

GAO

Report to the Chairman and Ranking
Member, Committee on Finance, U.S.
Senate

August 2001

**TRADE
ADJUSTMENT
ASSISTANCE**

**Experiences of Six
Trade-Impacted
Communities**



Contents

Letter		1
	Results in Brief	2
	Background	5
	Trade-related Layoffs Hurt Case Study Communities	8
	Assistance to Dislocated Workers Can Be Substantial, but Structural Problems Impede Service Delivery	13
	Adjustment Assistance Does Not Match Communities' Challenges	22
	Lessons Learned From Trade-Impacted Communities' Experiences	32
	Agency Comments and Our Evaluation	34
Appendix I	Watsonville, California, Case Study Profile	36
Appendix II	Coushatta, Louisiana, Case Study Profile	41
Appendix III	Owosso, Michigan, Case Study Profile	46
Appendix IV	Washington and Chocowinity, North Carolina, Case Study Profiles	51
Appendix V	El Paso, Texas, Case Study Profile	56
Appendix VI	Martinsville and Henry County, Virginia, Case Study Profiles	63
Appendix VII	Objectives, Scope, and Methodology	68
Appendix VIII	Comments From the Department of Commerce	71

Appendix IX	Comments From the Department of the Treasury	74
--------------------	---	-----------

Appendix X	GAO Contact and Staff Acknowledgments	78
-------------------	--	-----------

Tables

Table 1: TAA-Certified Workers in Case Study Communities, Fiscal Years 1995-2000	10
Table 2: TAA and NAFTA-TAA Payments and Numbers of Recipients in Case Study Communities, Fiscal Years 1995-2000	14
Table 3: Profile of TAA and NAFTA-TAA Participants Compared to Total U.S. Workforce, Fiscal Years 1999-2000	24
Table 4: Federal Economic Adjustment Assistance to Case Study Communities, Fiscal Year 1995-Early Fiscal Year 2001	28
Table 5: Profile of Watsonville, CA	36
Table 6: Profile of Coughatta, LA	41
Table 7: Profile of Owosso, MI	46
Table 8: Profile of Beaufort County, NC	51
Table 9: Profile of El Paso, TX	56
Table 10: Profile of Martinsville and Henry County, VA	63

Figures

Figure 1: Timeline for Receipt of TAA and NAFTA-TAA Benefits	7
Figure 2: Profiles of Six Case Study Communities	9
Figure 3: Photos of Watsonville, CA	39
Figure 4: Photos of Coughatta, LA, and a Training Facility in a Neighboring Community	42
Figure 5: Photos of Owosso, MI	48
Figure 6: Photos of Washington and Chocowinity, NC	52
Figure 7: Photos of El Paso, TX	59
Figure 8: Photos of Martinsville and Henry County, VA	65

Abbreviations

CAIP	Community Adjustment and Investment Program
EDA	Economic Development Administration
GED	General Equivalency Degree
NAFTA-TAA	North American Free Trade Agreement Transitional Adjustment Assistance
PREP	Proactive Reemployment Project
TAA	Trade Adjustment Assistance
WIA	Workforce Investment Act



United States General Accounting Office
Washington, DC 20548

August 24, 2001

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The rapid pace of economic change due to the globalization of national economies has heightened concerns about the efficacy of federal trade adjustment assistance. While the transition to the “new economy” has meant an increase in technology and service sector jobs, it has also resulted in the loss of many manufacturing jobs as companies that cannot compete with lower-priced imports close or relocate to lower-wage countries abroad. The federal government recognizes that while the benefits of free trade are widely dispersed across the economy, the costs of worker dislocation effects are more localized. Accordingly, federal trade adjustment assistance programs are designed to target aid to dislocated workers through the Trade Adjustment Assistance (TAA) and North American Free Trade Agreement Transitional Adjustment Assistance (NAFTA-TAA) programs. There are also assistance programs to mitigate the adverse impacts of trade for businesses, the Trade Adjustment Assistance for Firms program, and for communities, the Community Adjustment and Investment Program. At the Committee’s request, we completed evaluations of these programs in 2000.¹

As you requested, this review builds on our previous work by providing distressed communities’ perspectives on how trade adjustment assistance and other assistance programs have helped them deal with the adverse impacts of trade. We conducted case studies in six trade-impacted communities where we examined (1) the impact of trade-related layoffs on these communities, (2) the experiences of these communities with trade-related dislocated worker assistance, (3) their experiences with trade-

¹These reports are *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs* (GAO-01-59, Oct. 13, 2000), *Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear* (GAO-01-12, Dec. 15, 2000), and *Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program* (GAO/NSIAD-00-229, Sept. 29, 2000).

related economic adjustment and other assistance, and (4) the lessons learned from these communities' experiences.

