hearing. And that's why it's driven by the initial complexity of the case involved.

Whiteaker: But you owe the utility a hearing.

Hickson: Unless you just approve it. I mean we are talking about the extensions, we're talking good cause must be shown, we're talking about an exception. An exception is going to be based on the complexity of the case itself. I think that's where you come into the handful of cases you've discussed. But if I might I have a couple of questions as to this piece of legislation, and if you look under section ... of page 2 line 9 as well as line 14 the words requested rates are used. Now I realize that our existing statute on 1114 uses requested rate. It is unclear to me what requested rate we're talking about. If we're talking about the

interim requested rate or if we're talking about the permanent requested rate. The clarification that I believe you should inform the legislature that needs to be clarified.

Woman: What we're talking about ... permanent rate.

Hickson: Well it says before an interim rate equal to the requested rate goes into effect and not longer than 1 year before the permanent rate goes into effect. If you look under 2 requested rate goes into effect not longer than 1 year before permanent rate. I can tell you, based on experience, it is unclear of the intent of this section. At least it is unclear within the Attorney General's Office whether or not that means interim or permanent ...

Woman: ... permanent.

Hickson: Exactly, so that I'm saying you may understand it. As recently as August of this year, it was unclear and therefore if anyone is modifying, amending, revising this section it would also be nice to take care of this uncertainty. The other is a matter that Commissioner Whiteaker raised and that is whether or not you would tack on the 6 month ... period to the 45 days contained in AS 42.5411. It is unclear and therefore I would ask ...

Woman: Except the term is the suspension may last. You don't suspend until you have taken that express action within the first 45 days correct?

...

Hickson: I think for clarity's sake that you need to bring that to the attention of the legislature.

Woman: I don't quite understand what needs to be clarified Liz because a thing walks in the door - I mean we have to affirmatively - I mean there's no automatic suspension status. So, I guess I'm just not following what the problem is there. You have to take an action in order to get it in a suspension mode, do you not?

Hickson: Well, reading the proposed legislation and reading 411 - I mean it may be clearer to some than to others and I think that there's nothing wrong in clarifying ...

...

Man: ... that was my next question. Was in fact it would be whatever the cap - extension period is - say 12 or 18 or whatever or 50 - but actually you would be plus 45 potentially because you would have to make the suspension take that action until you have 45 - you can do it earlier of course - but ...

...

Man: ... so it would be whatever the cap is plus 45 though - potentially.

Man: The statute specifically says that you are measuring the suspension period from the effective date that's referenced in the tariff filing.

Woman: Oh, that's an interesting quirk.

Man: So it a very precise - as I read it is very precise ...

Woman: So someone comes in and asks for it to be effective the next day, the suspension period then is effective ...

Man: If that were to happen, we would ...

Woman: ... ask for a waiver though ...

Woman: ... because the effective date is ...

Man: Thank you Ted ... means the 45 days is added on. ... effective date has to be 45 days from when they filed.

Man: So just so I'm clear, whatever the cap - whatever the drop dead date is it's going to be plus - that direction of time would be plus potentially up to 45 days.

...

Man: So there's that slight additional slack if you will in terms of the 12 month being tight concern.

Woman: No that doesn't address my 12 months. I mean the 12 months I'm talking about is after we've gone to a TA meeting and - we don't see it until 3 days before a TA meeting - our entire analytical process is done within a 72 hour period. That's really when for us anyway - the decision makers - that's when the clock starts run. It's usually the TA meeting closest to the end of the 45 ... So I guess I see such things as

the post-hearing time and all that as being indifferent as to whether we were able to take that action on day 1 or day 45. The suspension period activities is what I'm referring to.

Whiteaker: I'm a little concerned also. I guess I wouldn't ask for any clarification for the permanent rate reference. I mean it says ... our reaction to it ... done and make our decision ... I don't think it's any advantage to us to say permanent rate equal to the requested rate because to me that's the only possible ultimate clarification that would go beyond what it says now.

Hickson: Commissioner Whiteaker the situation came up that a utility, as you know, may request an interim rate and may request a permanent rate. Sometimes they request only one rate and that's the permanent rate. And the question is what does the existing requested new rate - which one does it go in when they request 2. And all I'm saying is that if the goal is to make the legislation as clear as possible so the public understands what it's talking about, I'm telling you that I have talked to 3 attorneys that don't understand that. And they may or may not have as much expertise as members of the public in general ... there's a problem there.

Woman: At the risk of making you more angry ...

Hickson: Oh, I'm not angry. I'm just saying that there's just a problem with understanding ...

Woman: ... confusion with respect the interim rate equal the request rate. I do not understand the confusion, and would prefer not to ... any further clarification of the later part of the sentence which you included in that which was and not longer than 1 year before a permanent rate goes into effect. I don't think that's related to - right now it's not directly tied to the requested rate - I would just assume that it not be directly tied to the requested rate.

Hickson: I just need an adjective for requested rate.

Woman: ... it relates to the first part of the sentence ...

Hickson: Which requested rate when two are requested.

Woman: Maybe also this relates to the issue of rate design changes at the automatic interim stage. Generally people tend to ask interims in terms of a percentage in order to keep themselves whole in terms of revenue

requirement. But I can also see some interesting complexities emerging there.

...

Sokolov: Well, let's go back to where ...

Man: May I say - I don't have the benefit - if it is a benefit - of a real sense of how long - what normalcy is in terms of processing time. And I - it sounds to me what I'm hearing is that's a critical fact to me. It sounds like what I'm hearing is 12 months is probably about right, but for those cases that are monsters and they take longer. Is that correct so far?

Sokolov: ... I disagree with ... Kathleen is that if you put 18 months we automatically get sloppy ...

Whiteaker: I didn't say that Peter.

Sokolov: Then what did you say?

Whiteaker: I didn't say that we would automatically get sloppy, I said - I suggested ... thinking ... risk that being the overriding factor ...

...

Sokolov: ... risk is that it would take longer for cases to go through this commission than in the past.

...

Whiteaker: ... policy to have statutory language that provides -that in general ...

Sokolov: ... procurement - the possibility that some utility ... demand the 12 months limit to avoid perhaps us going to consultants. I think that administratively we have to keep administratively we have to strive to keep the rate cases going as fast as we can. Not at 12 months ... as we possibly can. But to have this imposition of 12 months that may increase litigation with the utilities - is just extra work.

Knowles: I think also what you might find is if on average they would conclude within 12 months, you'd probably find a bell curve - that is to say that a lot of them would be in the 10 to 14 month period. I'm just guessing. So, therefore I think it puts a slightly different cast on it ...

Man: ... understand and that's only the first line of inquiry for me because I don't know whether it makes sense to institutionalize necessarily by statute what we have been doing. Maybe what we have been doing is way too damn slow. I just don't have a handle on that. That's part of the difficulty that I have. I don't know, maybe that's a biding difficulty for anyone in terms of trying to actually make a determination about are we sufficiently timely or are we not.

Woman: We have one rate case pending versus 10 you're going to find your definition of timely will probably vary accordingly.

Woman: ... I would support the status quo ...

Man: I don't hear anyone ... I think you're taking it to an illogical conclusion under that. I understand what you're saying. It seems to me no one is arguing against a straightjacket of some sort and I can't figure out where the - where's the line ... and I can understand why institution would have some concern about too tight a straightjacket and that's not an illegitimate concern. On the other hand I would not want to institutionalize what's a tardy process to begin with. Where does that leave me? I don't think I'll know until I vote which I'm prepared to do if someone would offer a motion but I don't think I'm the best person to do it because I would frankly only be doing it to move the process. I'm getting tired frankly of - I mean we're giving this a - I think a very solid and deserving review but this is ...

...

Man: ... I mean if someone wants to offer something ...

Man: I'll offer a motion ...

...

Man: Let's take a vote.

Man: And your best shot support of that is what ...

Sokolov: And along with that my best shot is to keep it ... processing rate cases here and not to have more priorities ... otherwise we'd have to go to court and this kind of thing. I mean we have to ...

Woman: The most difficult cases we have - the longest hearing periods a commissioner panel member quitting before the decision, we almost made 12 months.

...

Man: It's clear the question is is 12 months normal or not in terms of some distribution and is that an acceptable number. And I don't have a very good feel for it. I get the sense that there are exceptions and our number of cases that could be complicated in any given question - what is good cause ... getting in to that debate ... how likely is that to come up and how stable do you feel and where you feel you're going to come out. With that my inclination is to take ...

...

Woman: ... let's not suggest that the norm is 12 months and have the influence the decision we are making because the norm is something somewhat less than 12 months so we're - I feel like a character of this is moving that the norm is 12 months and therefore there is not a great deal of being on the edge of administrative problems as a result of that when in fact the norm is probably more in the 6 to 9 month range or the 8 to 10 month range. It doesn't approach 12 months. So let's not suggest the norm is ...

Sokolov: I think considering most of our bills are small ones ... shall we take a vote.

Sokolov: Yes.

Knowles: Yes.

O'Tierney: No.

Whiteaker: No.

Foster: Yes.

...

O'Tierney: I'm getting sluggish of mind - the interim items ... what is before us...

Sokolov: ... when a utility comes before us we have 45 days to do a ... interim and we enact an interim ...

Man: ... is that a regulation?

Knowles: It's a legal standard that has evolved from the court cases on interim rate increases.

Sokolov: What is here before us is that after 6 months an interim would go into effect equal to what the utility requests - so not based on a probable success standard but ... the utility requests.

Man: So, in this is in some respects duplicative, isn't it? We already do - if we make a cut at 45 ... is that ...

Sokolov: It is duplicative except with the probable success ... we may determine certain issues ... that we feel the utility would not prevail ... success. Those issues would have a revenue requirement associated with it and after 6 months that would be added to the interim.

...

Woman: ... potential ...

Woman: ... we've had some requests ...

Man: Given whatever this case load is, how could this be - how could this not be violative - if the case law has spawned a standard that we might ...

Woman: There is nothing in our statute yet that requires us to do this. The statute is silent so therefore we are governed by case law. I assume if the statute were passed it would preempt ...

Man: The case law establishes a standard which we use to limit the amount which we give the utility below what they ask for. ... sort of the only way that works ... standard we have to apply but it doesn't say that we couldn't grant them more liberal

...

Hickson: Basically the court requires that we not place the utility in a compensatory position and that's based on findings that come before the commission. That doesn't mean that you can't give them more.

Woman: That's the minimum.

Hickson: It truly is.

Man: The thing that Liz raised earlier here comes in. The utility comes in and asks for 15% interim and 30% permanent and we give them 10% interim after this period of time does it go - after whatever this period of time is - does it jump up to 15% or does it jump up to 30%?

Woman: I've always interpreted this as the ... you've introduced a wrinkle that frankly had not crossed my mind before you spoke of it. I assume - I've been assuming that it was the objective when section 2 was originally passed and it was the objective of section 1 ... I don't consider them discussed.

Man: The existent language in paragraph 2 already sets up a standard for 150 day standard for interim if you're not one of the big boys. I don't know how is the greater than 3 million is. Is that just a handful.

Woman: It's more than a handful. I couldn't tell you - list them by name although the annual reports ... look at ...

...

Woman: More than half.

...

Man: Why wouldn't we have something similar for those greater than 3 million as for those -

Woman: ... our opinion on the other provisions ...

Man: ... don't have the benefit of that - don't have a clue ...

Woman: ... run the risk of an unfair rate going into effect before you get a change to do what may be a fairly complicated proceeding. I mean with the smaller utilities there's a real good likelihood that the whole case will be completed - and usually is - within the time frame. So that this is no big threat to the public I don't think to have a rate go into effect that the utilities requested without any review by the commission. Whereas with this other - as people have voted here you're talking about an 18 month process to get permanent rate determination. Well, if within 6 months they get what they asked for, you potentially have the public with a bad rate for a year which I think would be very hard to support.

Woman: I have the impression that we've tried to explain our procedures that people - legislatures who have read this were not aware that within the first 45 days there is typically an interim agreement. Well, at least some do not make that association. So that this I think in some minds has been perceived as the clock's rolling, you're not getting any money here's a protection. But we must review in the context of what we know is the way we operate which is generally an interim ... if there's any showing that it's a reasonable request.

Man: How does this work now with those less than 3 million? Do we apply the case law spawned 45 day -

...

Man: We do that and then we also do the second step.

...

Woman: We treat these 150 days as we presently treat the initial 6 month suspension period. We try our darndest to get the case done.

Woman: And that's what makes the 6 months on the interim so unrealistic. Because what it does is it creates almost a perceived ... to get through the analysis of the case so that this section doesn't get invoked or become operative which given the concerns on how long it takes the case. At a minimum you'd have to change it to 12 months which, you know, that's another way of approaching it, you can say if you change this to 12 months, it gives the commission an incentive to try to get the case done in 12 months ... gives them outside of the 18. That may be one way of taking care of some of my concerns.

Woman: I'm not uncomfortable with that.

Woman: It really creates an incentive because you'd have the permanent request going into effect on an interim basis. And it's in nobody's best ...

Woman: Is that a motion Kathy?

Whiteaker: Yes, I move that ...

Man: Seconded.

Woman: And this be clarified to be the requested permanent rate.

Man: So we'll be amending the proposed legislation? ...

...

Man: I just want to make sure ...

Man: Are you suggesting 12 months in 1 and 2 or just in 2 or just in 1?

Woman: Just in 1.

Man: Just in 1.

Man: How's it read?

Hickson: ... 12 months before the interim rate equal to the requested permanent requested rate goes into effect and not longer than 18 months before a permanent rate goes into effect - on number 1.

...

Sokolov: Far be it from me to object to that. Let's take a vote.

Man: Unanimous consent.

...

Sokolov: Any reconsideration on the 18 rather than the 12? You said some of your concerns ...

Woman: The motion right now is based on the prior commission vote. The motion is let it read 12 months before an interim rate equal the permanent requested rate goes into effect and not longer than 18 months before a permanent rate goes into effect. As I see it that is the motion because we already passed the other.

Man: Ok.

...

Man: ... reconsideration ... would have to be someone who voted in favor of whatever the motion that you'd like to reconsider. So in that case she wouldn't have the capacity to ...

...

Woman: My vote stands ... given the commission vote on that I am moving that we put the interim to 12. Otherwise I would move to eliminate ...

Sokolov: ... on the 12 can we take another vote ...

...

Woman: ... it's passed ...

Man: ... unanimous consent ...

...

Man: No objection was made.

Man: This completes it.

Woman: Before the meeting is adjourned there is another issue and that is how does the majority intend to represent ... commission. Since we do have 2 of 5 which I consider to be fairly significant voting differently on these two matters.

Man: If I may just remind us that Representative Donley requested that there be a roll call response - he'll get that ...

...

**FISCAL NOTE**

CC

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: Local exchange telephone  
utilities/tariff filings  
Sponsor: Boucher  
Requestor: House Labor & Commerce

Agency Affected: Commerce & Economic Dev.  
BRU: APUC  
Components: Operations

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	132.8	132.8	132.8	132.8	132.8	132.8
TRAVEL	2.5	2.5	2.5	2.5	2.5	2.5
CONTRACTUAL						
SUPPLIES						
EQUIPMENT	5.4					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>140.7</b>	<b>135.3</b>	<b>135.3</b>	<b>135.3</b>	<b>135.3</b>	<b>135.3</b>

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	140.7	135.3	135.3	135.3	135.3	135.3
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

FULL-TIME	3.0	3.0	3.0	3.0	3.0	3.0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

SEE ATTACHED

Prepared by: T.S. Moninski II, Executive Director  
Division: Alaska Public Utilities Commission

Phone: 276-6222  
Date: 3/12/90

Approved by Commissioner: Larry Mercurieff  
Agency: Department of Commerce & Economic Development

Date: 3/12/90

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

LW/dg16437D-1/31290b

**ANALYSIS - CSHB 168 (L&C)**

**LOCAL EXCHANGE PHONE UTILITIES/TARIFF FILINGS**

The committee substitute for HB 168 has substantially reduced the APUC's original estimate of fiscal impact. However, a review of both Sections 1 and 2 of CSHB 168 (L&C) reveal that some level of augmented resources will still be necessary if this bill is enacted. Section 1 contributes to this impact in the creation of a new rate review procedure for telephone utilities. While a simplified filing may require less analysis than a traditional rate case, these filings will be made with much greater frequency and are likely to be utilized by a significant number of regulated telephone utilities. The combination of this effect will contribute to a positive fiscal impact.

Although Section 2 of the bill now provides for the exercise of commission discretion in extending the processing time for cases based on "good cause," the obvious intent of this section is that the commission should improve its turnaround time for tariff review and decision making. Although it is difficult to quantify, it is clearly necessary to enhance the level of staff resources available to achieve the intent of this provision.

The APUC estimates that the combined impact as noted above will result in the need to add three positions to its authorized staffing. Proposed additions include a Utility Finance Analyst II, a Utility Tariff Analyst II, and an Administrative Support Technician III.

1.	POSITION TITLE Administrative Support Technician III				RANGE/STEP 10	BARG. UNIT G	PAGE/LINE	GOV.	APPROV.	C/SAPP
2.	TYPE OF POSITION	STAFF MONTHS 12	RP NUMBER	PCH NUMBER	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION:					
4.	TYPE OF EXPENDITURE			AMOUNT		<p>In order to process the simplified rate filing for telephone utilities created by this bill and to comply with the intent of this legislation for the Commission to improve the timeliness of tariff processing and decision-making, it is necessary to augment the Commission's support staff with a new Administrative Support Technician III (AST III).</p> <p>Enactment of CSHB 168 will impact the need for support services agency-wide. As such, the Commission proposes the addition of an AST III to its centralized "pool" of support staff. In this configuration, the added resource can be dispatched to any section which is adversely impacted by implementation of the telephone simplified rate filings or the compression created by the bill's imposition of more stringent processing deadlines.</p> <p>Unlike the request for new Tariff section staff, this element of the fiscal note is unaffected by the Commission's FY 91 budget submission or amendment. If CSHB 168 becomes law, the addition of an AST III is essential to the Commission's ability to comply with the new requirements.</p>				
	1	2	3							
	PERSONAL SERVICES									
5.	Salary	22,020								
6.	Benefits	9,753								
7.	Supplemental Benefits									
8.	Fixed Benefits									
9.	TOTAL PERSONAL SERVICES	01	31,773							
10.	Travel	02								
11.	Contractual	03								
12.	Commodities	04								
13.	Equipment	05	1,800							
14.	Other									
15.	TOTAL COST		33,573							
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts	1002							
17.		G.F. Hatch	1003							
18.		General Funds	1004	33,573						
19.		I-A Receipts	1005							
20.		Program Receipts	1028							
21.		Other								
FOR B&H USE ONLY										
KEY NUMBER										

REQUEST FOR  
NEW POSITION  
8167M

AGENCY Commerce & Economic Dev.  
BRU Alaska Public Utilities Comm.  
COMPONENT Operations

Page \_\_\_\_\_ of \_\_\_\_\_  
Revised Date \_\_\_\_\_

FY 91

Page 3 of 5

1.	POSITION TITLE Utility Financial Analyst II				RANGE/STEP 19A	BARC. UNIT G	PAGE/LINE	GOV.	APPROV.	DISAPP
2.	TYPE OF POSITION	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL				JUSTIFICATION:					
4.	TYPE OF EXPENDITURE			AMOUNT		<p>In order to process the simplified rate filings for telephone utilities created by this bill and to comply with the intent of this legislation for the Commission to improve the timeliness of tariff processing and decision-making, it is necessary to augment the Finance Section staff with a new Utility Financial Analyst II (UFA II).</p> <p>This position will provide specialized analytical services for the larger telephone utilities that will be eligible to participate in the simplified filing procedures implemented by this bill's enactment and subsequent Commission regulations. The Finance staff will also need this additional resource as it attempts to comply with the bill's new and more stringent processing deadlines.</p> <p>Unlike the request for a Tariff Analyst, this element of the fiscal note is unaffected by the Commission's FY 91 budget submission and amendment. If CSHB 168 becomes law, the addition of a UFA II is essential to the Commission's ability to comply with the new requirements.</p>				
	1	2	3							
	PERSONAL SERVICES									
5.	Salary	40,032								
6.	Benefits	13,680								
7.	Supplemental Benefits									
8.	Fixed Benefits									
9.	TOTAL PERSONAL SERVICES	01	53,712							
10.	Travel	02	2,500							
11.	Contractual	03								
12.	Commodities	04								
13.	Equipment	05	1,800							
14.	Other									
15.	TOTAL COST		58,012							
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts 1002								
17.		G.F. Match 1003								
18.		General Funds 1004		58,012						
19.		I-A Receipts 1005								
20.		Program Receipts 1028								
21.		Other								
FOR B&M USE ONLY										
KEY NUMBER										

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REQUEST FOR  
NEW POSITION  
8167M-3

AGENCY Commerce & Economic Dev.  
BRU Alaska Public Utilities Comm.  
OPERATIONS  
COMPONENT \_\_\_\_\_

Page \_\_\_\_\_ of \_\_\_\_\_  
Revised Date \_\_\_\_\_

FY 91



HB

169

# HOUSE COMMITTEE REPORT

(11)

Date Referred: March 3, 1989

FURTHER REFERRALS:

Date of Committee Action: 3/29/89

The FINANCE Committee considered:

HB 169

HOUSE BILL NO. 169 [BUSINESS INCENTIVE TRAINING PROGRAM]  
"An Act establishing the business incentive training program."

### RECOMMENDATIONS:

- be replaced with CS HB 169 (Fin.)  the same title  
 a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(S):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact \_\_\_\_\_
- zero fiscal note \_\_\_\_\_
- zero with analysis \_\_\_\_\_

- fiscal note(s) \_\_\_\_\_
- zero fiscal note(s) \_\_\_\_\_
- zero fn/analysis 3/3/89-CRA

### SIGNING DO PASS:

### SIGNING:

(Check approp. column)

[Signature] HOFFMAN

[Signature] LARSON

[Signature] BROWN

[Signature] KOPONEN

[Signature] ULMER

[Signature] BARNES

[Signature] SHULTZ

[Signature] REHILLIS

	Do Not Pass	No Rec	Amend
<u>[Signature]</u> SWACK		<input checked="" type="checkbox"/>	
<u>[Signature]</u> RIEBER		<input checked="" type="checkbox"/>	
<u>[Signature]</u> WALLIS		<input checked="" type="checkbox"/>	

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Chairman's signature

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: HR 169  
PUBLISH DATE: HOUSE 3/3/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: HB 169 Establishing a Business  
Incentive Training Program  
Sponsor: Ellis  
Requestor: \_\_\_\_\_

Agency Affected: Community & Regional Affairs  
BRU: Job Training Partnership Act  
Components: Governor's Training, Training  
and Energy Field Office

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The attached analysis is a Departmental budget developed assuming passage of an appropriation under HB 170.

Prepared by: Mark Mickelson, Deputy Director  
Division: Rural Development Division

Phone: 465-4890

Date: 2-28-89

Approved by Commissioner: Frank G. Hoffmann  
Agency: Community and Regional Affairs

Date: 2/28/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Adopted

State of Alaska 1989 - 16th Legislature  
First Session  
Fiscal Note Analysis

Title: A Business Incentive  
Training Program

Assumptions Funds will be passed through the Department of Community and Regional Affairs with oversight provided by the Alaska State Job Training Coordinating Council. The intent of this bill would also provide for a proportionate pass through of grant funds to the established Service Delivery Areas (the administrative/granting entities established under the Job Training Partnership Act.) One of the three established SDA's within the State, the Statewide SDA, is also organized and functional within the Rural Development Division, Department of Community and Regional Affairs. This analysis therefore reflects both of these functions within this Department.

Presently there are no State general funds available in the JTPA BRU. Federal JTPA funds are dedicated to the administration of JTPA programs and cannot be used for the administration of State funded job training programs. Certain prudent and minimal administrative effort must be made to assure that the funds are expended appropriately by the service agencies.

Program Summary At the State office (JTPO) level, the requested administrative funds will be used to provide contract and grant administration necessary to assure the funds are expended appropriately. Oversight and monitoring, both on-sight and at desk will be provided. Participants will be tracked and accounted for through modification to the JTPA Participant Management Information System. Technical assistance will be provided to service providing agencies. General program administration including generation of required fiscal and participant reports will be provided.

At the Service Delivery Area level 85% of funds will be directly granted to eligible training projects. The minimal administrative support requested is necessary to initiate program implementation which would include the planning and design work, outreach and promotion, the solicitation process, grant negotiation and writing, grant monitoring, technical assistance and oversight, participant outreach and recruitment, financial accountability, staff training, and program assessment and evaluation. Program services and administration will be integrated into the existing SDA administrative structure, which utilizes five field offices, a small central support office and support for a Private Industry Council.

Positions No new positions are requested at this time. Funds are requested however to provide for proportional level of support of existing staff who would be assigned administrative duties under this program. This would include staff in both the Governors Training Component (the JTPO) and the Training Energy Field Office Component (SDA).

Other Expenditures Modification of the existing JTPA Participant Management Information System will be needed to track and account for program participants. Estimated one-time cost is \$4,500. Travel for the Statewide SDA will require an estimated \$5,000 in consideration of the cost of rural travel. Other contractual costs will include fiscal support costs at approximately \$2,000; program marketing and promotion at \$1,000; data base maintenance at \$1,500 per year with the equipment maintenance agreement, phone, copier, and printing representing the balance of other planned expenditures.

Proposed Budget The following is a breakout of the Department's proposed budget for FY 90 and FY 91:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		7.6	10.5			
TRAVEL		5.0	6.0			
CONTRACTUAL		9.5	5.6			
SUPPLIES		-0-	-0-			
EQUIPMENT		-0-	-0-			
LAND AND STRUCTURES		-0-	-0-			
GRANTS, CLAIMS		277.9	277.9			
MISCELLANEOUS		-0-	-0-			
TOTAL OPERATING	-0-	300.0	300.0	-0-	-0-	-0-

Original sponsors: Ellis, Boyer,  
M. Davis, et al.

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 169 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the business incentive training  
7 program."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 44.47 is amended by adding new sections to read:

10 ARTICLE 12A. BUSINESS INCENTIVE TRAINING PROGRAM.

11 Sec. 44.47.750. BUSINESS INCENTIVE TRAINING PROGRAM ESTABLISHED.

12 (a) There is established in the department the business incentive  
13 training program. The incentive program shall be administered as a  
14 supplement to the Job Training Partnership Act (P. L. No. 97-300).

15 (b) The purpose of the incentive program is to encourage private  
16 industry to provide new job opportunities by offering assistance in  
17 training the new workforce and in retraining existing employees to  
18 implement new technologies.

19 Sec. 44.47.752. ADMINISTRATION. (a) The state Job Training  
20 Coordinating Council established under 29 U.S.C 1532 shall oversee the  
21 incentive program. The service delivery areas established under 29  
22 U.S.C. 1511 and subject to redesignation under 29 U.S.C. 1515 shall be  
23 used in the administration of the incentive program. The private  
24 industry councils appointed under 29 U.S.C. 1512 and subject to recon-  
25 stitution under 29 U.S.C. 1515 shall serve as the private industry  
26 councils for the incentive program.

27 (b) The coordinating council shall divide appropriations for the  
28 incentive program equally among the private industry councils. If a  
29 private industry council lacks sufficient money to fund a proposal,

1 the private industry council may apply to the coordinating council for  
2 additional funding. The coordinating council may approve reallocation  
3 of money from one service delivery area to another to fund a parti-  
4 cular proposal if it finds that the reallocation will best serve the  
5 purposes of the program.

6 (c) The coordinating council shall adopt regulations under the  
7 Administrative Procedure Act (AS 44.62) to implement AS 44.47.750 -  
8 44.47.772.

9 Sec. 44.47.754. BUSINESS INCENTIVE TRAINING PLAN. (a) A pri-  
10 vate industry council shall adopt a business incentive training plan  
11 for the service delivery area. The plan must extend for two years to  
12 coincide with the term for the Job Training Partnership Act (P.L.  
13 97-300) and must contain

14 (1) identification of the entity or entities that will  
15 administer the incentive program and be the grant recipient for grants  
16 from the state;

17 (2) a description of the services to be provided, including  
18 the estimated duration of service and the estimated training cost per  
19 participant;

20 (3) procedures for identifying and selecting participants;

21 (4) performance goals established in accordance with stan-  
22 dards under AS 44.47.766;

23 (5) procedures for awarding grants to businesses; and

24 (6) the budget for two program years and any proposed  
25 expenditures for the succeeding two program years, in as much detail  
26 as required by the grant administrator designated under AS 44.47.758.

27 (b) If changes in labor market conditions, funding, or other  
28 factors require substantial deviation from an approved business incen-  
29 tive training plan, the private industry council and the appropriate

1 elected municipal official or officials shall submit a modification of  
2 the plan and the budget for review under AS 44.47.756.

3 Sec. 44.47.756. REVIEW AND APPROVAL OF BUSINESS INCENTIVE TRAIN-  
4 ING PLAN. The business incentive training plan shall be published and  
5 made available for review and comment as an attachment to the job  
6 training plan as set out in 29 U.S.C. 1515. The business incentive  
7 training plan is subject to review and approval by the governor.

8 Sec. 44.47.758. BUSINESS INCENTIVE TRAINING GRANTS. (a) Each  
9 private industry council shall designate an administrative entity to  
10 be the grant recipient and administrator for the region. An employer  
11 may apply to the grant administrator for a business incentive grant if  
12 the employer is a private for-profit or nonprofit corporation, part-  
13 nership or sole proprietor business. The grant administrator shall  
14 review applications and award grants.

15 (b) Each grant administrator is responsible for the allocation  
16 of funds and the eligibility of those enrolled in its programs. The  
17 grant administrator is responsible for taking action against its  
18 subcontractors, subgrantees, and other recipients to eliminate abuses  
19 in the programs they are carrying out, and to prevent misuse of funds.  
20 If the arrangement is included in an approved job training plan, a  
21 grant administrator may delegate the responsibility for determining  
22 eligibility under reasonable safeguards, including provisions for  
23 reimbursement of costs incurred because of erroneous determinations  
24 made with insufficient care.

25 (c) A business incentive training grant shall be used to recruit  
26 and train eligible employees for newly created permanent or permanent  
27 seasonal positions or to enable existing employees to acquire the  
28 skills necessary to qualify the employee to implement new technolo-  
29 gies. A business incentive training grant may be used for occupations

1 for which there is a demand in the area served or in another area to  
2 which the participant is willing to relocate and for emerging tech-  
3 nologies in the state. In selecting recruiting and training programs,  
4 the private industry councils and the grant administrators may con-  
5 sider whether the occupation in which recruiting or training is sought  
6 is in a sector of the economy that has a high potential for sustained  
7 demand or growth.

8 (d) Only individuals eligible under the business incentive  
9 training plan and residing in the service delivery area may be partic-  
10 ipants in employment and training activities funded under the business  
11 incentive training program. To be eligible for training or education  
12 services under AS 44.47.750 - 44.47.772, immediately before beginning  
13 training or education under the program a person shall

14 (1) have been unemployed and

15 (A) receiving unemployment insurance benefits; or

16 (B) have exhausted the right to unemployment insurance  
17 benefits within the past three years;

18 (2) be liable to be displaced from work within the next six  
19 months because of

20 (A) reductions in overall employment within the busi-  
21 ness;

22 (B) elimination of the person's current job; or

23 (C) a change in the conditions of the employee's job  
24 requiring that, to remain employed, the employee must have sub-  
25 stantially different skills that the employee does not now pos-  
26 sess; or

27 (3) have worked in a position covered by AS 23.20 at any  
28 time during the last three years and be ineligible for unemployment  
29 insurance benefits because the person

1 (A) was working in a seasonal, temporary, part-time,  
2 or other marginal employment;

3 (B) has insufficient qualifying wages because of  
4 limited job opportunities; or

5 (C) is employed, but, because the person is underem-  
6 ployed, the person needs employment assistance and training to  
7 obtain full employment.

8 (e) Payments to employers for on-the-job training of partici-  
9 pants who experience multiple barriers to employment or are eligible  
10 under the Job Training Partnership Act (P.L. 97-300) may not average  
11 more than 80 percent of the wages paid by the employer to the partici-  
12 pant. Payments to employers for on-the-job training of other partic-  
13 ipants may not average more than 50 percent of the wages paid by the  
14 employer to participants. The payments shall be considered to be in  
15 compensation for the extraordinary costs associated with training  
16 employees for new positions and the lower productivity of the partici-  
17 pants.

18 (f) A grant made under the business incentive training program  
19 may not be used to duplicate facilities or services available in the  
20 area from federal, state, or local sources unless the business incen-  
21 tive training plan establishes that services or facilities under the  
22 program would be more effective or more likely to achieve performance  
23 goals.

24 (g) A fee may not be charged for placing an individual in or  
25 referring an individual to a training program under AS 44.47.750 -  
26 44.47.772.

27 (h) A business incentive training grant may not be awarded to a  
28 program that involves political activities.

29 (i) An employer at whose request a participant is offered

1 training shall fulfill the obligation to offer a successful partici-  
2 pant in the business incentive training program a position or pro-  
3 motion, as applicable. A participant is considered successful if the  
4 participant satisfactorily completes the training program in which the  
5 participant was enrolled.

6 Sec. 44.47.760. COMPENSATION FOR PARTICIPANTS. (a) A trainee  
7 may not receive a payment for training activities in which the trainee  
8 fails to participate.

9 (b) An individual in on-the-job training shall be compensated by  
10 the employer at the same rates, including periodic increases, as  
11 similarly situated employees or trainees and in accordance with appli-  
12 cable law. However, an individual may not be paid less than the state  
13 minimum wage under AS 23.10.065 whether or not the individual is  
14 exempt under AS 23.10.055 or 23.10.070.

15 (c) An individual employed in activities authorized under the  
16 business incentive training program other than on-the-job training  
17 shall be paid wages that are not less than the highest of

18 (1) the state minimum wage under AS 23.10.065;

19 (2) the prevailing rate of pay for individuals employed in  
20 similar occupations by the same employer; or

21 (3) the prevailing rate of wages under AS 36.05 or 40  
22 U.S.C. 276a - 276a-5, if applicable.

23 (d) Allowances, earnings, and payments to individuals partici-  
24 ipating in programs under the business incentive training program may  
25 not be considered as income in determining eligibility for and the  
26 amount of income transfer and in-kind aid furnished under a state  
27 program based on need, other than programs under the Social Security  
28 Act.

29 (e) Conditions of employment and training must be appropriate

1 and reasonable in light of factors including the type of work, geo-  
2 graphical region, and proficiency of the participant.

3 (f) An individual employed in a subsidized job under the busi-  
4 ness incentive training program shall be provided benefits and working  
5 conditions at the same level and to the same extent as other employees  
6 working a similar length of time and doing the same type of work.

7 (g) Money from a grant under the business incentive training  
8 program may not be used for contributions on behalf of a participant  
9 to retirement systems or plans.

10 Sec. 44.47.762. REPORTING AND RECORDKEEPING. (a) A grant  
11 administrator shall maintain records of each participant's enrollment  
12 in a business incentive training program in sufficient detail to  
13 demonstrate compliance with AS 44.47.750 - 44.47.772.

14 (b) The coordinating council shall adopt regulations concerning  
15 retention of records.

16 (c) The coordinating council shall report annually to the legis-  
17 lature concerning the incentive program no later than February 1.

18 Sec. 44.47.764. ALLOWABLE COSTS. (a) To be allowable, a cost  
19 must be necessary and reasonable for proper and efficient adminis-  
20 tration of the program. The following costs are not allowable:

21 (1) costs resulting from violations of or failure to comply  
22 with federal, state, or local laws and regulations;

23 (2) entertainment costs; and

24 (3) insurance policies offering protection against debts  
25 established by the federal government.

26 (b) Personal liability insurance for members of the private  
27 industry council is an allowable cost.

28 Sec. 44.47.766. PERFORMANCE STANDARDS. (a) The basic measure  
29 of performance for training programs under AS 44.47.750 - 44.47.772 is

1 the increase in jobs in the area and in employment and earnings for  
2 participants resulting from participation in the program. In order to  
3 determine whether these standards are achieved, the governor shall  
4 adopt standards based on appropriate factors.

5 (b) The governor shall provide technical assistance to programs  
6 that do not meet performance criteria. If a program fails to meet  
7 performance standards for two consecutive years, the governor shall  
8 withdraw unencumbered funds from the program.

9 (c) An interested party who is harmed by a change made under  
10 this section is entitled to a hearing under the Administrative Proce-  
11 dure Act (AS 44.62).

12 Sec. 44.47.768. LIMITATION ON CERTAIN COSTS. No more than 15  
13 percent of the money available to a service delivery area for a fiscal  
14 year may be expended for the cost of administration. For purposes of  
15 this section, costs of program support, including counseling, that are  
16 directly related to the provision of education or training to partici-  
17 pants may not be counted as part of the cost of administration.

18 Sec. 44.47.770. SELECTION OF SERVICE PROVIDERS. (a) The pri-  
19 mary consideration in selecting agencies or organizations to deliver  
20 services within a service delivery area is the effectiveness of the  
21 agency or organization in delivering comparable or related services  
22 based on demonstrated performance, in terms of the likelihood of  
23 meeting performance goals, cost, quality of training, and characteris-  
24 tics of participants. In complying with this subsection, proper  
25 consideration shall be given to community-based organizations as  
26 service providers.

27 (b) Appropriate education agencies in the service delivery area  
28 shall be given the opportunity to provide educational services, unless  
29 the grant administrator determines that alternative agencies or

1 organizations would be more effective or would have greater potential  
2 to enhance the participants' continued occupational and career growth.

3 (c) The grant administrator may not fund an occupational skills  
4 training program unless the level of skills provided in the program is  
5 in accordance with guidelines established by the private industry  
6 council.

7 Sec. 44.47.772. DEFINITIONS. In AS 44.47.750 - 44.47.772

8 (1) "coordinating council" means the state Job Training  
9 Coordinating Council established under 29 U.S.C. 1532;

10 (2) "incentive program" means the business incentive train-  
11 ing program established under AS 44.47.750;

12 (3) "participant" means an individual receiving education  
13 or training, including on-the-job training, under an incentive program  
14 grant.

approved  
3/29

A M E N D M E N T

OFFERED IN THE HOUSE

BY ELLIS

TO: HB 169

Page 1, lines 18 - 19:

Delete "qualify for promotions to positions requiring improved skills and offering better compensation"

Insert "implement new technologies"

Page 3, line 29:

Delete "for a promotion"

Insert "to implement new technologies"

Page 4, line 12, after "program.":

Insert the following:

"To be eligible for training or education services under AS 44.47.-750 - 44.47.772, immediately before beginning training or education under the program a person must

(1) have been unemployed and

(A) receiving unemployment insurance benefits; or

(B) have exhausted the right to unemployment insurance

benefits within the past three years;

(2) be liable to be displaced from work within the next six months because of

(A) reductions in overall employment within the

business;

(B) elimination of the person's current job; or

(C) a change in the conditions of the employee's job requiring that, to remain employed, the employee must have substantially different skills that the employee does not now possess; or

(3) have worked in a position covered by AS 23.20 at any time during the last three years and be ineligible for unemployment insurance benefits because the person

(A) was working in a seasonal, temporary, part-time, or other marginal employment;

(B) has insufficient qualifying wages because of limited job opportunities; or

(C) is employed, but, because the person is underemployed, the person needs employment assistance and training to obtain full employment."

### Subcommittee Report on HB 169 and HB 170

The subcommittee for HB 169 and HB 170 undertook the task of finding an appropriate funding source for the Business Incentive Job Training Program established in HB 169 and funded through HB 170.

The subcommittee worked with Commissioner Sampson, Department of Labor, to combine elements of HB 169 and HB 170 with a complimentary senate bill, SB 191. Under SB 191, one-tenth of one percent of the employee contribution to the unemployment insurance trust fund is put in a separate program account of the General Fund called the Employment Assistance and Training Program Account. The purpose of the program established under SB 191 is to expand JTPA services to unemployed Alaskans who do not qualify for federal JTPA funding.

Commissioner Sampson agreed to the idea of using \$300,000 from the money generated under SB 191 to fund the Business Incentive Job Training Program established in HB 169.