Between January and March 2001, we conducted case studies in Watsonville, Calif.; Coughatta, La.; Owosso, Mich.; Washington and Chocowinity, N.C.; El Paso, Tex.; and Martinsville and Henry County, Va. We chose these locations using a number of criteria designed to identify communities particularly hard hit by trade-related layoffs, including the numbers of workers certified for federal adjustment assistance between 1995 and 1999, local unemployment rates, and diversity of industry and geographic location. The communities we selected based on these criteria thus likely represent more difficult cases than typical communities that have experienced trade-related job losses. We visited each selected community and interviewed local government officials, community leaders, training providers, and workers receiving benefits from trade adjustment assistance programs. We also met with federal and state officials that administer trade adjustment assistance programs for workers and economic assistance programs for communities, and analyzed the data available on these programs. Appendixes I through VI contain profiles of the six case study communities. For further information on our scope and methodology, see appendix VII.

Results in Brief

The communities in our case study all experienced major trade-related plant closures and layoffs in the mid- to late-1990s. Two communities—Martinsville/Henry County, Va., and Coughatta, La.—lost a large percentage of local jobs in sudden plant closures and experienced economic crises. The other communities—Owosso, Mich.; Washington and Chocowinity, N.C.; Watsonville, Calif.; and El Paso, Tex.—experienced rolling layoffs or a series of smaller plant closures that dislocated as many or more workers but did so more gradually. This gave communities time to absorb the job losses, except for El Paso, where the number of job losses overwhelmed local services. Industries affected included apparel, electronics, furniture, and food processing. All the communities experienced short-term increases in their unemployment rates. The most dramatic were due to the sudden closures: Martinsville's unemployment rate rose from 9 percent to 20 percent in the months immediately following the layoffs, while Coughatta's rate went from 13 to 23 percent. In addition, the plant closures or layoffs meant that local economies lost wage income, business tax revenues, and sales by firms that supplied or subcontracted to the closed plants. In addition, while many dislocated workers found new jobs, they often received lower wages. This caused concern in some communities that plant closures might lead to a

decreased standard of living for a large portion of the community, as well as concerns about additional job losses if more plants in these industry sectors closed or relocated abroad.

Experiences in the communities we visited indicate that TAA and NAFTA-TAA assistance to dislocated workers, while substantial, could be implemented more effectively. These programs provided \$85 million in assistance to the six communities during fiscal years 1995 through 2000, \$66 million for extended income support and \$19 million for training. However, program administrators and training providers in every community we visited said that the programs have structural problems that impede effective service delivery. Specifically, they said that

- the period of time dislocated workers receive income support versus training benefits is inconsistent (18 and 24 months, respectively), which local officials and workers said limited training options;
- unstable funding for training benefits results in delayed approval of training requests; and
- maintaining separate TAA and NAFTA-TAA programs is administratively inefficient and confusing.

One factor that influenced the implementation of training benefits in many communities is that a significant percentage of dislocated workers needed to earn a high school equivalency degree or take remedial courses before they could even start a training program. There was also a debate in most communities about whether workers should enroll in 2-year degree programs or take shorter certificate programs and return to the workforce as quickly as possible. All these factors were particularly challenging in El Paso, Tex., where most of the 17,000 dislocated workers had low educational levels and limited English proficiency. A related problem is that outcome data on workers' use of training benefits, reemployment rates, and wages in a new job are incomplete. The continued lack of data on program outcomes makes it difficult to evaluate the efficacy of the varied training or job placement approaches used across communities and states.

Case study communities' experiences with economic adjustment showed that the assistance available to them was limited and that there are no easy answers to community recovery, even when funds are available. These communities had relied on low-skilled manufacturing jobs, which are disappearing, and now face the difficult task of diversifying their economies while addressing fundamental human capital issues. As a result, many of these communities are attempting to attract higher paying

and more stable service industry jobs. However, 80 percent of the trade adjustment assistance participants had a high school education or less, compared to 42 percent in the U.S. workforce, which makes it difficult to attract higher-skilled jobs and higher-paying employers. Limited access to major transportation arteries also makes it difficult for these communities to attract new businesses. Community leaders found that there is limited federal and state assistance to help with economic adjustment. From fiscal year 1995 to early fiscal year 2001, federal assistance to these communities for economic adjustment totaled about \$60 million, of which \$44.5 million went to one community, El Paso. Even when these communities received funds, the funds were narrowly targeted and not necessarily designed to address long-term human capital and infrastructure challenges.

These communities' experiences with efforts to assist dislocated workers and adjust to changing economic conditions offer several lessons. Program administrators and training providers said that bureaucratic rigidities in dislocated worker programs limited their flexibility in addressing dislocated workers' diverse training needs. Local officials also believe that dislocated worker training programs are more effective and job placements much higher when strong links exist between training and local business needs. On the other hand, officials in El Paso, Tex., learned that additional funding does not guarantee success if the necessary training capacity does not exist to meet needs. The additional funding El Paso received was in the form of a supplemental \$45 million Department of Labor grant, but local officials said that the lack of suitable training meant that many workers received extended income support without gaining needed job skills. One factor that contributed to the problems assisting workers in El Paso was the lack of bilingual training designed for adults. Economic adjustment assistance lessons are perhaps less clear, as communities struggle to address their needs. Many must decide whether to rebuild their prior economic base or retool it to compete in a changing national and global economy. Some communities have yet to come to grips with what course to pursue but know that if they do not take action, they may face further erosion of their economic base along with decreased standards of living. Three case study communities—Watsonville, Calif.; El Paso, Tex.; and Martinsville, Va.—saw the need to develop economic adjustment strategies, while the other three did not. Yet, even in communities engaged in formal planning, local officials said they continued to try to attract employment suited for low-skilled displaced workers, since their workforces were not suited to the higher-skilled “new economy” employers they would like to attract.

Background

Trade adjustment assistance programs provide federal assistance to dislocated workers, firms, and communities. Economic adjustment assistance programs are also available for distressed communities, regardless of what has caused the adverse economic condition.

Trade Adjustment Assistance for Dislocated Workers

The TAA and NAFTA-TAA programs assist U.S. workers displaced by foreign trade and increased imports. The current TAA program was created by the Trade Expansion Act of 1962 (P.L. 87-794). It was substantially modified by the Trade Act of 1974 (P.L. 93-618) and the North American Free Trade Agreement Implementation Act of 1993 (P.L. 103-182). The TAA program covers workers who lose their jobs because of imports from any country, while the NAFTA-TAA program covers only workers who have lost their jobs because of increased imports from or shift of production to Mexico or Canada. These programs provide benefits such as trade readjustment allowances (extended income support beyond normal unemployment insurance benefits), services such as job training, and allowances for job search and relocation. The Department of Labor administers both programs and makes determinations regarding worker group eligibility. Groups of workers or their representatives can petition the Department of Labor for certification of eligibility to apply for services or benefits under the program. The Department then conducts an investigation to determine if increased imports or a shift in production to Canada or Mexico have contributed to their loss of employment. Once a TAA or NAFTA-TAA petition is approved covered workers must meet several tests regarding the timing of their layoff and their length of employment with the trade-impacted firm. Workers can be certified as eligible for both programs but can claim benefits from only one. The states play a major role by providing program services and benefits, such as job training and reemployment services.² The TAA and NAFTA-TAA programs together received about \$407 million in fiscal year 2001 funding.

Generally, TAA and NAFTA-TAA income assistance for a dislocated worker is equal to the weekly benefits of the state's unemployment insurance program³ and may be paid for up to 52 weeks after the initial 26