#### **PROPOSED AMENDMENTS TO HB 169:**

The amendment to HB 169 does two things. First, it eliminates language which would have allowed a business to apply for funds to train employees for promotions and replaces it with language to allow businesses to apply for funds to train employees to implement new technologies.

Second, the amendment adds a "people to be served" section to the bill. This section was added at the request of Commissioner Sampson to create a logical tie between the people being served and the funding source.

#### **PROPOSED CS HB 170:**

The proposed CS adds a provision making the appropriation contingent upon passage of the funding source in SB 191.

**REPRESENTATIVE JOHNNY ELLIS**

**BACK UP FOR HB 169 AND HB170**

**BUSINESS INCENTIVE JOB TRAINING PROGRAM**

presented to the House Finance Committee

March 13, 1989

CONTENTS:

HB 169 and HB 170

**BACKGROUND INFORMATION**

- 1) excerpt from the National Association of State Development Agencies, Directory of Incentives for Business Investment and Development in the United States, describing the relationship between developing labor resources and developing business
- 2) concept suggestion from the Anchorage Economic Development Corporation
- 3) Alaska Statewide Private Industry council letter of support
- 4) examples of training programs in other states (Massachusetts, California, Connecticut, and Delaware)
- 5) excerpt from Alaska Department of Labor report, Non-residents working in Alaska in 1985
- 6) copies of sections of the Job Training Partnership Act relating to establishment of regional Private Industry Councils and a Statewide Coordinating Council\*
- 7) news and magazine articles
- 8) Chart: JTPA related job training program proposals

\* Note: rather than establish a new bureaucracy to administer the business incentive training program, this legislation authorizes the three regional Private Industry Councils, already up and running in Alaska, to make grants from the fund.

DCCs in different states. Because the track records of many applicants are relatively short, the managerial ability of the business persons involved is significant in securing assistance. The DCCs are likely to require that the firm has been turned down by one or more lenders before applying, and some will consider only the loan requests referred by member institutions who are willing to purchase part of the loan. Interest rates are generally above the prime rate, which is the cost of loan funds provided to the DCC by its members.

## Employment and Training

Trained labor increasingly is viewed as an essential element in development, growth, and redevelopment efforts. Private industry realizes that training can make a difference in reducing manpower costs, increasing productivity, and even making certain operations possible when they rely on particular manpower skills. The ability of states and communities to provide this element, along with land, capital, or other subsidies, can be critical in their efforts to stimulate business, create jobs, and bolster their economies. The importance of trained labor to private industry is reflected in the large number of privately sponsored training programs provided and paid for by the private sector.

Many states have already discovered the strong relation between developing labor resources and developing business. In their traditional role of industrial attraction, states found that a suitable labor force was essential, and that training programs were a big help in upgrading the work force. In fact, the mere existence of such a training program acts as a powerful incentive to private business. In this atmosphere, most states have developed training programs "tailored" or "customized" to particular industries or even to specific company needs. The emphasis has always been on practicality—training workers for real jobs, in real companies, which were likely to be available to them. The programs have been designed to reflect local economic realities and private corporate needs, with the latter a major factor. The private sector always plays a central role in the design and implementation of these training programs. More than forty states have formal customized training programs.

Recently some states have refined their training efforts to reflect evolving needs. Among other innovations, special efforts have been made to utilize a trained labor force as an incentive to attract foreign investors; training programs have been expanded to include training for jobs in the service sector; new retraining programs have been started to allow for industrial modernization within states; and entrepreneurial training has been offered as a means of stimulating new business development.

The major revolution in state training programs is the increasing tendency of states to more closely link worker training with business development. The linkage between economic development and employment training needs is readily illustrated in a variety of ways. Modernizing the skills of factory workers is just as critical to industrial modernization as innovations in production techniques and capital equipment. Furthermore, the so-called high-technology revolution can move only as fast as the evolution of a work force to carry it out. Just as crucial is the need for a new breed of workers who are equipped to staff America's burgeoning service-sector economy. Rural development efforts aimed at better jobs for the underemployed succeed only if training builds bridges to help people across the skills gap.

Thus, a small but growing number of states have instituted new procedures,

new positions, or new organizations to coordinate training and economic development. Of increasing popularity is the creation of a position of coordinator or ombudsman who participates in planning and operating both sets of programs and "brings to the table" the state's training resources at economic development project negotiations. This is only one method of making the linkage—but it is finding great popularity as a practical, day to day, means of coordination.

## ISSUE-SPECIFIC PROGRAMS

There are some categories of programs that play an increasingly important role in state economic development efforts. These are targeted efforts that actually include both financial and nonfinancial assistance, some of which are touched on elsewhere due to overlap. Nevertheless, these special issues are worth noting because they are state priorities and reflect current thinking in state programming.

### Export Promotion

Export promotion is basically a means of encouraging business expansion and retention through market expansion and/or substitution. State governments assist smaller- and medium-sized manufacturers that want to enter or enlarge international markets but that lack either the expertise or the capital to export. State trade-development programs usually concentrate on international marketing assistance services, although a few states also offer export financing to companies. Each state has designed an international trade program that meets the needs of its local business constituency, based for the most part on available resources and support from the public or private sector for export development. The range and scope of trade development services thus vary from state to state.

All 50 states have an export development program with staffing ranging from one to forty professionals. In some states a separate international trade division has been created within the development agency. A few states have created a cabinet level position within the governor's cabinet for international trade. In fiscal 1984, states collectively spent over \$10 million to promote international trade and foreign investment in the United States. In fact, by 1984 the average single state expenditure had risen to almost \$550,000, almost double what it was in 1980. This rise in state international program funds, attributable largely to the growth in export development efforts, occurred at a time when state budgets were severely reduced overall.

Trade promotion is a logical component of a state business retention/expansion program. In fact, several states point out that their largest program for existing industry is the trade-leads service. Trade-leads programs generally provide listings of international trade opportunities by mail to thousands of in-state companies.

As with most economic development programs, the objective for an international trade development program operated by a state development agency is, by and large, to create or maintain jobs. A secondary objective is to increase export sales and tax revenue. Program direction and industry targeting tend to result from the job creation/maintenance goal. For example, state policymakers may decide to expand markets of a high-growth industry in an effort to accelerate job creation or target a mature industry in an effort to maintain jobs.

(2)



ANCHORAGE  
ECONOMIC  
DEVELOPMENT  
CORPORATION

### ON-THE-JOB TRAINING SUPPLEMENTS

**Purpose:** This program would help defray some of the up-front costs of recruiting and training Alaskans to fill new basic industry jobs and, in doing so, make Alaska a more competitive location and expand local employment opportunities.

**Need:** The high cost of recruiting, training, and retaining labor is perhaps Alaska's most limiting economic handicap. It makes many potential opportunities uneconomic and, at times, leads to the excessive utilization of nonresident labor. More than half of all U.S. cities offer training and retraining programs as part of their economic development package.

**Structure:** The federal Job Training and Partnership Act reimburses employers up to \$2,400 of a qualifying employee's first year's wages. This proposed state program would supplement the federal program by extending it to all Alaskans, not just those that meet low income criteria. The federally funded low income candidates would be given first priority. The state supplements would be available only after the list of JTPA qualified candidates is exhausted.

**Cost:** We are suggesting that this program be funded with an initial appropriation of \$5 million. Then, we are suggesting that it be evaluated and, if it is shown to be effective, replenished in future years.

# ALASKA STATEWIDE PRIVATE INDUSTRY COUNCIL (3)

JTPA, P.O. BOX BC, JUNEAU, AK 99811

PHONE: (907) 465-4890

February 28, 1989

State of Alaska  
House of Representatives  
Labor and Commerce Committee

RE: House Bill 169, 170

Honorable Representatives:

Thank you for the opportunity to offer some comments for your review concerning HB 169, an Act establishing the business incentive training program and HB 170, which appropriates \$300,000 to fund the program.

The Alaska Statewide Private Industry Council (ASPIC), which administers federal Job Training Partnership Act (JTPA) funds in rural Alaska, reviewed this legislation during a meeting earlier this month. We found it to be consistent with the job training and employment goals mandated by JTPA as well as those adopted by the PIC.

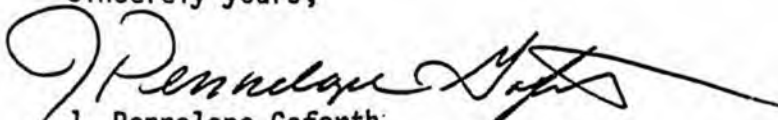
ASPIC has successfully contracted with the Department of Community and Regional Affairs for the delivery of JTPA programs and we find no difficulty in adjusting our administration to accept state funds. In fact, we welcome the additional dollars which will augment our current programs and allow for implementing new programs consistent with the intent of the legislation.

Alaska is one of only six states nationwide that does not offer any matching funds or supplement any JTPA training and employment programs. This measure is the first attempt to directly fund a job training and employment effort in the state. Additionally, it is probably one of the best methods to insure "Alaska Hire".

I urge you to carefully consider this measure as a worthwhile investment in the future of Alaska's labor market.

Thank you for your time and consideration.

Sincerely yours,

  
J. Pennelope Goforth  
Chair

(4)

**MASSACHUSETTS**

294

Provide growth capital to young organizations that have outgrown initial capital infusions but are unable to gain access to more mature equity sources

The needs of the applicant company must fit the established goals of MCRC; that is, loans and investments must be influential in helping applicants grow, thereby expanding job opportunities within the state. MCRC must also be able to confirm by at least 3 independent inquiries that an investment on similar terms would not be available from other sources.

**Volume** MCRC is capitalized at \$100 million. In the first 8 years of operation through December 31, 1985, MCRC invested \$140 million in 110 companies. These investments ranged in size from \$100,000 to \$5 million.

**Application** Applications are made directly to MCRC and should contain enough information to describe the history and nature of the operation, the products and manufacturing process, the marketing strategy, and enough financial information to adequately describe the company's past operations, present status, and future financial needs and expectations. Specifically, the company must provide the following:

Financial statements for the past 5 years

Financial projections for the next 5 years

Amount and purpose of financing required

Description of product lines

Markets for products

Names of competitors and how the company plans to meet competition

Suppliers

Data on past and future employment at the company

History of the company

Background information on principals

Details of existing debt and capital

Final approval of applications must be made by the MCRC investment committee.

**Contact** Massachusetts Capital Resource Company  
545 Boylston Street  
Boston, Massachusetts 02116  
(617) 536-3900

## Customized Industrial Training

### *Bay State Skills Corporation*

The Bay State Skills Corporation (BSSC) is a quasi-public entity governed by its own board of directors and funded by the state legislature to provide training programs for high-demand occupations or emerging technologies in the state. Companies in need of retraining their work force or recruiting and training potential employees for newly created positions should contact BSSC, specifying the

type of training desired. The training may be either pre-employment or on the job, including training to upgrade employees' skills. BSSC will then identify an appropriate school, college, or training organization. The training program must be conducted in collaboration with a local school, college, university, or training center. When necessary, the educational institution does the advertising, testing, and screening for potential trainees with input from the participating company(ies).

Through BSSC grant awards, the state provides 50% of the cost of training, while the company is expected to contribute 50%. Contributions from the company include a wide range of in-kind support such as personnel time for instruction, curriculum design, screening candidates, or internship supervision; and donated or loaned equipment, cash, or other components that make for a good, strong training program. If the company prefers, its own facilities may be used as part of its in-kind contribution.

BSSC also offers a special program in which trainees are from a targeted section of the population, including displaced workers and AFDC recipients. Under this program the BSSC assumes 80% of the costs and the company is expected to contribute only 20%.

**Eligibility** BSSC is the catalyst for uniting industry and education to provide training for high growth occupations or positions in high demand in the state's economy. To date, BSSC has focused primarily on advanced (university and college), retraining and entry-level professional programs in engineering, computer services, general manufacturing, communications, machine trades, allied health occupations and entry-level clerical/word processing and hotel positions. Although no minimum number of job openings is required, there must be enough jobs to warrant the training and make it economically feasible. The training institution is encouraged to establish a consortium of companies where appropriate.

**Volume** BSSC was established in September 1981 with an initial appropriation from the state legislature of \$8 million. As of December 31, 1985, 302 programs had been approved at a cost of approximately \$15 million, which brought over 600 companies together with 200 educational institutions to jointly train people in 6 industrial areas: high technology, manufacturing, health, machine trades, automated office work, and the service sector.

**Application** Companies interested in seeking state assistance for customized job training should contact BSSC. If the training needs of the company qualify for assistance, BSSC will enter into a memorandum of agreement with the firm and work with the company to design a training program.

**Contact** Maureen O'Hare  
Director of Marketing and Communications  
Bay State Skills Corporation  
101 Summer Street, 2nd Floor  
Boston, Massachusetts 02110  
(617) 292-5100

## BASIC BUSINESS TAXES

### Corporate Income Tax

The state imposes an excise (income) tax on domestic and foreign corporations. For purposes of the excise (income) tax, corporations are classified as either tan-

Special allocation of \$75 million in industrial development bonds

Targeting of state small business and employment and training programs

- The Waters Program requires that each block group of a proposed area exceed 150% of the national unemployment and poverty rates while also meeting certain "pocket of poverty" criteria under the UDAG program. The Nolan Program requires that each census tract meet UDAG criteria. These criteria establish a "minimum threshold" of economic distress that a proposed area must meet in order to apply to the state for designation. Designations are made based on proposals from cities and counties containing areas meeting these criteria. These areas are then evaluated competitively on the basis of local economic development incentives designed to complement state incentives.

**Eligibility** The two programs have different eligibility criteria. The Nolan Program is available to any type of business. Individual incentives may require that certain criteria be met.

The Waters Program requires of a business that it be certified by the state. The business must meet one of the following criteria:

30% of the work force is from a distressed area and the employer provides some kind of community service.

50% of the work force is from a distressed area.

30% of the business is owned by persons in a distressed area.

**Volume** Under the Nolan Program, a maximum of 10 zones can be designated, and 10 have been designated. Under the Waters Program, a maximum of 9 zones can be designated, and 3 have been designated. There will be 2 more rounds with 3 designations each in 1987 and 1988.

**Application** For the Nolan Program, the business simply fills out the proper lines on the tax return.

For the Waters Program, the state provides a certification form that must be submitted to the California Department of Commerce. If the business meets the criteria, the state returns an approval form to the business to be filed with the tax return.

**Contact** Richard Whitman  
Enterprise Zone Programs  
Department of Commerce  
1121 L Street, Suite 600  
Sacramento, California 95814  
(916) 324-8211

## Customized Industrial Training

### *Employment Training Panel*

The Employment Training Panel (ETP) helps match the need of businesses for trained workers with the need of unemployed workers for jobs by contracting with employers and training agencies to cover the actual cost of training. It is funded by diverting a small fraction of the Unemployment Insurance Fund and is intended

to reduce unemployment insurance (UI) costs by getting workers off UI and keeping them off. Because of this, only those workers who are receiving UI, who have exhausted their UI claims, or who are likely to claim UI may be trained under this program.

ETP is a different kind of training and economic development program:

It retrains people with established work histories, not new entrants into the labor market.

ETP pays for training only for known jobs in stable or expanding occupations that provide a decent living.

ETP makes selection of trainees and design of training the responsibility of business even when training agencies provide the training.

ETP pays only for direct training costs, not for stipends or wage subsidies.

ETP has the flexibility to respond to businesses across California as the need arises.

ETP uses a negotiated fee, performance-based contract. This means that payment is made on the basis of the number of trainees who are placed and remain in long-term employment for at least 90 days. ETP does not use a Request for Proposal process. Instead ETP works with employers and training agencies to develop and write training contracts.

**Contact** Employment Training Panel  
800 Capitol Mall, MIC 04  
Sacramento, California 95814  
(916) 324-3615

## BASIC BUSINESS TAXES

### Corporate Income Tax

The state imposes a bank and corporation franchise tax on any corporation doing business in the state. The tax is based on net income attributable to sources within the state, including tangible property located in the state and activities carried on in the state that produce income. The state does not use the federal net income as a base for the tax; instead, the net income is defined as the gross business income less deductions allowed under the state tax code. Federal income taxes paid are not deductible. Accelerated depreciation is allowed, but the accelerated cost recovery system is not allowed. Net operating losses cannot be carried forward or backward.

The tax rate is a flat 9.6% of taxable income for fiscal or calendar years 1980-1982. For fiscal and calendar years after 1982, the rate will vary between 9.3% and 9.6%.

Administration is by the State Franchise Tax Board.

### Sales and Use Taxes

The state sales and use tax rate is 4.75%. In addition, cities and/or counties levy a 1.25% local sales and use tax, which brings the basic statewide rate to 6%. Several

facility seeking assistance must be located in the zone or must be planning to locate within the zone.

- Volume** The program was authorized by the state legislature in 1981 and went into effect in July 1982. Six zones have been designated. As of June 30, 1985, new investments totaling \$135 million had been made and assisted.
- Application** Industrial companies apply through CDED. Commercial retail enterprises and residential developers apply through their local governments.
- Contact** Ken Roberts  
Connecticut Department of Economic Development  
210 Washington Street  
Hartford, Connecticut 06106  
(203) 566-3322

## Customized Industrial Training

### *Connecticut Labor Training Program*

The Connecticut Labor Training Program (CLTP) is administered by the Office of Job Training and Skill Development in the Department of Labor to provide preemployment and on-the-job training to companies locating or expanding in the state. The program is designed to reduce start-up costs; companies receive most of the services associated with the program at no cost.

CLTP handles recruitment advertising and refers potential trainees to the company for final selection of participants. Trainees are usually hired by the company before the training begins. Trainees may be reimbursed by CLTP depending on the arrangement between CLTP and the company.

Training can be conducted on the company premises, at a local technical school, or at a community college. Employees of the company are used as instructors when practical. CLTP, according to the company's needs, can provide all training materials, including video materials.

CLTP will consider retraining existing employees if existing jobs can be saved by doing so.

- Eligibility** Any company creating new jobs is eligible for CLTP assistance. No minimum number of jobs is required.
- Volume** CLTP has an annual base appropriation from the state of \$1.5 million. In fiscal 1985 783 people in 27 firms received customized job training and 227 dislocated workers were assisted through 17 projects.
- Application** No formal application is required from the company. CLTP requests that any interested company provide information on the number of jobs involved, the types of jobs, and the timetable for operation of the new facility.
- Contact** Office of Job Training and Skill Development  
200 Folly Brook Blvd.  
Wethersfield, Connecticut 06109  
(203) 566-2450

## Industrial Development Bonds/Locally Issued

Two of Delaware's 3 counties, New Castle County and Sussex County, and the City of Wilmington are authorized to issue industrial development bonds (IDBs). The company benefiting from the bond issue as purchaser or user of the facility is responsible for all appropriate state and local taxes levied on the facility.

**Eligibility** Manufacturing, commercial, and service industries moving into or expanding within these jurisdictions are eligible. New Castle and Sussex Counties have no minimum capital expenditure requirements for commercial or service projects for which bonds are sought. The City of Wilmington has a \$100,000 minimum for commercial and service projects.

Local issuing authorities use the same standards utilized by the Delaware Development Office to evaluate applicants.

**Volume** In 1985, New Castle County Economic Development Corporation issued IDB financing authorizations for 56 projects totaling \$72,916,070; the City of Wilmington had 51 projects totaling \$41,698,450; and Sussex County had 20 projects totaling \$17,504,000.

**Application** The firm applies directly to the governing body of the local jurisdiction. No public notice or public approval is required for bond approval.

**Contacts** Sussex County Department of Industrial Development  
P.O. Box 589  
Georgetown, Delaware 19947  
(302) 856-7701

New Castle County Economic Development Corp.  
One Commerce Center, Suite 500  
Wilmington, Delaware 19801  
(302) 656-5050

City of Wilmington  
Department of Commerce  
City County Building  
300 French Street  
Wilmington, Delaware 19801  
(302) 571-4610

## Enterprise Zones

See "Targeted Areas Tax Incentives" under the "Tax Exemptions, Deductions, Credits, and Special Treatment" section of this state's write-up.

## Customized Industrial Training

### *Industrial Training Programs*

The Delaware Development Office (DDO) administers the training program to provide customized job training assistance. DDO acts as a broker and financial underwriter of training programs for new or expanding firms in the state.