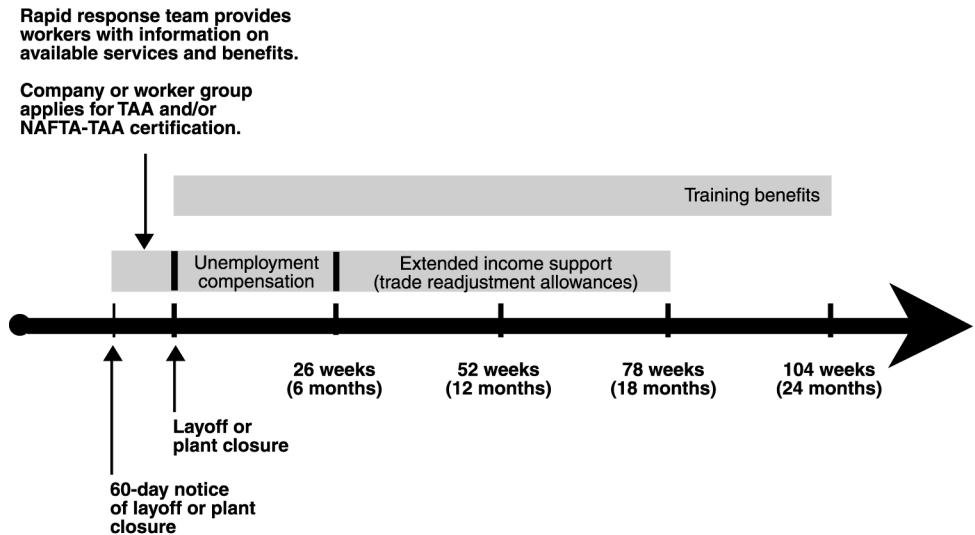
²See *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*, for a more detailed discussion of TAA and NAFTA-TAA certification procedures and eligibility requirements.

³Unemployment benefits vary widely among the states. In 1999, the average benefit was an estimated \$202 per week.

weeks (30 weeks in Massachusetts and Washington State) of unemployment insurance benefits have been exhausted. Thus, eligible dislocated workers may receive up to 78 weeks (18 months) of cash payments if enrolled in approved training. Dislocated workers also are eligible for up to 104 weeks (2 years) of training. Therefore, workers do not necessarily receive income assistance during their entire period of training.

The process by which workers receive assistance is often triggered when a company gives 60 days' notice of plant closure or layoffs. Generally, a state Rapid Response Team, comprised of employment service officials, meets with plant managers to obtain information about the prospective layoff or closure and the profile of the affected workers. If appropriate, the Rapid Response Team will suggest that the company apply for TAA or NAFTA-TAA certification, so that workers can receive these benefits after separation. The Rapid Response Team generally returns to the plant after the layoff or closure announcement to give workers information about available services. In some states, training providers may join the team. After separation, the dislocated workers can receive job placement assistance, and if suitable employment is not found, they can enroll in training. TAA and NAFTA-TAA provide extended income support and pay for training, within certain time limits and restrictions. Figure 1 illustrates the timeline for receipt of TAA and NAFTA-TAA benefits.

Figure 1: Timeline for Receipt of TAA and NAFTA-TAA Benefits



Note: This figure depicts the timeline for receipt of TAA or NAFTA-TA benefits in its simplest form. Workers may or may not receive a 60-day notice of layoff or plant closure; they may receive substantially less notification. Workers may not receive extended income support immediately following the receipt of unemployment compensation. Training also may often start somewhat later. Both extended income support and training benefits may be received for less than the maximum time shown here.

Source: Based on information from the Department of Labor.

Trade Adjustment Assistance for Firms and Communities

The federal government has also established programs to assist trade-impacted firms and communities suffering job losses due to changing trade patterns. The TAA program for firms, established in 1962 and administered by the Department of Commerce's Economic Development Administration (EDA), provides assistance to firms that can demonstrate that increases in imports have contributed importantly to layoffs and declines in sales or production. The TAA for firms program was funded for \$10.5 million in fiscal year 2000. The Community Adjustment and Investment Program was established as a result of the 1993 North American Free Trade Agreement Implementation Act. Under the program, loan guarantees, loans, and grants are provided to businesses and grantees

in eligible counties to help stimulate private sector employment and growth.⁴ An interagency committee chaired by the Department of the Treasury administers this program. Loan guarantees to local businesses have accounted for the preponderance of financing commitments to date. The program was established with an initial capitalization of \$22.5 million and has received \$20 million in additional appropriations to support and expand program activities. The Congress did not appropriate any additional funds for the program in fiscal year 2001.

EDA's Economic Adjustment Assistance

The federal government also offers assistance programs for any distressed community, regardless of whether the economic problems are trade related, through EDA. EDA's mission is to help generate jobs; retain existing jobs; and stimulate industrial, technological, and commercial growth in economically distressed areas. EDA assistance is generally available to rural and urban areas of the nation experiencing high unemployment, low income, and severe economic distress. In addition to EDA assistance, a variety of other federal programs provide assistance to economically distressed areas.⁵