Recognizing the need for industry training funds that provide greater flexibility and employer control than federal funds, Delaware passed legislation in 1984 to provide \$1.6 million annually to subsidize job training activities. Part of this money was reserved for economic development-related training and allocated to the DDO for employer-initiated programs. Should a company identify a lack of specifically skilled workers, a program is designed to train employer-selected applicants for the available positions. The employer signs off on the proposed training program and, upon its completion, determines its effectiveness before reimbursement is made to the trainer. Thus, the employer maintains control over the quality of the work force ultimately hired. Paperwork, restrictions, and regulations are minimal.

Although the remainder of the Blue Collar funds (see "Targeted Industry Tax Incentives" below) are disbursed by the state's Private Industry Council, along with funds from the Job Training Partnership Act and the Dislocated Workers Program, the Council, too, can be accessed through the Development Office, the "one-stop shopping" source for industry. This coordination is possible because Delaware's size permits a one-service delivery area structure, eliminating much of the regional bureaucracy and political interest that impedes efficiency. A similar coordination is evident between DDO and the Department of Public Instruction, which receives \$1.8 million annually in vocational training funds under the federal Carl Perkins Act of 1984.

- Eligibility** Training can be provided for any new or expanding firm engaged in manufacturing, commercial, or service operations in the state. No minimum number of jobs is required.
- Volume** Annually the Delaware Development Office can access approximately \$7 million in job training funds with customized training being funded for the amount needed by the employer to develop an initial work force for start-up or expansion.
- Application** Initial application for training assistance is made to DDO. Once the needs of the interested company have been assessed, a training program is selected to meet these needs.
- Contact** Delaware Development Office  
99 Kings Highway  
P.O. Box 1401  
Dover, Delaware 19903  
(302) 736-4271

## BASIC BUSINESS TAXES

### Corporate Income Tax

Delaware imposes a direct tax on net income derived from business activities and property located in the state. Net income is the amount of federal taxable income with adjustments provided under state tax law, apportioned and allocated to the state. Federal income tax paid is not deductible in determining net income. The rate is 8.7% of taxable net income at all levels.

Organizations that are exempt from the tax include corporations that are incorporated in, but not transacting business in, the state, and corporations that

## CHAPTER 5. RESIDENT HIRE: PROBLEMS AND SOLUTIONS

This chapter summarizes the reasons employers cite for hiring nonresidents, the actions their firms have taken to increase resident hire, and the various options proposed by agencies, lawmakers, and others interested in actions the State can take to promote resident hire in Alaska. This chapter does not contain specific recommendations for promoting resident hire.

### INTRODUCTION

Alaska Statute 36 requires the Department of Labor to look into alternative ways of promoting the hiring of Alaska residents. To accomplish this, the surveys of two committees which were set up to address proposals and initiatives to encourage the hiring of residents were analyzed, and an independent survey was conducted by Research and Analysis. Results from these three separate surveys were evaluated to provide the insights discussed in this chapter:

1) The Department of Labor surveyed employers in ten industries which have high nonresident employment. The purpose of this survey was to learn the reasons why employers hire nonresidents and to ask employers for their ideas about ways to promote the hiring of Alaska residents.

2) A subcommittee of the Governor's Council on Alaska Hire conducted a survey of employers. The purpose of the survey was to assess the ability of Alaska's vocational education programs to provide trained workers for employer's needs. The Governor's Council on Alaska Hire was comprised of individuals who represented the administration, the legislature, organized labor, and employers. Findings from this survey bear directly on the resident hire issue.

3) A survey of various organizations including state departments, employers, legislators, and labor organizations was conducted by the Alaska Hire Task Force. The task force, which is no longer active and which consisted of representatives from several state departments, was coordinated by the deputy commissioner of the Department of Labor and reported directly to the Governor's Council on Alaska Hire. This survey was designed to gather suggestions of things which the State of Alaska could do to promote the hiring of residents.

### EMPLOYER RESIDENT HIRE SURVEY

#### Reasons for Hiring Nonresidents

It was determined that a telephone survey of 100 employers in ten industries could provide insight into the reasons why employers hire nonresidents. Ten industries that had high amounts of wages paid to nonresidents were selected. Ten firms were then selected from each industry. Within each industry, firms were selected from two groups: those with the highest and those with the lowest percentage of nonresident employees and wages paid. Responses were obtained from 74 firms with no less than six responses from each industry selected.

Employers were asked to provide reasons why their industry hires nonresidents (unprompted response). Employers were then read a prepared list of possible reasons for hiring nonresidents and asked if any of those reasons applied to their industry (prompted response). Table 5-1 summarizes employer responses.

The most frequent prompted response was that employers hire the best person regardless of residency. This reflects the fact that the skill and background of an employer's workers are important variables to improve profitability. Sixty percent of employers contacted said their industry hires nonresidents because available Alaskans lack required training or experience. This was the most frequently cited reason given in construction, mining, and service industries. In fact, this was the most frequent unprompted response about why an industry hires nonresidents. Thirty-five percent of employers stated that their industry hires nonresidents because no Alaskans are available.

Fifty percent of employers stated their industry hires nonresidents because of company policy to transfer people within the company. This reason was most commonly cited by employers in mining industries. Six employers, mostly in food processing, commented that nonresidents are hired because companies hire from their home offices located out of state. Twenty-eight percent of employers felt that nonresidents were hired in their industry because companies hire individuals who are known to the company. This confirms a common practice of hiring people an employer knows.

Nineteen percent of employers felt that the ability to pay lower wages was a reason to hire nonresidents. Sixteen percent of employers indicated that nonresidents worked harder or had better work attitudes than residents.

#### Current Practices Used by Firms to Increase Resident Hire

Employers in the resident hire survey were asked what actions their firms had taken to promote resident hire. The more common answers were to advertise openings locally, to establish a company policy on resident hire, to hire through unions, to hire through Job Service offices, to use employment agencies or to contact universities. Table 5-2 summarizes practices currently used by employers surveyed.

#### Firms Suggest Ways to Promote Resident Hire

Employers in the resident hire survey were asked what they thought the State of Alaska could or should do to promote resident hire. The most common suggestions were to conduct a promotional campaign, to provide trained workers through vocational or university training, and to promote resident hire through Job Service offices. Table 5-3 summarizes responses.

When asked who else besides the State should be involved in promoting resident hire, the most frequent response was that this action should involve private firms and contractors. Table 5-4 summarizes the responses.

#### Hard-to-fill Jobs

Employers were also asked to identify specific jobs which were difficult to fill with residents. A summary of employer responses by industry is contained in Figure 5-1.

TABLE 5-1

EMPLOYER RESIDENT HIRE SURVEY  
REASONS WHY EMPLOYERS HIRE NONRESIDENTS BY INDUSTRY

Reason	Total	Oil & Gas	Other Mine	Bldg Const	Heavy Const	Spec Trade Const	Food Proc	Air Trans	Eat Drink Places	Busin Serv
<b>FIRMS HIRE MOST QUALIFIED PERSON</b>										
Unprompted Response	1	-	-	1	-	-	-	-	-	-
Prompted Response	51	3	5	2	8	4	5	7	5	5
<b>RESIDENTS LACK TRAINING/EXPERIENCE</b>										
Unprompted Response	32	4	7	4	3	2	2	2	-	1
Prompted Response	13	1	-	-	3	1	-	5	1	2
<b>FIRMS TRANSFER IN WORKERS</b>										
Unprompted Response	10	1	4	1	-	-	1	1	-	1
Prompted Response	28	3	3	2	4	2	2	4	5	1
<b>RESIDENTS NOT AVAILABLE</b>										
Unprompted Response	16	1	1	1	1	1	5	3	1	2
Prompted Response	10	-	-	1	1	1	1	2	-	-
<b>FIRMS HIRE KNOWN PEOPLE</b>										
Unprompted Response	3	1	1	1	-	-	-	-	-	-
Prompted Response	18	1	2	1	4	3	1	2	2	-
<b>NONRESIDENTS WORK FOR LOWER WAGES</b>										
Unprompted Response	6	-	2	1	1	2	-	-	-	-
Prompted Response	8	2	1	2	1	-	-	-	-	2
<b>NONRESIDENTS HAVE BETTER ATTITUDE</b>										
Unprompted Response	1	-	-	-	-	-	1	-	-	-
Prompted Response	7	2	1	2	1	-	1	-	-	-
<b>NONRESIDENTS WORK HARDER</b>										
Unprompted Response	0	-	-	-	-	-	-	-	-	-
Prompted Response	4	-	1	-	1	1	1	-	-	-
<b>OTHER</b>										
Unprompted Response	12	-	1	-	1	1	5	1	2	-
<b>NUMBER OF FIRMS SURVEYED</b>	<b>74</b>	<b>7</b>	<b>8</b>	<b>6</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>6</b>	<b>6</b>

Source: Alaska Department of Labor, Research and Analysis

Note: An unprompted response was a response given by the employer when asked in an open ended question to identify reasons why their industry hires nonresidents. A prompted response was a response given by an employer specifically asked if the stated reason for hiring nonresidents applied to their industry.

TABLE 5-2

EMPLOYER RESIDENT HIRE SURVEY  
CURRENT PRACTICES USED BY FIRMS TO INCREASE RESIDENT HIRE

Response	Total	Oil & Gas	Other Mine	Bldg Const	Heavy Const	Spec Trade Const	Food Proc	Air Trans	Eat Drink Places	Busin Serv	Misc Serv
Advertise Openings Locally	20	1	2	2	1	-	1	1	4	6	2
Company Hiring Policy	11	1	2	-	4	2	-	1	1	-	-
Use Unions	9	-	-	1	5	2	-	-	-	-	1
Use Job Service	9	-	1	1	1	-	2	2	1	-	1
Use Private Employment Agency	8	-	-	2	-	-	-	1	2	1	2
Use the University	5	-	-	1	-	-	-	1	-	-	3
On-the-Job Training	5	-	2	1	-	-	-	-	1	1	-
Encourage Resident Hire in Bids	3	3	-	-	-	-	-	-	-	-	-
Use Word-of-Mouth Referral	3	-	-	1	-	-	-	1	1	-	-
Subcontract Work	3	-	-	-	-	-	-	2	-	1	-
Maintain Resume File	2	-	-	-	-	-	-	-	1	-	1
Call Back Prior Resident Workers	1	-	-	-	1	-	-	-	-	-	-
Require Alaska Experience	1	-	-	-	-	-	-	1	-	-	-
Internal Promotion	1	-	1	-	-	-	-	-	-	-	-
Use Chamber of Commerce	1	-	-	1	-	-	-	-	-	-	-

Source: Alaska Department of Labor, Research and Analysis

TABLE 5-3

EMPLOYER RESIDENT HIRE SURVEY  
ACTIONS THE STATE SHOULD TAKE TO PROMOTE RESIDENT HIRE

Response	Total	Oil & Gas	Other Mine	Bldg Const	Heavy Const	Spec Trade Const	Food Proc	Air Trans	Eat Drink Places	Busin Serv	Misc Serv
Promotional Campaign	8	3	2	1	-	1	-	-	1	-	-
Voc-Ed Training	7	1	-	-	1	-	1	1	2	1	-
University Training	4	-	-	-	-	-	-	1	-	1	2
Job Service	3	-	-	2	-	-	1	-	-	-	-
Lower Wage Rates	3	-	1	-	-	-	1	-	-	1	-
Change Little Davis-Bacon Act	2	-	1	-	-	1	-	-	-	-	-
Favor Alaska Contractors	1	1	-	-	-	-	-	-	-	-	-
Maintain Local Hire List	1	-	-	1	-	-	-	-	-	-	-
Set a Good Example	1	-	-	-	-	-	-	-	-	-	-
Tax Incentives	1	-	1	-	-	-	-	-	-	-	-
Income Tax Job Credits	1	-	-	-	1	-	-	-	-	-	-
Work With Unions	1	-	-	-	-	1	-	-	-	-	-
Work With Business	1	-	-	-	-	-	-	1	-	-	-

Source: Alaska Department of Labor, Research and Analysis

TABLE 5-4

EMPLOYER RESIDENT HIRE SURVEY  
WHO BESIDES THE STATE SHOULD BE INVOLVED IN PROMOTING RESIDENT HIRE

Response	Total	Oil & Gas	Other Mine	Bldg Const	Heavy Const	Spec Trade Const	Food Proc	Air Trans	Eat Drink Places	Busin Serv	Misc Serv
Firms / Contractors	13	2	-	2	-	1	2	-	2	4	-
Private Sector	5	-	-	1	-	1	-	1	-	1	1
Civic Orgs / Chamber of Commerce	3	1	-	-	1	-	-	-	1	-	-
Cities / Municipalities	3	-	-	-	-	-	-	-	-	1	2
Everyone	3	1	-	-	-	-	1	-	-	1	-
Business Associations	2	-	-	-	-	-	-	1	-	-	1
Unions	2	-	-	-	-	1	1	-	-	-	-
Federal Government	1	-	-	1	-	-	-	-	-	-	-

Source: Alaska Department of Labor, Research and Analysis

**FIGURE 5-1**

**Hard to Fill Jobs In Alaska  
Employer Resident Hire Survey  
December 1986**

**Oil & Gas**

Party Manager (seismic work)  
Observer (seismic work)  
Electrical and Welding Crafts (fewer problems than in past)  
Cementing  
Plastering  
Technical Jobs with Secondary Recovery  
(already done in the Lower 48 so they have experience)  
Unusual Welding

**Mining, Except Oil & Gas**

Laborers for Clearing Brush (short term)  
Winchmen (dredge operators)  
Engineers  
Geologists  
Chief Engineer (need industry experience)  
Reclamation Engineer (need industry experience)

**Building Construction**

Alcutian Chain Work  
Skilled People—Pipe Welders, Electricians  
People who Install External Panels  
Very Specialized Trades

**Heavy Construction**

Electronics  
Engineers  
Superintendents  
Quality Control Workers  
Certified Welders (at times of high employment)  
Instrumentation Specialists  
Hire Large Numbers of Workers on Short Notice

**Special Trades Construction**

Instrumentation Technicians  
Striping/Highway Line Painters (extremely specialized area)  
Technical Welding

**Food Processing**

Fish Processors on Floating Processors  
General Lack of Available People, at times  
Seafood Processors on Land  
Laborers: Fish Handling, Sliming, etc.

**Air Transportation**

Aircraft Maintenance and Modification  
Helicopter Pilots (pilots move seasonally to follow work)  
Pilot (with training on 727)  
Flight Engineer (with training on 727)  
Maintenance Workers

**Eating & Drinking**

None

**Business Services**

Structural Testing Technician I, II (science/engineering  
- type training)  
Waitress/Waiters, Kitchen Workers, etc.  
Alarm System Installers

**Miscellaneous Services**

Engineers  
Technical Staff  
Drafters  
Inspectors  
Supervisors and Management  
Architects  
Certified Public Accountants  
Accounting Positions  
Surveying Manager

Source: Alaska Dept. of Labor, Research & Analysis

## VOCATIONAL EDUCATION SURVEY

### Use of Alaska Vocational Education Programs to Ensure Resident Employment

A subcommittee of the Council on Alaska Hire explored the ability of in-state vocational education programs to supply a trained work force for Alaska employers. More than 8,000 employers were surveyed to elicit almost 1,400 responses. Figure 5-2 summarizes select survey questions and responses.

### Trained Alaska Work Force Unavailable for Some Industries

Approximately 67 percent of the vocational education survey respondents felt there was an available work force to meet their needs; however, more than 40 percent of the respondents in manufacturing and wholesale trade industries felt there was not a trained Alaska labor force available. Sixty percent of respondents in the employer resident hire survey indicated their most frequent reason for hiring nonresidents in their industry was that trained qualified residents were not available. Sixty-one percent of vocational education survey respondents felt their companies would benefit from further training of their employees.

### Firms Prefer to Hire Alaskans

Ninety-five percent of vocational education survey participants responded that they would prefer to hire from an Alaskan work force if that work force met their requirements. Nearly 76 percent of the survey respondents indicated that they would be willing to hire an underqualified Alaskan if the Alaskan could be trained. Unfortunately, this question did not specifically address who would provide the training. Respondents may have indicated "yes" more readily if they inferred that someone else would be providing the training. When unemployment rates are high nationally, it is to the employer's advantage to seek people who are already trained. This minimizes the employer's need to provide training. While the exact meaning of this question was unclear, the response could imply that employers are willing to do some training.

### Other Employer Comments

Vocational education survey participants were also asked to provide additional comments or suggestions about the hiring of nonresidents. Nearly one-fourth of respondents provided additional comments. Table 5-6 summarizes the nature of the comments while Table 5-7 indicates the distribution of respondents by industry.

FIGURE 5-2

VOCATIONAL EDUCATION SURVEY  
OF ALASKA EMPLOYERS

QUESTIONS

Do you feel that there is a readily trained Alaskan labor force for your needs?

Would you prefer to hire from an Alaskan work force if that work force met your requirements?

Do you feel that your company or organization would benefit from further training of your current employees?

How much are you aware of or concerned about available in-state training programs?

Do you feel you have access to reliable in-state training programs?

Are you inhibited from approaching an in-state training institution due to cost?

Is partial loss of the employee time an inhibiting factor towards in-state training?

Do you feel that in-state training institutions emphasize productivity through good work habits?

Have you ever approached an in-state training institution to develop a specialized training course for current employees?

Would you consider hiring an Alaskan who may not be as qualified but could be trained?

Have you ever offered on-the-job training to your employees?

Methods used to obtain employees.

ANSWERS

Approximately 67 percent of respondents indicated they felt that there was an available work force. However, more than 40 percent of the respondents in the manufacturing and wholesale trade industries indicated that they felt there was not a trained Alaska labor force available.

More than 95 percent of the respondents answered affirmatively to this question.

61.4 percent of respondents felt their companies would benefit from further training of their employees.

14.5 percent responded "nothing," 43.1 percent responded "very little" while 32.4 percent responded "everything I need to know."

Only 36.8 percent responded affirmatively.

Overall 30.4 percent of the respondents indicated that cost was a concern. The manufacturing and finance, insurance and real estate industries were most likely to indicate that cost was an inhibiting factor.

The construction industry was more likely to feel that the loss of employee time inhibited them from approaching an in-state training institution. Higher wages in the construction industry likely were a factor in this response.

Only 25 percent responded affirmatively to this question; however, 57.6 percent did not respond at all.

79.8 percent of all respondents indicated that they had not approached an in-state training institution.

Nearly 76 percent of all respondents indicated that they would be willing to hire an underqualified Alaskan if they could be trained.

88.1 percent of all respondents indicated that they have offered on-the-job training to their employees.

The most frequently used methods were word-of-mouth referrals (69.4 percent), walk-in applicants (58.8 percent), Alaska Job Service (50.0 percent), and advertising (47.4 percent).

Source: Alaska Department of Labor, Research and Analysis

TABLE 5-5

VOCATIONAL EDUCATION SURVEY  
NATURE OF ADDITIONAL COMMENTS PROVIDED BY PARTICIPANTS

Nature of Comment	% of Total
Training Related 1/	35.4
Problems with Current State or Local Bid Process, or Little Davis-Bacon Act	5.6
Employers Hire Qualified People Regardless of Residency	5.6
Wage Related, Nonresidents Work for Less	2.8
Change Existing Laws; Provide Employer Incentives	2.8
Resident Hire Unconstitutional	1.6
Miscellaneous	42.6
TOTAL PERCENT	100.0
TOTAL NUMBER	319.0

Source: Alaska Department of Labor, Research and Analysis  
1/ A more detailed analysis of training related comments is available upon request.

TABLE 5-6

VOCATIONAL EDUCATION SURVEY  
INDUSTRIAL DISTRIBUTION OF PARTICIPANTS  
WHO PROVIDED ADDITIONAL COMMENTS

Standard Industrial Classification (SIC)	% of Total
Agriculture	1.3
Mining	1.6
Construction	15.4
Manufacturing	5.0
Transportation	3.4
Wholesale Trade	3.4
Retail Trade	16.0
Finance, Insurance, and Real Estate	3.4
Services	34.5
Public Administration	5.0
Not Classified or Information Not Available	11.0
TOTAL PERCENT	100.0
TOTAL NUMBER	319.0

Source: Alaska Department of Labor, Research and Analysis

## ALASKA HIRE TASK FORCE REPORT

The primary objective of this committee was to solicit proposals, ideas, and initiatives regarding resident hire. Input was received from many state agencies and from sources outside of state government. Each state department was requested to examine its own programs, statutes and regulations to determine whether they could be modified or amended to promote the use of Alaska businesses, products and workers. Because of this broad perspective the proposals described in the final report are wide-ranging in nature and approach the issue of resident hire from many different directions. Some of the proposals are relatively narrow in focus, while others involve significant economic, political or legal considerations.

The 1986 Alaska Hire Task Force report was intended primarily for policy makers as a reference of new ideas and initiatives on resident hire. It was not intended to describe resident hire programs which were already in effect and ongoing such as the voluntary compliance, contractor licensing and vehicle licensing programs.

The 36 proposals contained in the task force report are listed below. Those interested in a detailed description of report contents and the current status of each of the proposals are encouraged to contact the Department of Labor. Some of the ideas were addressed in legislation introduced and/or passed during the second session of the Fourteenth Alaska Legislature. Other ideas are pending.

### Proposals and Initiatives in Resident Hire Task Force Report

1. Comprehensive Minority Business Enterprise Program
2. Forest Products Preference
3. Loan Program Incentives
4. Economic Disaster Legislation
5. Capital Project Grant Programs
6. Employment Services and Incentives for Teachers
7. Depressed Area Legislation
8. Licensing of Construction Workers
9. Regulation of Subcontracting Practices
10. Job Service Coordination with Alaskan Native Organizations
11. Expansion of Job Service Network
12. Publicity and Advertising Campaign
13. Cooperation with U.S. Immigration and Naturalization Service
14. User of Alaska Public Broadcasting System
15. Foreign Fisheries Observer Program
16. Resident Hire on Natural Resource Projects
17. Expansion of Youth Employment Program
18. Federal Land and Water Conservation Grants
19. Resident Hire Stipulations in Oil and Gas Leases
20. Year-round Exploratory Activities
21. Prevailing Wages on Oil and Gas Lease Work
22. Oil Industry Training Programs
23. Resident Hire Incentive Credits
24. Graduated Corporate Tax Rates
25. Adjustment of Investment Tax Credit
26. Bidder Prequalification on State Construction Projects
27. Solicitation of Construction Bids Only in Alaska
28. Require Prime Contractors to Publicize Labor and Subcontract Needs on Public Construction Projects

29. Use of Unique Alaska Materials or State-furnished Materials
30. "Buy Alaska" Legislation
31. Local Fabrication of Construction Materials
32. Prequalification of Local Labor Force
33. Expand Bidder Preference
34. Executive Order Mandating Local Hire
35. Management Program for Public Land Managers
36. Linked Deposit Small Business Loan Program

#### USE OF OCCUPATIONAL INFORMATION TO INCREASE RESIDENT HIRE

In the fall of 1986 employers were notified of an industry schedule under which they are required to begin reporting the occupational title and work location of all employees on their quarterly unemployment insurance tax report. This new information will be crossmatched with other variables contained in the Department of Labor wage file, unemployment insurance claimant file, job service applicant file, and Department of Revenue permanent fund dividend file to provide data about resident and nonresident employees by occupation, industry, work area, residence area, and wage level.

While the preceding information is required to make preference determinations under the current resident hiring statute, it can also be used by Alaska's policy makers to identify the worst problem areas, suggest potential solutions, fine-tune existing efforts, and evaluate the effectiveness of any actions taken. For example, areas of high nonresident employment will be identified by industry, occupation, area, and earnings. The Department of Labor will then explore the reasons for high nonresident employment in the most significant problem industries, areas, and occupations. The others such as the governor's office and the legislature can use these facts to adjust laws, regulations, administrative procedures, and programs to comprehensively encourage higher levels of resident employment throughout Alaska's economy.

(6)

# Job Training Partnership Act

(Editor's Note: Following is the text of the Job Training Partnership Act (JTPA), P.L. 97-300. Signed by the president on October 13, 1982, JTPA took effect in FY 1984. Included in the text are "minor and technical" revisions instituted by P.L. 97-404, enacted on 12/31/82, "conforming" amendments instituted by the Carl D. Perkins Vocational Education Act, P.L. 98-524, enacted on 10/19/84, and the Job Training Partnership Act Amendments of 1986, P.L. 99-496, enacted on October 16, 1986. The 1986 amendments provide more stable funding for service delivery areas under Titles II-A and II-B, put a new emphasis on literacy, mandating remedial education during the summer youth employment program, and count pre-employment skills training for 14 and 15 year-olds toward the 40-percent youth spending requirement. They also allow the use of six-percent funds for post-program data collection for two years and for general and preventive technical assistance, add the self-employed and farmers to the definition of dislocated workers, call for special consideration to displaced homemakers, the handicapped, and veterans, and authorize presidential awards for outstanding private sector training programs and model programs for individuals with multiple barriers to employment.)

## An Act

To provide for a job training program and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

### SHORT TITLE; TABLE OF CONTENTS

SECTION 1. This Act may be cited as the "Job Training Partnership Act".

### TABLE OF CONTENTS

- Sec. 1. Short title; table of contents.
- Sec. 2. Statement of purpose.
- Sec. 3. Authorization of appropriations.
- Sec. 4. Definitions.

### TITLE I—JOB TRAINING PARTNERSHIP

#### PART A—SERVICE DELIVERY SYSTEM

- Sec. 101. Establishment of service delivery areas.
- Sec. 102. Establishment of private industry council.
- Sec. 103. Functions of private industry council.
- Sec. 104. Job training plan.
- Sec. 105. Review and approval of plan.
- Sec. 106. Performance standards.
- Sec. 107. Selection of service providers.
- Sec. 108. Limitation on certain costs.

#### PART B—ADDITIONAL STATE RESPONSIBILITIES

- Sec. 121. Governor's coordination and special services plan.
- Sec. 122. State job training coordinating council.
- Sec. 123. State education coordination and grants.
- Sec. 124. Training programs for older individuals.
- Sec. 125. State labor market information programs.
- Sec. 126. Authority of State legislature.
- Sec. 127. Interstate agreements.

#### PART C—PROGRAM REQUIREMENTS FOR SERVICE DELIVERY SYSTEM

- Sec. 141. General program requirements.
- Sec. 142. Benefits.
- Sec. 143. Labor standards.
- Sec. 144. Grievance procedure.
- Sec. 145. Prohibition against Federal control of education.

#### PART D—FEDERAL AND FISCAL ADMINISTRATIVE PROVISIONS

- Sec. 161. Program year.
- Sec. 162. Prompt allocation of funds.
- Sec. 163. Monitoring.
- Sec. 164. Fiscal controls; sanctions.
- Sec. 165. Reports, recordkeeping, and investigations.
- Sec. 166. Administrative adjudication.
- Sec. 167. Nondiscrimination.
- Sec. 168. Judicial review.
- Sec. 169. Administrative provisions.
- Sec. 170. Utilization of services and facilities.
- Sec. 171. Obligational authority.

#### PART E—MISCELLANEOUS PROVISIONS

- Sec. 181. Transition.
- Sec. 182. Criminal provisions.
- Sec. 183. Reference.
- Sec. 184. Repealers.

### TITLE II—TRAINING SERVICES FOR THE DISADVANTAGED

#### PART A—ADULT AND YOUTH PROGRAMS

- Sec. 201. Allotment.
- Sec. 202. Within State allocation.
- Sec. 203. Eligibility for services.
- Sec. 204. Use of funds.
- Sec. 205. Exemplary youth programs.

#### PART B—SUMMER YOUTH EMPLOYMENT AND TRAINING PROGRAMS

- Sec. 251. Purposes.
- Sec. 252. Authorization of appropriations; allotment and allocation.
- Sec. 253. Use of funds.
- Sec. 254. Limitations.
- Sec. 255. Applicable provisions.

### TITLE III—EMPLOYMENT AND TRAINING ASSISTANCE FOR DISLOCATED WORKERS

- Sec. 301. Allocation of funds.
- Sec. 302. Identification of dislocated workers.
- Sec. 303. Authorized activities.
- Sec. 304. Matching requirement.
- Sec. 305. Program review.
- Sec. 306. Consultation with labor organizations.
- Sec. 307. Limitations.
- Sec. 308. State plans; coordination with other programs.

### TITLE IV—FEDERALLY ADMINISTERED PROGRAMS

#### PART A—EMPLOYMENT AND TRAINING PROGRAMS FOR NATIVE AMERICANS AND MIGRANT AND SEASONAL FARMWORKERS

- Sec. 401. Native American programs.
- Sec. 402. Migrant and seasonal farmworker programs.

#### PART B—JOB CORPS

- Sec. 421. Statement of purpose.
- Sec. 422. Establishment of the Job Corps.
- Sec. 423. Individuals eligible for the Job Corps.
- Sec. 424. Screening and selection of applicants; general provisions.
- Sec. 425. Screening and selection; special limitations.
- Sec. 426. Enrollment and assignment.
- Sec. 427. Job Corps centers.
- Sec. 428. Program activities.
- Sec. 429. Allowances and support.
- Sec. 430. Standards of conduct.
- Sec. 431. Community participation.
- Sec. 432. Counseling and job placement.
- Sec. 433. Experimental and developmental projects and coordination with other programs.
- Sec. 434. Advisory boards and committees.
- Sec. 435. Participation of the States.
- Sec. 436. Application of provisions of Federal law.
- Sec. 437. Special provisions.
- Sec. 438. General provisions.
- Sec. 439. Donations.

#### PART C—VETERANS' EMPLOYMENT PROGRAMS

- Sec. 441. Programs authorized.

#### PART D—NATIONAL ACTIVITIES

- Sec. 451. Multistate programs.
- Sec. 452. Research and demonstration.
- Sec. 453. Pilot projects.
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- Sec. 456. Projects for special populations.

#### PART E—LABOR MARKET INFORMATION

- Sec. 461. Labor market information; availability of funds.
- Sec. 462. Cooperative labor market information program.
- Sec. 463. Special Federal responsibilities.
- Sec. 464. National Occupational Information Coordinating Committee.
- Sec. 465. Job bank program.

#### PART F—NATIONAL COMMISSION FOR EMPLOYMENT POLICY

- Sec. 471. Statement of purpose.
- Sec. 472. Commission established.
- Sec. 473. Functions of the Commission.
- Sec. 474. Administrative provisions.
- Sec. 475. Reports.

#### PART G—TRAINING TO FULFILL AFFIRMATIVE ACTION OBLIGATIONS

- Sec. 481. Affirmative action.

## TITLE V—MISCELLANEOUS PROVISIONS

- Sec. 501. Amendments to the Wagner-Peyser Act.  
 Sec. 502. Amendments to part C of title IV of the Social Security Act.  
 Sec. 503. Earnings disregard.  
 Sec. 504. Enforcement of Military Selective Service Act.

## STATEMENT OF PURPOSE

Sec. 2. It is the purpose of this Act to establish programs to prepare youth and unskilled adults for entry into the labor force and to afford job training to those economically disadvantaged individuals and other individuals facing serious barriers to employment, who are in special need of such training to obtain productive employment.

## AUTHORIZATION OF APPROPRIATIONS

Sec. 3. (a)(1) There are authorized to be appropriated to carry out part A of title II and title IV (other than part B of such title) such sums as may be necessary for fiscal year 1983 and for each succeeding fiscal year.

(2) From the amount appropriated pursuant to paragraph (1) for any fiscal year, an amount equal to not more than 7 percent of the total amount appropriated pursuant to this section shall be available to carry out parts A, C, D, E, F, and G of title IV.

(3) Of the amount so reserved under paragraph (2)—

- (A) 5 percent shall be available for part C of title IV, and  
 (B) \$2,000,000 shall be available for part F of title IV.

(b) There are authorized to be appropriated to carry out part B of title II such sums as may be necessary for fiscal year 1983 and for each succeeding fiscal year.

(c) There are authorized to be appropriated to carry out title III such sums as may be necessary for fiscal year 1983 and for each succeeding fiscal year.

(d) There are authorized to be appropriated \$618,000,000 for fiscal year 1983, and such sums as may be necessary for each succeeding fiscal year, to carry out part B of title IV of this Act.

(e) The authorizations of appropriations contained in this section are subject to the program year provisions of section 161.

## DEFINITIONS

Sec. 4. For the purposes of this Act, the following definitions apply:

(1) The term "academic credit" means credit for education, training, or work experience applicable toward a secondary school diploma, a postsecondary degree, or an accredited certificate of completion, consistent with applicable State law and regulation and the requirements of an accredited educational agency or institution in a State.

(2) The term "administrative entity" means the entity designated to administer a job training plan under section 103(b)(1)(B).

(3) The term "area of substantial unemployment" means any area of sufficient size and scope to sustain a program under part A of title II of this Act and which has an average rate of unemployment of at least 6.5 percent for the most recent twelve months as determined by the Secretary. Determinations of areas of substantial unemployment shall be made once each fiscal year.

(4) The term "chief elected official" includes—

- (A) in the case of a State, the Governor;  
 (B) in the District of Columbia, the mayor; and  
 (C) in the case of a service delivery area designated under section 101(a)(4)(X)(iii), the governing body.

(5) The term "community-based organizations" means private nonprofit organizations which are representative of communities or significant segments of communities and which provide job training services (for example, Opportunities Industrialization Centers, the National Urban League, SER-Jobs for Progress, United Way of America, Mainstream, the National Puerto Rican Forum, National Council of La Raza, 70.00), Jobs for Youth, organizations operating career intern programs, neighborhood groups and organizations, community action agencies, community development corporations, vocational rehabilitation organizations, rehabilitation facilities (as defined in section 710) of the Rehabilitation Act of 1973), agencies serving youth, agencies serving the handicapped, including disabled veterans, agencies serving displaced homemakers, union-related organizations, and employer-related nonprofit organizations), and organizations serving nonreservation Indians (including the National Urban Indian Council), as well as tribal governments and Native Alaskan groups.

(6) Except as otherwise provided therein, the term "council"

means the private industry council established under section 102.

(7) The term "economic development agencies" includes local planning and zoning commissions or boards, community development agencies, and other local agencies and institutions responsible for regulating, promoting, or assisting in local economic development.

(8) The term "economically disadvantaged" means an individual who (A) receives, or is a member of a family which receives, cash welfare payments under a Federal, State, or local welfare program; (B) has, or is a member of a family which has, received a total family income for the six-month period prior to application for the program involved (exclusive of unemployment compensation, child support payments, and welfare payments) which, in relation to family size, was not in excess of the higher of (i) the poverty level determined in accordance with criteria established by the Director of the Office of Management and Budget, or (ii) 70 percent of the lower living standard income level; (C) is receiving food stamps pursuant to the Food Stamp Act of 1977; (D) is a foster child on behalf of whom State or local government payments are made; or (E) in cases permitted by regulations of the Secretary, is an adult handicapped individual whose own income meets the requirements of clause (A) or (B), but who is a member of a family whose income does not meet such requirements.

(9) The term "Governor" means the chief executive of any State.

(10) The term "handicapped individual" means any individual who has a physical or mental disability which for such individual constitutes or results in a substantial handicap to employment.

(11) The term "Hawaiian native" means any individual any of whose ancestors were natives, prior to 1778, of the area which now comprises the State of Hawaii.

(12) The term "institution of higher education" means any institution of higher education as that term is defined in section 1201(a) of the Higher Education Act of 1965.

(13) The term "labor market area" means an economically integrated geographic area within which individuals can reside and find employment within a reasonable distance or can readily change employment without changing their place of residence. Such areas shall be identified in accordance with criteria used by the Bureau of Labor Statistics of the Department of Labor in defining such areas or similar criteria established by a Governor.

(14) The term "local educational agency" means such an agency as defined in section 4(15) of the Carl D. Perkins Vocational Education Act.

(15) The term "low-income level" means \$7,000 with respect to income in 1969, and for any later year means that amount which bears the same relationship to \$7,000 as the Consumer Price Index for that year bears to the Consumer Price Index for 1969, rounded to the nearest \$1,000.

(16) The term "lower living standard income level" means that income level (adjusted for regional, metropolitan, urban, and rural differences and family size) determined annually by the Secretary based on the most recent "lower living family budget" issued by the Secretary.

(17) The term "offender" means any adult or juvenile who is or has been subject to any stage of the criminal justice process for whom services under this Act may be beneficial or who requires assistance in overcoming artificial barriers to employment resulting from a record of arrest or conviction.

(18) The term "postsecondary institution" means an institution of higher education as that term is defined in section 481(a)(1) of the Higher Education Act of 1965.

(19) The term "private sector" means, for purposes of the State job training councils and private industry councils, persons who are owners, chief executives or chief operating officers of private for-profit employers and major nongovernmental employers, such as health and educational institutions or other executives of such employers who have substantial management or policy responsibility.

(20) The term "public assistance" means Federal, State, or local government cash payments for which eligibility is determined by a needs or income test.

(21) The term "Secretary" means the Secretary of Labor.

(22) The term "State" means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, and the Trust Territory of the Pacific Islands.

(23) The term "State educational agency" means such an agency as defined in section 1201(h) of the Higher Education Act of 1965.

(24) The term "supportive services" means services which are necessary to enable an individual eligible for training under

this Act, but who cannot afford to pay for such services, to participate in a training program funded under this Act. Such supportive services may include transportation, health care, special services and materials for the handicapped, child care, meals, temporary shelter, financial counseling, and other reasonable expenses required for participation in the training program and may be provided in-kind or through cash assistance.

(25) The term "unemployed individuals" means individuals who are without jobs and who want and are available for work. The determination of whether individuals are without jobs shall be made in accordance with the criteria used by the Bureau of Labor Statistics of the Department of Labor in defining individuals as unemployed.

(26) The term "unit of general local government" means any general purpose political subdivision of a State which has the power to levy taxes and spend funds, as well as general corporate and police powers.

(27XA) The term "veteran" means an individual who served in the active military, naval, or air service, and who was discharged or released therefrom under conditions other than dishonorable.

(B) The term "disabled veteran" means (i) a veteran who is entitled to compensation under laws administered by the Veterans' Administration, or (ii) an individual who was discharged or released from active duty because of service-connected disability.

(C) The term "recently separated veteran" means any veteran who applies for participation under any title of this Act within 48 months of the discharge or release from active military, naval, or air service.

(D) The term "Vietnam era veteran" means a veteran any part of whose active military service occurred between August 5, 1964, and May 7, 1975.

(28) The term "vocational education" has the meaning provided in section 521(31) of the Carl D. Perkins Vocational Education Act.

(29) The term "displaced homemaker" means an individual who—

(A) was a full-time homemaker for a substantial number of years; and

(B) derived the substantial share of his or her support from—  
(i) a spouse and no longer receives such support due to the death, divorce, permanent disability of, or permanent separation from the spouse; or

(ii) public assistance on account of dependents in the home and no longer receives such support.

TITLE I—JOB TRAINING PARTNERSHIP

PART A—SERVICE DELIVERY SYSTEM

ESTABLISHMENT OF SERVICE DELIVERY AREAS

Sec. 101. (a)(1) The Governor shall, after receiving the proposal of the State job training coordinating council, publish a proposed designation of service delivery areas for the State each of which—

(A) is comprised of the State or one or more units of general local government;

(B) will promote effective delivery of job training services; and  
(CX) is consistent with labor market areas or standard metropolitan statistical areas, but this clause shall not be construed to require designation of an entire labor market area; or

(ii) is consistent with areas in which related services are provided under other State or Federal programs.

(2) The Council shall include in its proposal a written explanation of the reasons for designating each service delivery area.

(3) Units of general local government (and combinations thereof), business organizations, and other affected persons or organizations shall be given an opportunity to comment on the proposed designation of service delivery areas and to request revisions thereof.

(4XA) The Governor shall approve any request to be a service delivery area from—

(i) any unit of general local government with a population of 200,000 or more;

(ii) any consortium of contiguous units of general local government with an aggregate population of 200,000 or more which serves a substantial part of one or more labor market areas; and

(iii) any concentrated employment program grantee for a rural area which served as a prime sponsor under the Comprehensive Employment and Training Act.