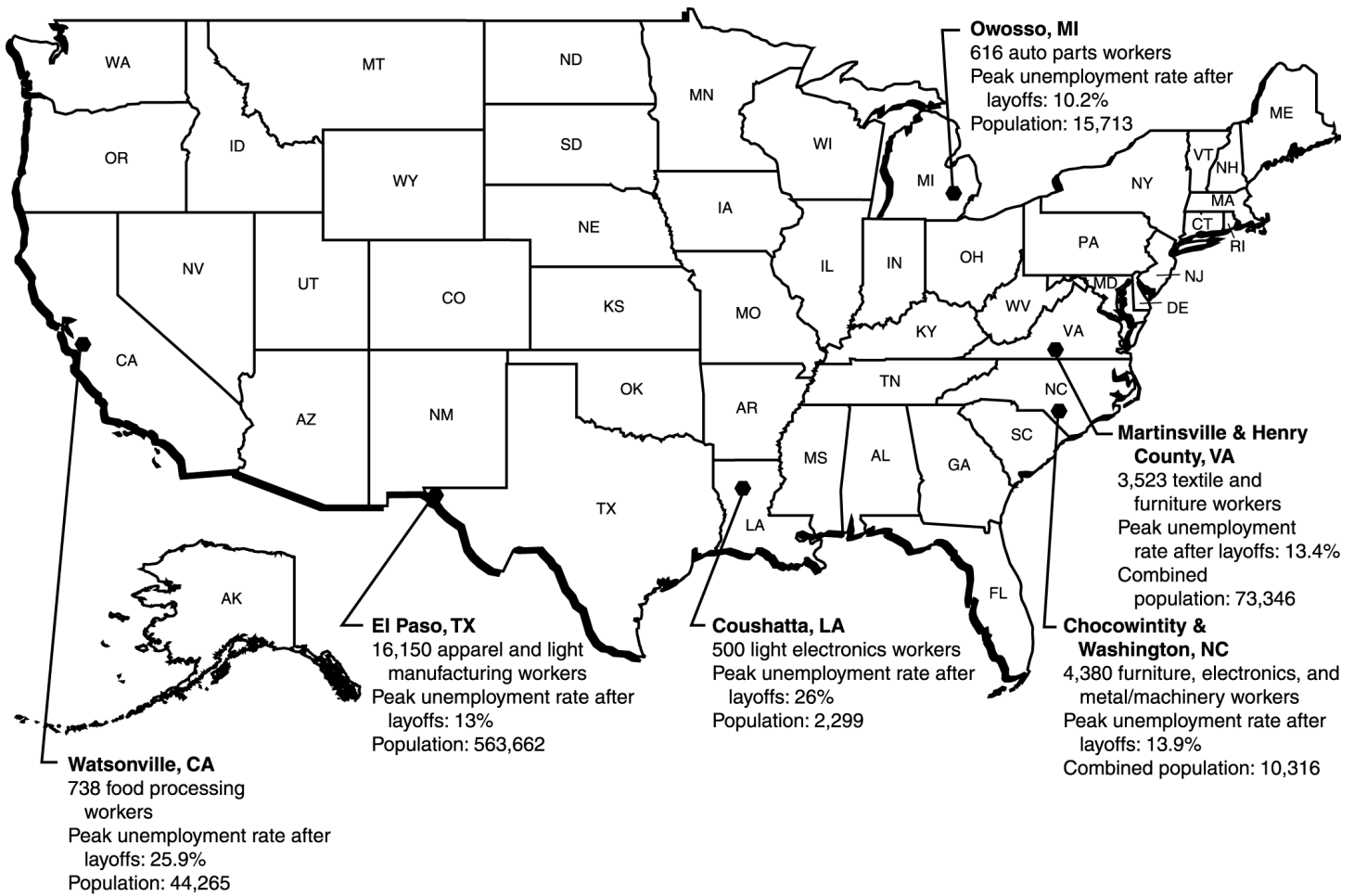
Trade-related Layoffs Hurt Case Study Communities

The six communities we selected for our case studies varied in size, demographics, and location, but they all had experienced major trade-related industry and job losses in the mid- to late-1990s. The firms that these communities lost represent a cross section of the types of industries that have been affected by increased trade, as shown in figure 2.

⁴Businesses and potential grantees must apply for CAIP financing. CAIP does not provide funding directly to eligible counties, but rather offers access to competitively awarded grants or enhanced access to credit through loans and loan guarantees.

⁵See *Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities* (GAO/RCED/GGD-00-220, Sept. 29, 2000).

Figure 2: Profiles of Six Case Study Communities



Note: Population figures are from the 2000 Census. The number of workers cited is based on TAA certifications.