(B) The Governor may approve a request to be a service delivery area from any unit of general local government or consortium of contiguous units of general local government, without regard to

population, which serves a substantial portion of a labor market area.

(C) If the Governor denies a request submitted under subparagraph (A) and the entity making such request alleges that the decision of the Governor is contrary to the provisions of this section, such entity may appeal the decision to the Secretary, who shall make a final decision within 30 days after such appeal is received.

(b) The Governor shall make a final designation of service delivery areas within the State. Before making a final designation of service delivery areas for the State, the Governor shall review the comments submitted under subsection (a)(3) and requests submitted under subsection (a)(4).

(c)(1) In accordance with subsection (a), the Governor may redesignate service delivery areas no more frequently than every two years. Such redesignations shall be made not later than 4 months before the beginning of a program year.

(2) Subject to paragraph (1), the Governor shall make such a redesignation if a petition to do so is filed by an entity specified in subsection (a)(4)(A).

(3) The provisions of this subsection are subject to section 105(c).

ESTABLISHMENT OF PRIVATE INDUSTRY COUNCIL

Sec. 102. (a) There shall be a private industry council for every service delivery area established under section 101, to be selected in accordance with this subsection. Each council shall consist of—

(1) representatives of the private sector, who shall constitute a majority of the membership of the council and who shall be owners of business concerns, chief executives or chief operating officers of non-governmental employers, or other private sector executives who have substantial management or policy responsibility; and

(2) representatives of educational agencies (representative of all educational agencies in the service delivery area), organized labor, rehabilitation agencies, community-based organizations, economic development agencies, and the public employment service.

(b) The Chairman of the council shall be selected from among members of the council who are representatives of the private sector.

(c)(1)(A) Private sector representatives on the council shall be selected from among individuals nominated by general purpose business organizations after consulting with, and receiving recommendations from, other business organizations in the service delivery area. The number of such nominations shall be at least 150 percent of the number of individuals to be appointed under subsection (a)(1). Such nominations, and the individuals selected from such nominations, shall reasonably represent the industrial and demographic composition of the business community. Whenever possible, at least one-half of such business and industry representatives shall be representatives of small business, including minority business.

(B) For the purpose of this paragraph, the term—

(i) "general purpose business organizations" means organizations which admit to membership any for-profit business operating within the service delivery area; and

(ii) "small business" means private for-profit enterprises employing 500 or fewer employees.

(2) Education representatives on the council shall be selected from among individuals nominated by local educational agencies, vocational education institutions, institutions of higher education, or general organizations of such agencies or institutions, and by private and proprietary schools or general organizations of such schools, within the service delivery area.

(3) The remaining members of the council shall be selected from individuals recommended by interested organizations. Labor representatives shall be recommended by recognized State and local labor organizations or appropriate building trades councils.

(d)(1) In any case in which there is only one unit of general local government with experience in administering job training programs within the service delivery area, the chief elected official of that unit shall appoint members to the council from the individuals nominated or recommended under subsection (c).

(2) In any case in which there are two or more such units of general local government in the service delivery area, the chief elected officials of such units shall appoint members to the council from the individuals so nominated or recommended in accordance with an agreement entered into by such units of general local government. In the absence of such an agreement, the appointments shall be made by the Governor from the individuals so nominated or recommended.

(e) The initial number of members of the council shall be determined—

(1) by the chief elected official in the case described in subsection (d)(1),

(2) by the chief elected officials in accordance with the agreement in the case described in subsection (d)(2), or

(3) by the Governor in the absence of such agreement. Thereafter, the number of members of the council shall be determined by the council.

(f) Members shall be appointed for fixed and staggered terms and may serve until their successors are appointed. Any vacancy in the membership of the council shall be filled in the same manner as the original appointment. Any member of the council may be removed for cause in accordance with procedures established by the council.

(g) The Governor shall certify a private industry council if the Governor determines that its composition and appointments are consistent with the provisions of this subsection. Such certification shall be made or denied within 30 days after the date on which a list of members and necessary supporting documentation are submitted to the Governor. When the Governor certifies the council, it shall be convened within 30 days by the official or officials who made the appointments to such council under subsection (d).

(h) In any case in which the service delivery area is a State, the State job training coordinating council or a portion of such council may be reconstituted to meet the requirements of this section.

#### FUNCTIONS OF PRIVATE INDUSTRY COUNCIL

Sec. 103. (a) It shall be the responsibility of the private industry council to provide policy guidance for, and exercise oversight with respect to, activities under the job training plan for its service delivery area in partnership with the unit or units of general local government within its service delivery area.

(b)(1) The council, in accordance with an agreement or agreements with the appropriate chief elected official or officials specified in subsection (c), shall—

(A) determine procedures for the development of the job training plan, which may provide for the preparation of all or any part of the plan (i) by the council, (ii) by any unit of general local government in the service delivery area, or by an agency thereof, or (iii) by such other methods or institutions as may be provided in such agreement; and

(B) select as a grant recipient and entity to administer the job training plan (which may be separate entities), (i) the council, (ii) a unit of general local government in its service delivery area, or an agency thereof, (iii) a nonprofit private organization or corporation, or (iv) any other agreed upon entity or entities.

(2) The council is authorized to provide oversight of the programs conducted under the job training plan in accordance with procedures established by the council. In order to carry out this paragraph, the council shall have access to such information concerning the operations of such programs as is necessary.

(c) For purposes of subsection (b), the appropriate chief elected official or officials means—

(1) the chief elected official of the sole unit of general local government in the service delivery area.

(2) the individual or individuals selected by the chief elected officials of all units of general local government in such area as their authorized representative, or

(3) in the case of a service delivery area designated under section 101(a)(4)(A)(iii), the representative of the chief elected official for such area (as defined in section 4(4)(C)).

(d) No job training plan prepared under section 104 may be submitted to the Governor unless (1) the plan has been approved by the council and by the appropriate chief elected official or officials specified in subsection (c), and (2) the plan is submitted jointly by the council and such official or officials.

(e) In order to carry out its functions under this Act, the council—

(1) shall, in accordance with the job training plan, prepare and approve a budget for itself, and

(2) may hire staff, incorporate, and solicit and accept contributions and grant funds (from other public and private sources).

(f) As used in this section, the term "oversight" means reviewing, monitoring, and evaluating.

#### JOB TRAINING PLAN

Sec. 104. (a) No funds appropriated for any fiscal year may be provided to any service delivery area under this Act except pursuant to a job training plan for two program years which is prepared in accordance with section 103 and which meets the requirements of this section.

(b) Each job training plan shall contain—

(1) identification of the entity or entities which will administer the program and be the grant recipient of funds from the State;

(2) a description of the services to be provided, including the estimated duration of service and the estimated training cost per participant;

(3) procedures for identifying and selecting participants and for eligibility determination and verification;

(4) performance goals established in accordance with standards prescribed under section 106;

(5) procedures, consistent with section 107, for selecting service providers which take into account past performance in job training or related activities, fiscal accountability, and ability to meet performance standards;

(6) the budget for two program years and any proposed expenditures for the succeeding two program years, in such detail as is determined necessary by the entity selected to prepare this portion of the plan pursuant to section 103(b)(1)(B) and to meet the requirements of section 108;

(7) a description of methods of complying with the coordination criteria contained in the Governor's coordination and special services plan;

(8) if there is more than one service delivery area in a single labor market area, provisions for coordinating particular aspects of individual service delivery area programs, including—

(A) assessments of needs and problems in the labor market that form the basis for program planning;

(B) provisions for ensuring access by program participants in each service delivery area to skills training and employment opportunities throughout the entire labor market; and

(C) coordinated or joint implementation of job development, placement, and other employer outreach activities;

(9) fiscal control, accounting, audit and debt collection procedures to assure the proper disbursement of, and accounting for, funds received under this title; and

(10) procedures for the preparation and submission of an annual report to the Governor which shall include—

(A) a description of activities conducted during the program year;

(B) characteristics of participants; and

(C) the extent to which the activities exceeded or failed to meet relevant performance standards.

(c) If changes in labor market conditions, funding, or other factors require substantial deviation from an approved job training plan, the private industry council and the appropriate chief elected official or officials (as described in section 103(c)) shall submit a modification of such plan (including modification of the budget under subsection (b)(6)), which shall be subject to review in accordance with section 105.

#### REVIEW AND APPROVAL OF PLAN

Sec. 105. (a)(1) Not less than 120 days before the beginning of the first of the two program years covered by the job training plan—

(A) the proposed plan or summary thereof shall be published;

and

(B) such plan shall be made available for review and comment to—

(i) each house of the State legislature for appropriate referral;

(ii) appropriate local educational and other public agencies in the service delivery area; and

(iii) labor organizations in the area which represent employees having the skills in which training is proposed; and

(C) such plan shall be reasonably available to the general public through such means as public hearings and local news facilities.

(2) The final plan, or a summary thereof, shall be published not later than 80 days before the first of the two program years and shall be submitted to the Governor in accordance with section 103(d)(2). Any modification shall be published not later than 80 days before it is effective and shall be submitted to the Governor in accordance with such section.

(b)(1) The Governor shall approve the job training plan or modification thereof unless he finds that—

(A) corrective measures for deficiencies found in audits or in meeting performance standards from previous years have not been taken or are not acceptably underway;

(B) the entity proposed to administer the program does not have the capacity to administer the funds;

(C) there are inadequate safeguards for the protection of funds received;

(D) the plan (or modification) does not comply with a particular provision or provisions of this Act or of regulations of the Secretary under this Act; or

(E) the plan (or modification) does not comply with the criteria under section 121(b) for coordinating activities under this Act with related program activities.

(2) The Governor shall approve or disapprove a job training plan (or modification) within 30 days after the date that the plan (or modification) is submitted, except that if a petition is filed under paragraph (3) such period shall be extended to 45 days. Any disapproval by the Governor may be appealed to the Secretary, who shall make a final decision of whether the Governor's disapproval complies with paragraph (1) of this subsection within 45 days after receipt of the appeal.

(3XA) Interested parties may petition the Governor within 15 days of the date of submission for disapproval of the plan or modification thereof if—

- (i) the party can demonstrate that it represents a substantial client interest.
- (ii) the party took appropriate steps to present its views and seek resolution of disputed issues prior to submission of the plan to the Governor, and
- (iii) the request for disapproval is based on a violation of statutory requirements.

(B) If the Governor approves the plan (or modification), the Governor shall notify the petitioner in writing of such decision and the reasons therefor.

(c1) If a private industry council and the appropriate chief elected official or officials fail to reach the agreement required under section 103 (b) or (d) and, as a consequence, funds for a service delivery area may not be made available under section 104, then the Governor shall redesignate, without regard to sections 101 (a)(4) and (c1), the service delivery areas in the State to merge the affected area into one or more other service delivery areas, in order to promote the reaching of agreement.

(2) In any State in which service delivery areas are redesignated under paragraph (1), private industry councils shall, to the extent necessary for the redesignation, be reconstituted and job training plans modified as required to comply with sections 102 and 103. Services under an approved plan shall not be suspended while the council is reconstituted and the plan is modified.

(d) In any case in which the service delivery area is a State, the plan (or modification) shall be submitted to the Secretary for approval. For the purpose of this subsection, the Secretary shall have the same authority as the Governor has under this section.

PERFORMANCE STANDARDS

SEC. 106. (a) The Congress recognizes that job training is an investment in human capital and not an expense. In order to determine whether that investment has been productive, the Congress finds that—

- (1) it is essential that criteria for measuring the return on this investment be developed; and
- (2) the basic return on the investment is to be measured by the increased employment and earnings of participants and the reductions in welfare dependency.

(b1) The basic measure of performance for adult training programs under title II is the increase in employment and earnings and the reductions in welfare dependency resulting from participation in the program. In order to determine whether these basic measures are achieved, the Secretary shall prescribe standards on the basis of appropriate factors which may include (A) placement in unsubsidized employment, (B) retention in unsubsidized employment, (C) the increase in earnings, including hourly wages, and (D) reduction in the number of individuals and families receiving cash welfare payments and the amounts of such payments.

(2) In prescribing standards under this section the Secretary shall also designate factors for evaluating the performance of youth programs which, in addition to appropriate utilization of the factors described in paragraph (1), shall be (A) attainment of recognized employment competencies recognized by the private industry council, (B) elementary, secondary, and postsecondary school completion, or the equivalent thereof, and (C) enrollment in other training programs or apprenticeships, or enlistment in the Armed Forces.

(3) The standards shall include provisions governing—

- (A) the base period prior to program participation that will be used;
- (B) a representative period after termination from the program that is a reasonable indicator of postprogram earnings and cash welfare payment reductions; and
- (C) cost-effective methods for obtaining such data as is necessary to carry out this section, which, notwithstanding any other provision of law, may include access to earnings records, State employment security records, Federal Insurance Contributions Act records, State aid to families with dependent children records, statistical sampling techniques, and similar records or measures.

(4) The Secretary shall prescribe performance standards relating gross program expenditures to various performance measures.

(c) Within six months after the date of the enactment of this Act, the Secretary shall establish initial performance standards which are designed to contribute to the achievement of the performance goals set forth in subsection (b)(1), based upon data accumulated under the Comprehensive Employment and Training Act, from the National Commission for Employment Policy, and from other appropriate sources. In the development of the initial standards under this subsection, the Secretary shall relate gross program expenditures to the accomplishment of program goals set forth in subsection (b)(1).

(d)(1) The Secretary shall, not later than January 31, 1984, prescribe performance standards for the first program year under this Act to measure the results of the participation in the program to achieve the goals set forth in subsection (b)(1) based upon the initial standards established in subsection (c).

(2) The Secretary, not later than six months after the completion of the first two program years, shall prepare and submit a report to the Congress containing the performance standards established under paragraph (1) of this subsection, together with an analysis of the manner in which the performance standards contribute to the achievement of the goals set forth in subsection (b)(1), including the relative importance of each standard to the accomplishment of such goals.

(3) The Secretary shall prescribe variations in performance standards for special populations to be served, including Native Americans, migrant and seasonal farmworkers, disabled and Vietnam era veterans, including veterans who served in the Indochina Theater between August 5, 1964, and May 7, 1975, and offenders, taking into account their special circumstances.

(4XA) The Secretary may modify the performance standards under this subsection not more often than once every two program years and such modifications shall not be retroactive.

(B) The Secretary shall prepare and submit a report to the Congress containing any modifications established under subparagraph (A), and the reasons for such modifications.

(e) Each Governor may prescribe, within parameters established by the Secretary, variations in the standards under this subsection based upon specific economic, geographic, and demographic factors in the State and in service delivery areas within the State, the characteristics of the population to be served, and the type of services to be provided.

(f) The National Commission for Employment Policy shall (1) advise the Secretary in the development of performance standards under this section for measuring results of participation in job training and in the development of parameters for variations of such standards referred to in subsection (e), (2) evaluate the usefulness of such standards as measures of desired performance, and (3) evaluate the impacts of such standards (intended or otherwise) on the choice of who is served, what services are provided, and the cost of such services in service delivery areas.

(g) The Secretary shall prescribe performance standards for programs under title III based on placement and retention in unsubsidized employment.

(h)(1) The Governor shall provide technical assistance to programs which do not meet performance criteria. If the failure to meet performance standards persists for a second year, the Governor shall impose a reorganization plan. Such plan may restructure the private industry council, prohibit the use of designated service providers or make such other changes as the Governor deems necessary to improve performance. The Governor may also select an alternate entity to administer the program for the service delivery area.

(2) The alternate administrative entity may be a newly formed private industry council or any agency jointly selected by the Governor and the chief elected official of the largest unit of general local government in the service delivery area.

(3) No change may be made under this subsection without an opportunity for a hearing before a hearing officer.

(4) The decision of the Governor may be appealed to the Secretary, who shall make a final decision within 60 days of the receipt of the appeal.

SELECTION OF SERVICE PROVIDERS

SEC. 107. (a) The primary consideration in selecting agencies or organizations to deliver services within a service delivery area shall be the effectiveness of the agency or organization in delivering comparable or related services based on demonstrated performance, in terms of the likelihood of meeting performance goals, cost, quality of training, and characteristics of participants. In complying with this subsection, proper consideration shall be given to community-based organizations as service providers.

(b) Funds provided under this Act shall not be used to duplicate facilities or services available in the area (with or without reimbursement) from Federal, State, or local sources, unless it is demonstrated that alternative services or facilities would be more effective or more likely to achieve the service delivery area's performance goals.

(c) Appropriate education agencies in the service delivery area shall be provided the opportunity to provide educational services, unless the administrative entity demonstrates that alternative agencies or organizations would be more effective or would have greater potential to enhance the participants' continued occupational and career growth.

(d) The administrative entity shall not fund any occupational skills training program unless the level of skills provided in the

program are in accordance with guidelines established by the private industry council.

LIMITATION ON CERTAIN COSTS

Sec. 109. (a) Not more than 15 percent of the funds available to a service delivery area for any fiscal year for programs under part A of title II may be expended for the cost of administration. For purposes of this paragraph, costs of program support (such as counseling) which are directly related to the provision of education or training and such additional costs as may be attributable to the development of training described in section 204(23) shall not be counted as part of the cost of administration.

(b)(1) Not more than 30 percent of the funds available to a service delivery area for any fiscal year for programs under part A of title II may be expended for administrative costs (as defined under subsection (a)) and costs specified in paragraph (2).

(2)(A) For purposes of paragraph (1), the costs specified in this paragraph are—

- (i) 50 percent of any work experience expenditures which meet the requirements of paragraph (3);
- (ii) 100 percent of the cost of any work experience program expenditures which do not meet the requirements of paragraph (3);
- (iii) supportive services; and
- (iv) needs-based payments described in section 204(27).

(B) For purposes of paragraph (1), the costs specified in this paragraph do not include expenditures for tryout employment which meets the requirements of section 205(d)(3)(B).

(3) For purposes of paragraph (2), a work experience expenditure meets the requirements of this paragraph if—

(A) the work experience is of not more than 6 months' duration and is combined with a classroom or other training program;

(B) an individual participant is prohibited from participating in any other work experience program following participation in a program meeting the requirements of this paragraph;

(C) the classroom or other training program component is specified in a preemployment contract or meets established academic standards; and

(D) wages paid in the work experience program do not exceed the prevailing entry-level wage for the same occupation in the same labor market area.

(c)(1) Notwithstanding subsection (b), expenditures may be made in excess of the limitation contained in such subsection if such expenditures are made in accordance with the requirements of this subsection.

(2) Expenditures may be made in excess of the limitation contained in subsection (b) in any service delivery area if—

- (A) the private industry council for such area initiates a request for such excess costs; and
- (B) excess costs are due to one or more of the following conditions in such area:

(i) an unemployment rate (in the service delivery area or that portion within which services resulting in excess costs are to be provided) which exceeds the national average unemployment rate by at least 3 percentage points, and the ratio of current private employment to population in such area or portion is less than the national average of such ratio;

(ii) the job training plan for such area proposes to serve a disproportionately high number of participants from groups requiring exceptional supportive service costs, such as handicapped individuals, including disabled veterans, offenders, and single heads of households with dependent children;

(iii) the cost of providing necessary child care exceeds one-half of the costs specified in paragraph (2) of subsection (b);

(iv) the costs of providing necessary transportation exceeds one-third of the costs specified in paragraph (2) of subsection (b); or

(v) a substantial portion of the participants in programs in the service delivery area are in training programs of 9 months' duration or more.

(3) Expenditures may be made in excess of the limitation contained in subsection (b) if the need for and the amount of the excess is stated in the job training plan (or modification thereof) for the service delivery area and such plan demonstrates that administrative costs comply with subsection (a) of this section.

(4) The provisions of this subsection shall not be available to the extent that supportive services provided under the job training plan duplicate services provided by any other public or private source that are available to participants without cost.

(5) The Governor shall not disapprove any plan for modification thereof on the basis of any statement of the need for and amount of excess costs in the job training plan if such plan or modification meets the requirements of this subsection.

(d) The provisions of this section do not apply to any service delivery area designated pursuant to section 101(a)(4)(A)(iii).

(e) This section shall not be construed to exempt programs under an approved plan from the performance standards established under section 106.

PART B—ADDITIONAL STATE RESPONSIBILITIES

GOVERNOR'S COORDINATION AND SPECIAL SERVICES PLAN

Sec. 121. (a)(1) The Governor shall annually prepare a statement of goals and objectives for job training and placement programs within the State to assist in the preparation of the plans required under section 104 of this Act and section 5 of the Act of June 5, 1933 (known as the Wagner-Peyser Act).

(2) Any State seeking financial assistance under this Act shall submit a Governor's coordination and special services plan for two program years to the Secretary describing the use of all resources provided to the State and its service delivery areas under this Act and evaluating the experience over the preceding two years.

(b)(1) The plan shall establish criteria for coordinating activities under this Act (including title III) with programs and services provided by State and local education and training agencies (including vocational education agencies), public assistance agencies, the employment service, rehabilitation agencies, postsecondary institutions, economic development agencies, and such other agencies as the Governor determines to have a direct interest in employment and training and human resource utilization within the State. Such criteria shall not affect local discretion concerning the selection of eligible participants or service providers in accordance with the provisions of sections 107 and 203.

(2) The plan shall describe the projected use of resources, including oversight and support activities, priorities and criteria for State incentive grants, and performance goals for State supported programs.

(3) The Governor shall report to the Secretary the adjustments made in the performance standards and the factors that are used in making the adjustments.

(4) If major changes occur in labor market conditions, funding, or other factors during the two-year period covered by the plan, the State shall submit a modification to the Secretary describing these changes.

(c) Governor's coordination and special services activities may include—

(1) making available to service delivery areas, with or without reimbursement and upon request, appropriate information and technical assistance to assist in developing and implementing plans and programs;

(2) carrying out special model training and employment programs and related services (including programs receiving financial assistance from private sources);

(3) providing programs and related services for offenders and other individuals whom the Governor determines require special assistance;

(4) providing financial assistance for special programs and services designed to meet the needs of rural areas outside major labor market areas;

(5) providing training opportunities in the conservation and efficient use of energy, and the development of solar energy sources as defined in section 3 of the Solar Energy Research, Development and Demonstration Act of 1974;

(6) industry-wide training;

(7) activities under title III of this Act;

(8) developing and providing to service delivery areas information on a State and local area basis regarding economic, industrial, and labor market conditions;

(9) providing preservice and inservice training for planning, management, and delivery staffs of administrative entities and private industry councils, as well as contractors for State supported programs; and

(10) providing statewide programs which provide for joint funding of activities under this Act with services and activities under other Federal, State, or local employment-related programs, including Veterans' Administration programs.

(d) A Governor's coordination and special services plan shall be approved by the Secretary unless the Secretary determines that the plan does not comply with specific provisions of this Act.

STATE JOB TRAINING COORDINATING COUNCIL

Sec. 122. (a)(1) Any State which desires to receive financial assistance under this Act shall establish a State job training coordinating council hereinafter in this section referred to as the "State council". Funding for the council shall be provided pursuant to section 202(b)(4).

(2) The State council shall be appointed by the Governor, who shall designate one nongovernmental member thereof to be chairperson. In making appointments to the State council, the Governor shall ensure that the membership of the State council reasonably represents the population of the State.

(3) The State council shall be composed as follows:

(A) One-third of the membership of the State council shall be representatives of business and industry (including agriculture, where appropriate) in the State, including individuals who are representatives of business and industry on private industry councils in the State.

(B) Not less than 20 percent of the membership of the State council shall be representatives of the State legislature and State agencies and organizations, such as the State educational agency, the State vocational education board, the State advisory council on vocational education, the State board of education (when not otherwise represented), State public assistance agencies, the State employment security agency, the State rehabilitation agency, the State occupational information coordinating committee, State postsecondary institutions, the State economic development agency, State veterans' affairs agencies or equivalent, and such other agencies as the Governor determines to have a direct interest in employment and training and human resource utilization within the State.

(C) Not less than 20 percent of the membership of the State council shall be representatives of the units or consortia of units of general local government in such State (including those which are administrative entities or grantees under this Act) which shall be nominated by the chief elected officials of the units or consortia of units of general local government; and

(D) Not less than 20 percent of the membership of the State council shall be representatives of the eligible population and of the general public, representatives of organized labor, representatives of community-based organizations, and representatives of local educational agencies (nominated by local educational agencies).

(4) The State council shall meet at such times and in such places as it deems necessary. The meetings shall be publicly announced, and, to the extent appropriate, open and accessible to the general public.

(5) The State council is authorized to obtain the services of such professional, technical, and clerical personnel as may be necessary to carry out its functions under this Act.

(6) In order to assure objective management and oversight, the State council shall not operate programs or provide services directly to eligible participants, but shall exist solely to plan, coordinate, and monitor the provision of such programs and services.

(7) The plans and decisions of the State council shall be subject to approval by the Governor.

(b) The State council shall—

(1) recommend a Governor's coordination and special services plan;

(2) recommend to the Governor substate service delivery areas, plan resource allocations not subject to section 202(a), provide management guidance and review for all programs in the State, develop appropriate linkages with other programs, coordinate activities with private industry councils, and develop the Governor's coordination and special services plan and recommend variations in performance standards;

(3) advise the Governor and local entities on job training plans and certify the consistency of such plans with criteria under the Governor's coordination and special services plan for coordination of activities under this Act with other Federal, State, and local employment-related programs, including programs operated in designated enterprise zones;

(4) review the operation of programs conducted in each service delivery area, and the availability, responsiveness, and adequacy of State services, and make recommendations to the Governor, appropriate chief elected officials, and private industry councils, service providers, the State legislature, and the general public with respect to ways to improve the effectiveness of such programs or services;

(5) review and comment on the State plan developed for the State employment service agency;

(6) make an annual report to the Governor which shall be a public document, and issue such other studies, reports, or documents as it deems advisable to assist service delivery areas in carrying out the purposes of this Act;

(7) identify, in coordination with the appropriate State agencies, the employment and training and vocational educa-

tion needs throughout the State, and assess the extent to which employment and training, vocational education, rehabilitation services, public assistance, economic development, and other Federal, State, and local programs and services represent a consistent, integrated, and coordinated approach to meeting such needs; and

(8) comment at least once annually on the measures taken pursuant to section 113(b)(9) of the Carl D. Perkins Vocational Education Act; and

(9) review plans of all State agencies providing employment, training, and related services, and provide comments and recommendations to the Governor, the State legislature, the State agencies, and the appropriate Federal agencies on the relevancy and effectiveness of employment and training and related service delivery systems in the State.

(c) In addition to the functions described in subsection (b), the Governor may, to the extent permitted by applicable law, transfer functions which are related to functions under this Act to the council established under this section from any State coordinating committee for the work incentive program under title IV of the Social Security Act or any advisory council established under the Wagner-Peyser Act.

STATE EDUCATION COORDINATION AND GRANTS

Sec. 123. (a) The sums available for this section pursuant to section 202(b)(1) shall be used by the Governor to provide financial assistance to any State education agency responsible for education and training—

(1) to provide services for eligible participants through cooperative agreements between such State education agency or agencies, administrative entities in service delivery areas in the State, and (where appropriate) local educational agencies;

(2) to facilitate coordination of education and training services for eligible participants through such cooperative agreements; and

(3) to provide—

(A) literacy training to youth and adults;

(B) dropout prevention and re-enrollment services to youth, giving priority to youth who are at risk of becoming dropouts;

(C) a Statewide school-to-work transition program operated in a manner consistent with section 205(d); or

(D) any combination of the activities described in subparagraphs (A), (B), and (C) of this paragraph.

(b) The cooperative agreements described in subsection (a) shall provide for the contribution by the State agency or agencies, and the local educational agency (if any), of a total amount equal to the amount provided, pursuant to subsection (a)(1), in the grant subject to such agreement. Such matching amount shall not be provided from funds available under this Act, but may include the direct cost of employment or training services provided by State or local programs.

(c)(1) Funds available under this section may be used to provide education and training, including vocational education services, and related services to participants under title II. Such services may include services for offenders, veterans, and other individuals whom the Governor determines require special assistance.

(2)(A) Not more than 20 percent of the funds available under this section may be spent for activities described in clause (2) of subsection (a).

(B) Funds available under this section shall be used for clause (3) of the Federal share of the cost of carrying out activities described in such clause. For the purpose of this subparagraph, the Federal share shall be the amount provided for in the cooperative agreements in subsection (b).

(3) Not less than 75 percent of the funds available for activities under clauses (1) and (3) of subsection (a) shall be expended for activities for economically disadvantaged individuals.

(d) If no cooperative agreement is reached on the use of funds under this section, the funds shall be available to the Governor for use in accordance with section 121.

TRAINING PROGRAMS FOR OLDER INDIVIDUALS

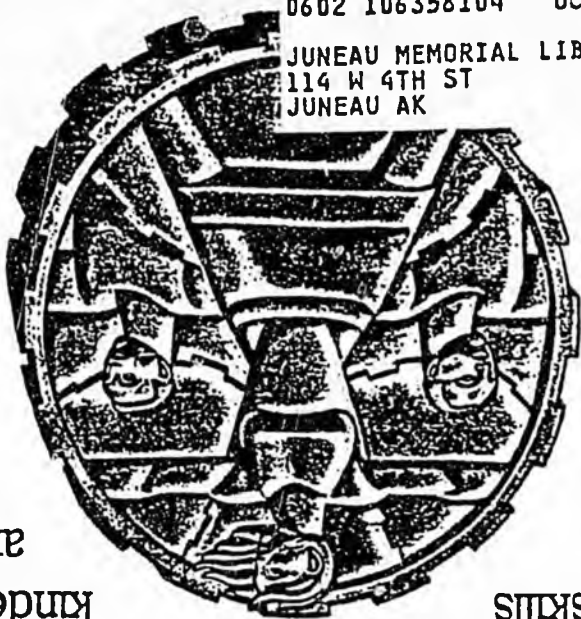
Sec. 124. (a) From funds available for use under section 202(b)(2), the Governor is authorized to provide for job training programs which are developed in conjunction with service delivery areas within the State and which are consistent with the plan for the service delivery area prepared and submitted in accordance with the provisions in section 101, and designed to assure the training and placement of older individuals in employment opportunities with private business concerns.

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And as the economy comes to depend more and more on women and minorities, we face a massive job of education and training—starting before kindergarten. Can we afford it? We have no choice. PAGE 100

The nation's ability to compete is threatened by inadequate investment in our most important resource: people. Put simply, too many workers lack the skills to perform more demanding jobs.

SPECIAL REPORT

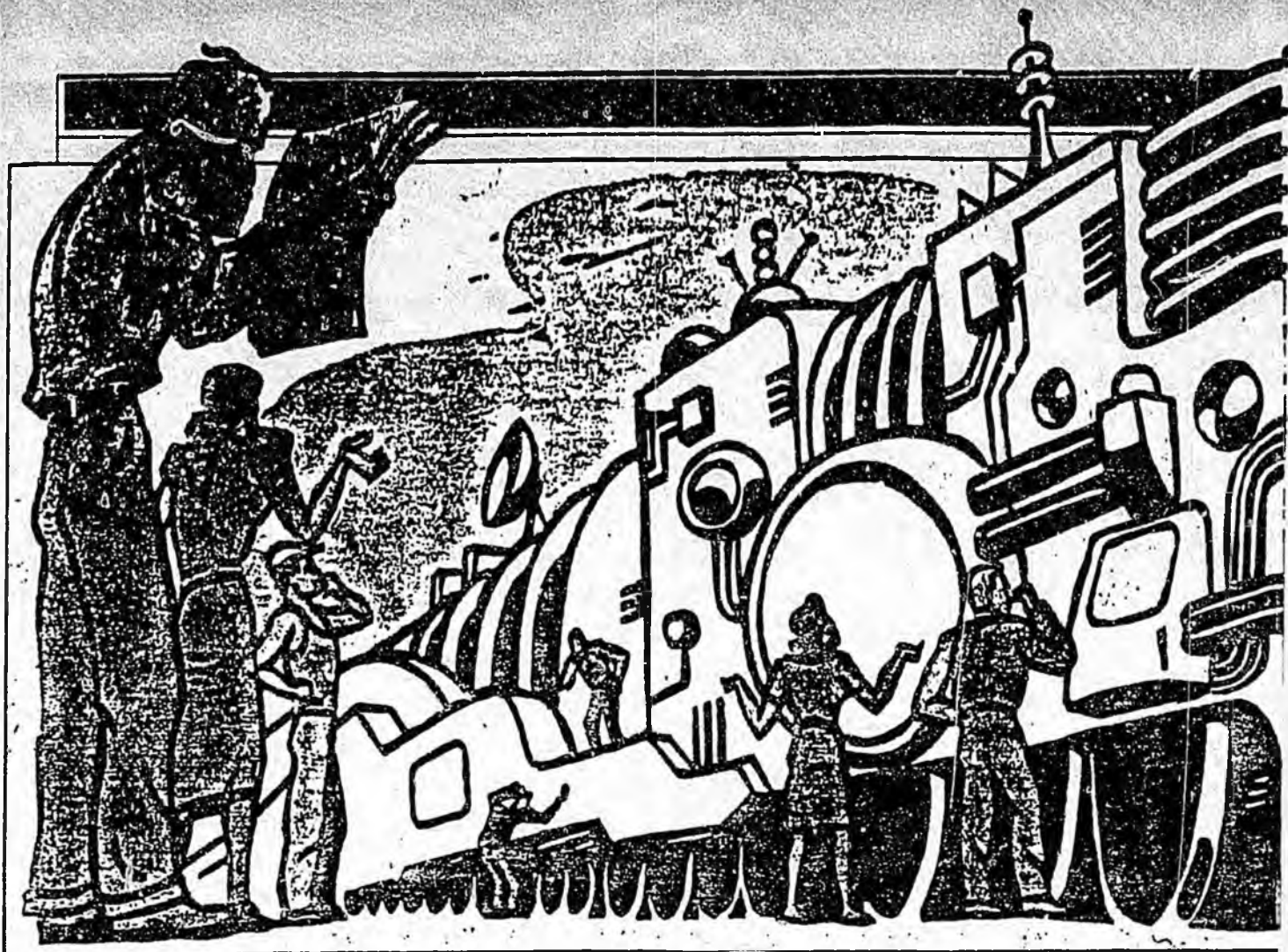
# The Decline of America's Work Force

# HUMAN CAPITAL

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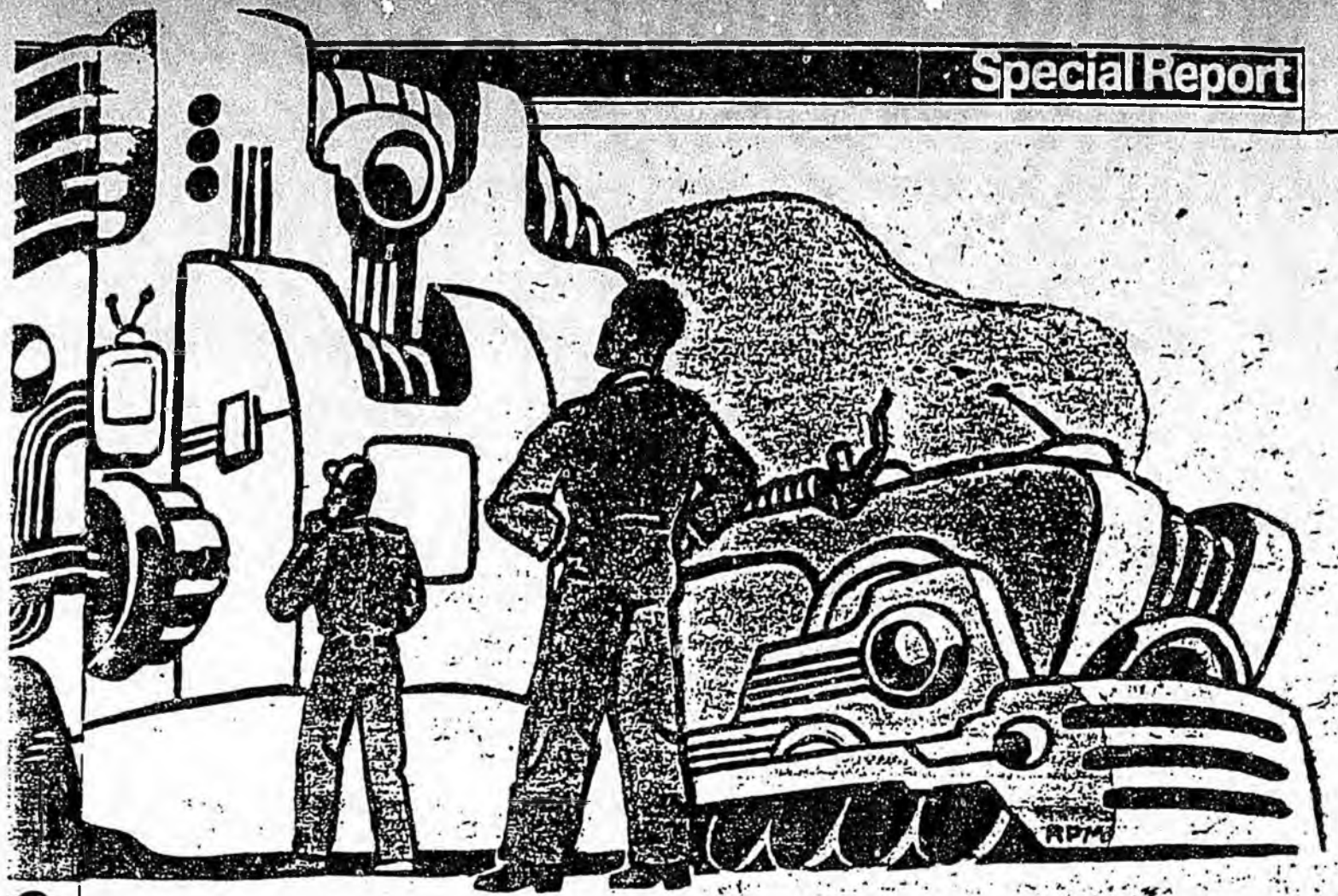
Who will do America's work as the demand for skilled labor outstrips a dwindling supply? The U.S. has lost much ground to competitors, and investing in people looks like the way to retake it. After years of neglect, the problem of human capital has become a crisis



Take a trip back to what may be our future. It is the 1851 industrial exhibition at the Crystal Palace in London. Britain is the dominant world power. The U.S. is No. 2 in industry and catching up fast.

Made-in-America reapers, muskets, and tools are the marvels of the show. British businessmen are amazed at what they see. Products are assembled from completely interchangeable parts. Here is true mass production for the first time. So impressed are they that they name it "the American system of manufacture."

Worried delegations of British industrialists set sail to investigate. Their findings? American manu-



# CAPITAL

facturing prowess is in large part due to a highly educated work force. The Yankees have an astonishingly high literacy rate of 90% among the free population. In the industrial heartland of New England, 95% of adults read and write. In contrast, just two-thirds of the people in Britain are literate. **BLINDSIDED.** Now zip ahead a century or so to the 1980s. The U.S. is the dominant world power, and it is Japan that is No. 2 and closing fast. American CEOs marvel at the quality of Japanese products flooding their markets. They make pilgrimages to Tokyo. Their findings? Manufacturing superiority is being forfeited to the Japanese. And yes, once again, behind the success in manufacturing prowess lies a better-educated work force. In 1988, Japan's functional literacy rate is better than 95%. In America it's down to about 80%.

Illiteracy is but a symptom of the larger problem

afflicting the U.S. economy. The \$150 billion yearly trade deficit and a foreign debt of half a trillion dollars reflect the inability of a large percentage of the American work force to compete effectively in an integrated world economy. "Much of the success of Japan stems from the fact that its blue-collar workers can interpret advanced mathematics, read complex engineering blueprints, and perform sophisticated tasks on the factory floor far better than blue collars in the U.S.," says Merry I. White, professor of comparative sociology at Boston University and author of *The Japanese Educational Challenge*.

America, in short, has been scrimping on human capital. After trying to solve its serious competitiveness problems by pouring hundreds of billions of dollars into capital equipment, the country is discovering that it has been blindsided when it

# Special Report

comes to workers. Corporate restructuring and a sharply cheapened dollar may have arrested the economic decline, but investing in people is turning out to be the only way to reverse it.

Society's failure to invest is already haunting the business community. Chemical Bank in New York must interview 40 applicants to find one who can be successfully trained as a teller. And IBM Corp. discovered after installing millions of dollars worth of fancy computers in its Burlington (Vt.) factories that it had to teach high-school algebra to thousands of workers before they could run them.

Building up human capital is becoming a national priority. After years of neglect, it has finally entered the political arena, at least on the rhetorical level. Just listen to the messages being broadcast by both Presidential candidates. "Who will be the 'Education President?' Who will do the most to train workers or provide child care to working mothers?"

Those messages are long overdue. More than two centuries ago, Adam Smith pointed to the improvement in the skills of workers as a critical source of economic progress and a means of raising living standards. Wrote Smith in *The Wealth of Nations*: "A man educated at the expense of much labor and time to any one of those employments which require extraordinary dexterity and skill may be compared to one of those expensive machines."

**'ABSOLUTELY CRUCIAL'** The evidence is overwhelming that people, not machines, are the driving force behind economic growth. In the period from 1948 to 1982, the nation's gross national product increased at an annual rate of 3.2%. Edward Dennison, an expert in growth economics, finds that one-third of that gain was caused by the increase in the education level of the U.S. work force and about half the growth was the result of technological innovation and increased know-how, which also depend on education. But just 15% of the total increase was the result of more capital equipment.

While Washington has been hell-bent on throwing incentives at business to increase spending on plant and equipment, outlays for human capital in the past 15 years have lagged behind. In the period from 1959 to 1971, total spending per student in public and private elementary and high schools grew at a brisk 4.7% a year, after adjusting for inflation. That was more than a full percentage point above the robust 3.6% rate of increase in the GNP and

even a smidgen higher than what business spent on plant and equipment. But from 1971 to 1985 things changed drastically. Dollars for education increased at a rate of just 2.7% in real terms, the same rate as GNP growth but 1.5 percentage points below the spending rate for capital investment.

And a good part of the money spent on education has not gone to those who teach the nation's young. Excluding administrative and capital cost from school budgets, from 1959 to 1971 teachers' salaries after inflation increased at a 2.8% annual rate. But then, even as international competition started to heat up, teachers' salaries nose-dived, falling by 1.25% a year until 1985. They've bounced back a bit since, but in real terms, salaries are barely above their 1971 level. Small wonder that top-notch college graduates are not attracted to teaching.

True, the U.S. spends plenty on education: \$185 billion a year on primary and secondary schools alone. When colleges and universities are added in, the figure soars to \$310 billion—more than is spent on defense. American universities are the best in the

world, but elementary and high schools are another story. The U.S. gets a lot less for its education buck than do Japan and Europe. U.S. students attend class 180 days a year. French and German kids go 220 days, and Japanese children spend 240 days in school a year. American high school students score below both their foreign counterparts in international math and science tests. They test two to three years behind the Japanese, neatly matching the difference in time spent in school from kindergarten through high school. Worse, half of the kids in inner-city public high schools drop out. "The issue is not money, it's competent use of money," says Pat Choate, director of TRW Inc.'s Office of Policy Analysis. "Janitors in New York City schools make more than teachers. Education systems are patronage systems: Community boards give out jobs." **SECOND PICTURE** Educating America's future work force reaches beyond the classroom. A fourth of all children born in the U.S. will be on welfare sometime in their lives. A quarter of all American

## WHITE MALES NOW DOMINATE THE JOB MARKET...



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children are born out of wedlock, and 42% of them will live in a single-parent family before they reach their eighteenth birthdays. As a result, education often plays second fiddle to the more pressing needs of survival.

The once-pervasive family role in education appears to be seriously eroding. With both parents in most families now working, the question of who's reading to the three-year-old and checking up on Junior's geometry homework is becoming a national concern. In Japan the mother plays such a strong role in teaching her children that she is known as "education mama." Here, the "education mama" is vanishing—and "education paspas" aren't taking up the slack.

One big exception is in the Asian-American community. "This year, 22% of MIT's freshman class is Asian-American," says Lester C. Thurow, dean of the Sloan School of Management at Massachusetts Institute of Technology. "The big reason for Asian-American success in public schools is family; family means some parent telling you that education is important."

At a time when jobs require higher levels of math, science, and literacy than

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Society's failure to invest in the work force already haunts business Page 100

**LABOR**  
The gap between jobs and the skills of applicants is alarmingly wide Page 104

**DEMOGRAPHICS**  
Employers must look to women, minorities, and the elderly Page 112

**UNDERCLASS**  
In the face of prosperity, a growing underclass of the unemployed Page 122

**EDUCATION**  
Everyone agrees that the system needs fixing. The question is how Page 129

**BUSINESS AND THE SCHOOLS**  
Companies are taking a more active role in educational reform Page 134

**CONCLUSION**  
What we must do to upgrade our No. 1 asset—the American worker Page 140

ever before, the economy is becoming increasingly dependent on the groups that often receive the poorest education. Between now and the year 2000, more than half of all new workers hired will be minorities, nearly three times the current figure. Blacks and Hispanics have the highest school drop-out rates in the coun-

try and lag significantly behind the national average on test scores.

But there is hope. The needs of the American workplace and the needs of the disadvantaged may be merging for the first time in recent history. The drive to raise productivity and increase international competitiveness is transforming the debate over social equity into a discussion about economic growth.

**SENIOUR NEGLECT.** The Reagan years were an understandable reaction to the free-flowing social spending that earmarked the 1960s and 1970s. The national focus shifted to restructuring industry, deregulating the economy, and personal advancement. In the 1980s, programs for the bottom half of society got the deepest cuts. It wasn't all "welfare," either. The Labor Dept.'s manpower training programs were hit hard as well.

Those cuts in training could not have been timed worse. "The split between the top half and bottom half in society has been widening for the past decade, no matter how you cut the data," says Harvard University's Richard B. Freeman. "The educated, the skilled, and people in certain industries and jobs have done well. The rest have not." This inequality can only worsen if the human-capital deficit is not solved. The internationalization of the economy in the 1980s pitted the U.S. labor force against workers around the world. The results? "Trade has killed the earnings prospects for less educated people," says Freeman. "They must compete with lower-wage people overseas. As long as we trade with Korea, the less educated will have a problem."

That competition has proved devastating. From 1959 to 1986, earnings for young men who quit high school fell by 26%, adjusted for inflation. Even high-school grads saw their earnings drop by 9%, while those of college graduates rose by 6%.

In the final analysis, wage gains and losses mirror what is happening to worker productivity. The huge decline in the wages of America's unskilled labor force shows that it is no longer competitive in the international economy. The productivity of the unskilled is plummeting, while worker productivity abroad is soaring. This could signal major losses in the battle for world markets. The U.S. may now be entering an era when neglect of the bottom half of society begins to threaten the welfare of the entire nation.

In the following articles the editors of BUSINESS WEEK lay out the dimensions of the human-capital crisis—and what the country must do about it.

*By Bruce Nussbaum in New York*

## ...BUT THEY WILL PLAY A SMALLER ROLE IN THE FUTURE



# WHERE THE JOBS ARE IS WHERE THE SKILLS AREN'T

As work becomes more knowledge-intensive, employers are fishing in a shrinking labor pool



In a dynamic economy there is always a gap between job demands and worker skills. Through most of its history, the U.S. has managed to keep that gap small. But not anymore. The nation is facing a monumental mismatch between jobs and the ability of Americans to do them.

Unless the U.S. invests more to close this human capital deficit, the economy will be shunted onto a lower growth track. The drive to improve technology and productivity could founder on a shortage of competent workers. There will be a social price, too: Lower-skilled minorities will find it harder than ever to land good jobs. The earnings differential that already is growing between the top and bottom halves of the work force could get even larger. The nation could become further polarized between skilled and unskilled workers.

**NEW YARDSTICK.** Three forces are combining to produce the leap in the skills the economy will require. First, technology is upgrading the work required in most jobs. The modern workplace needs people with high reading and math capabilities, so millions of jobs go unfilled while the army of the unskilled remains unemployed.

Second, job growth will be fast mainly in high-skill occupations. Most of these jobs will be in the service sector. This kind of work now requires knowledge that wasn't necessary 20 years ago.

Finally, the way in which work now is being organized requires a completely new set of skills. As companies shift from the old models of assembly-line production to Japanese-style work teams, employees will have to sharpen their abilities to communicate.

A detailed look at how new workers will match up against new jobs between now and the year 2000 tells the story (chart). The Labor Dept. has devised a method for measuring, on a scale of one to six, the levels of reading, writ-

ing, and vocabulary needed to perform a wide range of jobs. The Hudson Institute, an economic think tank, has matched the new jobs that the economy will create against these scales. Here is what they found:

More than three-quarters of the nation's new workers will have limited verbal and writing skills (Levels 1 and 2). But they will be competing for only 40% of the new jobs. Most new jobs will require workers who have solid reading and writing skills, but fewer than one in four new employees will be able to function at the needed levels. Retail sales, for example, will be among the occupations providing the most new jobs. To fill those jobs, most retail employees will have to function at Level Three. They will have to write up orders, compute price lists, and read merchandise catalogs. Sound simple? Nevertheless, Hudson estimates that just 22% of the new employees will be

able to function at Level Three or better.

For jobs in nursing or management, the educational ante is higher. Most of these jobs, which often require more than a high-school education, need skills at Level Four or above: an ability to read journals and manuals, write reports, and understand complex terminology. Just 5% of the new employees will be able to do that.

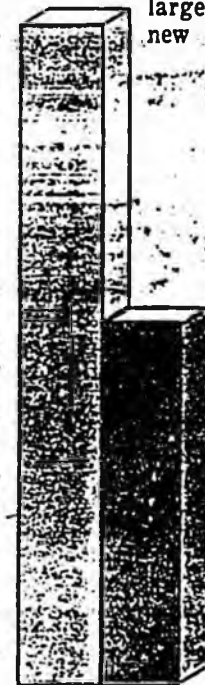
**DAUNTING TASK.** As many as 50 million workers may have to be trained or retrained in the next 12 years—21 million new entrants and 30 million current workers. The most daunting task ahead is to educate and train the young work force entrants. The decline in the number of 21- to 25-year-olds means that employers now must dig deeper into the barrel of the poorly educated. And a larger proportion of new workers will be



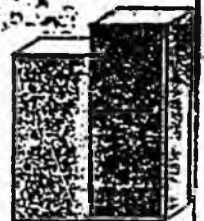
## THE LOOMING MISMATCH BETWEEN WORKERS AND JOBS



**LEVEL 1**  
Has limited reading vocabulary of 2,500 words. Reading rate of 95 to 125 words per minute. Ability to write simple sentences



**LEVEL 2**  
Has reading vocabulary of 5,000 to 6,000 words. Reading rate of 190 to 215 words per minute. Ability to write compound sentences



**LEVEL 3**  
Can read safety rules and equipment instructions, and write simple reports



CHARTS BY RAY VELLA/DOW

LEVEL 4 and writers

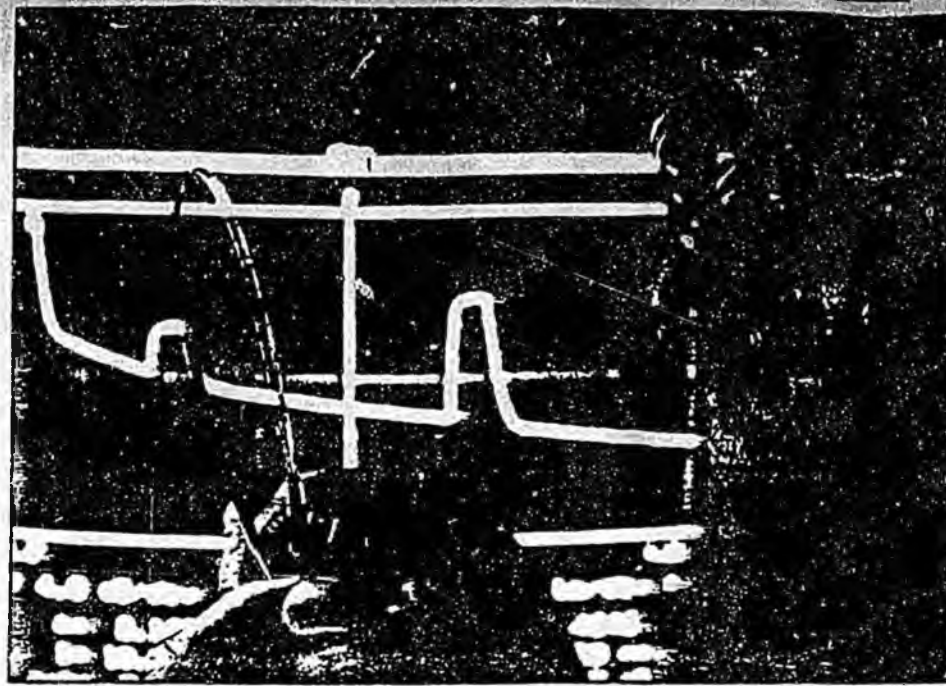
minorities and immigrants, who tend to have less education and fewer skills than other employees.

Minorities are the neediest of these new workers. But as employers become increasingly dependent on them, minorities are lagging behind in reading and writing skills. And those already working tend to be stuck in occupations that are disappearing, while few have jobs in growing industries (table, page 108).

As the economy continues to expand, big companies are looking harder for new workers. But many minorities with low skills still aren't being hired. Last year, Nynex Corp.'s New York Telephone Co. had to test some 60,000 applicants—many of whom were minorities—to hire 3,000 people. "There are lots of people who still want jobs, but they're dropouts who aren't qualified," says Howard Harman, New York Telephone's director of employment.

People who already are working will need massive retraining to keep pace with changing job requirements. They are the 30 million who will need more math and science to operate computers and robots on the assembly lines or better reading and writing skills to keep up in the office.

True, many companies are using technology to replace workers—but those employees who stay on the job generally must improve their skills. For instance, New York Telephone has used new technology to help shrink its work force,



which now numbers about 50,000, compared with 106,000 in the early 1970s. Nonetheless, the company has been forced to increase its in-house training rapidly to upgrade the skills of its remaining workers. NYT has four technology-learning centers where employees are taught to operate the handheld computers that telephone repairers use to keep track of orders. One five-day course retrains skilled splicing technicians who install overhead telephone cable. "Before, they handled 100-pound wire that was 6 inches in diameter," says Ray Bucaria, New York Telephone's director of train-

ing. "Now they must learn to use fiber optics, which means splicing very delicate fibers—like a brain surgeon, almost."

A growing number of companies go so far as to train the employees of their suppliers. In the early 1980s, Xerox Corp. found that its product quality was much poorer than that of its rivals. Management decided suppliers were a big part of the problem. Xerox reduced its 3,000-odd suppliers to about 350 and raised tolerance standards for parts it buys from them.

Xerox then began a program to train its suppliers in Japanese-style quality control. Typically, a company employee trains the supplier's management, and the supplier then trains its own work force in the new methods. Xerox initially will train about 100 of its 350 suppliers, at an estimated cost of \$1.5 million. "Training suppliers has become a permanent part of the way we do business," declares Robert Fletcher, who manages material quality assurance at Xerox. Motorola Inc. goes further. It even trains its suppliers' suppliers' work forces.

General Motors Corp. had to retrain workers when it opened a new truck plant a year and a half ago in Fort Wayne, Ind. The plant does have some spiffy new technology. But more important, it has a new team-production

#### TIME TO REWIRE

*As New York Telephone switches to fiber optics, it's rushing to retrain workers—proof that the skills gap affects longtime employees as well as recruits*

#### ACTUAL SKILL LEVELS OF NEW WORKERS

Percent of 21- to 25-year-olds entering the labor market from 1985 to 2000

#### SKILL LEVELS NEEDED FOR NEW JOBS

Percent of new jobs created from 1985 to 2000



**LEVEL 4**  
Can read journals and manuals, and write business letters and reports



**LEVEL 5**  
Can read scientific/technical journals and financial reports, and write journal articles and speeches



**LEVEL 6**  
Has same skills as Level 5, but more advanced

DATA: HUDSON INSTITUTE, LABOR DEPT.



NEW REWIRERS

# Special Report

system. Both workers and management had to go through intensive training in group dynamics and problem-solving to increase manufacturing productivity.

"Our people never heard of this until a few years ago," says Don Davis, the union head of a GM/UAW joint training program in Detroit. In all, Fort Wayne's 3,000 employees took 1.9 million hours of training, including time to learn the new technology. That's more than 633 hours per worker.

Companies are now spending some \$30 billion a year on worker training. A lot of that money is going to upgrade the skills of office workers. Take Mary Ann Mosciello. After her father died, she dropped out of school at 16 to work as a clerk in the mail room at Blue Cross/Blue Shield of Massachusetts. She wasn't able to advance on the job for almost a decade. Then she enrolled in a remedial education program run and paid for by Blue Cross, and she learned reading, math, and history. Armed with a new high school diploma, Mosciello has had three promotions. Now, she compares claims made by hospitals with payments Blue Cross makes to them, finding and explaining variances between the two.

**BADLY RUST.** The churning economy is generating millions of displaced workers. They account for more than one-half of the people already at work who will need retraining by 2000. Throughout the 1980s, some 2.3 million workers have been displaced each year, according to the Bureau of Labor Statistics. Roughly 1 million long-term workers—those on the job three years or more—have been displaced annually. Approximately 30% of these lack basic skills—reading, writing, and arithmetic. Consequently, a third never found new jobs at all. Others found work but at substantially lower pay.

Elite workers, as well, could be in short supply. Because of demographic trends, the U.S. is facing a long-term shortage of scientists and engineers. The number of both has climbed steadily in the past two decades, but only because the baby boom brought many young people into the labor force. The percentage of students who choose these fields has actually remained constant: In the past 30 years, the

## MINORITIES ARE STUCK IN THE WRONG JOBS

Percent of jobs held in 1986 by: Percent change in demand for jobs 1986 to 2000  
 Blacks  Hispanics

### TOO FEW IN FAST-GROWING JOBS

PERCENT



### NATURAL SCIENTISTS



### TECHNICIANS



### ENGINEERS AND ARCHITECTS



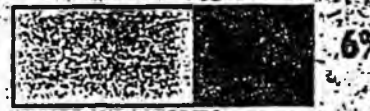
### MARKETING AND SALES WORKERS



### ALL OCCUPATIONS



### TRANSPORTATION



### HELPERS AND LABORERS



### MACHINE OPERATOR



### ASSEMBLERS

DATA: BUREAU OF LABOR STATISTICS

proportion of 22-year-olds acquiring bachelors' degrees in science and engineering has remained within a narrow band of 3.7% to 4.3%, according to the National Science Foundation (NSF).

If this trend continues, the baby bust could cause growing shortages. If just 4% of students continue to choose science or engineering, the NSF warns, there could be a cumulative shortfall of more than 400,000 science and engineering BAs through the year 2000. Half of all engineering students at the graduate and post-graduate levels already are foreigners. And this country is facing a shortage of 27,000 PhDs by the end of the century.

Economists are quick to point out that in these relatively high-paying fields, shortages are likely to push up salaries and attract more people. But there's little evidence that previous shortages enticed more students to scientific fields.

**GROWING GAP.** In addition, market mechanisms may not work quickly enough to remedy shortfalls of PhDs, who require an additional six to eight years of schooling. "Usually the decision to enter science is made in high school," says John H. Moore, deputy director of the NSF. "We need to do something today to get teens thinking seriously about careers in these fields—or we'll be in trouble."

The skills gap poses a threat to American society that goes beyond simply the economy. Currently, labor shortages in New England and elsewhere are driving up wages for jobs in fast-food eateries. If new workers don't become better qualified, this situation may change drastically as shortages move up the skills ladder. Many new job-seekers could wind up competing for a dwindling number of low-skilled jobs, while higher-skilled jobs go begging for want of qualified workers.

That would drive down wages for low-skilled workers, who can least afford it, and raise wages for skilled employees, who are already better paid. The social consequences of this are clear. Warns Irwin S. Kirsch, a researcher at Educational Testing Service in Princeton, N.J.: "If we don't boost the skills of the bottom ranks of the work force, we'll have an even more divided society than we do now."

By Aaron Bernstein in New York and bureau reports