Sources: Department of Labor TAA and NAFTA-TAA certifications, Bureau of Labor Statistics, and Bureau of the Census.

Although many layoffs in these communities occurred gradually as companies downsized to remain competitive with offshore producers, each community experienced at least one major plant closure that had an immediate impact on the local workforce and economy. For example, Tultex, an apparel manufacturer and one of the largest employers in Martinsville, Va., declared bankruptcy in December 1999 without prior notice and immediately closed all operations, leaving more than 2,000 workers without jobs. Likewise, in December 1996, Coushatta, La., lost 500

jobs when the Sunbeam small appliance plant, the city's only manufacturing concern, closed as part of a corporate restructuring that moved many production operations offshore. Table 1 shows the total number of workers certified⁶ under the TAA program when threatened by job loss in these communities, as well as the numbers certified in major layoffs.

Table 1: TAA-Certified Workers in Case Study Communities, Fiscal Years 1995-2000

Location	Major layoff	TAA-certified workers in the community's major layoff	Total TAA-certified workers, fiscal years 1995-2000
Watsonville, California	Dean Foods	600	738
Owosso, Michigan	Johnson Controls	270	616
Washington/Chocowinity, North Carolina	Hamilton Beach Singer Furniture	3,525 500	3,880 500
Coushatta, Louisiana	Sunbeam	500	500
El Paso, Texas	Levi-Strauss	3,369	16,150
Martinsville/ Henry County, Virginia	Tultex	1,771	3,523
Total		10,535	25,907

Note: To avoid the double counting that can occur due to dual certifications by TAA and NAFTA-TAA, these data reflect dislocated workers certified by the Labor Department under the TAA program only.

Sources: Department of Labor and data supplied by local TAA and NAFTA-TAA program administrators.

Trade-related plant closures and mass layoffs had serious economic impacts on these communities. In the short term, their unemployment rates rose dramatically. For example, as a result of the Tultex closure in Martinsville, the city's unemployment rate went from about 9 percent to almost 20 percent in 1999. Similarly, in Coushatta, the closing of the Sunbeam manufacturing plant in 1996 caused the city's unemployment rate to rise to almost 24 percent in 1997. Where the layoffs were

⁶Certification by the Department of Labor represents potentially affected workers—not actual jobs lost. Workers may be certified when they face potential job loss but are not laid off. In other cases, more workers than anticipated may lose their jobs. Program certification is thus an indication of job losses due to trade, not an actual count. While data are available showing the number of participants in the TAA and NAFTA-TAA programs, not all dislocated workers may have enrolled in these programs.

particularly severe, the communities were not prepared to deal with the workers' immediate needs, and local social service agencies were overwhelmed with requests for assistance. In Martinsville, many displaced Tultex workers were not eligible for assistance, such as food stamps, because they owned vehicles and other assets and could not meet requirements for assistance. These workers, who had also lost medical coverage as a result of the Tultex bankruptcy, were forced to find employment or seek assistance from charitable organizations such as the Salvation Army.

Plant closures and layoffs also impacted local government revenues and hurt local businesses. Government officials in some communities said that they lost significant business tax revenues when companies abandoned their plants. For example, according to Martinsville officials, as a result of its bankruptcy, Tultex defaulted on more than \$1 million in property taxes owed in 1999, and the city will continue to lose tax revenue from the property. In addition, Martinsville was forced to raise water and sewer service rates to compensate for the \$1.4 million Tultex had paid annually for these services. The loss of income suffered by displaced workers also affected local businesses. Coushatta officials said that Sunbeam's \$10 million annual payroll represented about one-fifth of Red River Parish's gross income. Such losses of income had a negative impact on retail sales in trade-impacted communities. Businesses that supplied or subcontracted for plants that closed also felt the impact. For example, in Martinsville, a plant that generated steam for the Tultex factory was forced to close after Tultex went bankrupt.

Many dislocated workers found new jobs in their area, but most were paid lower wages, according to community officials. In Owosso, Mich., community officials said that many workers who lost their jobs in the trade-impacted automobile accessory industry eventually found lower-paying service sector jobs. In Washington, N.C., some workers who were displaced when Hamilton Beach/Proctor-Silex, Inc. moved its small appliance operation to Mexico found work in the local furniture-making industry, but at significantly lower wages. Similarly, in Coushatta, many former Sunbeam workers who were hired at a nearby compressor plant that had recently opened were paid less. In El Paso, the city had been successful in attracting some new manufacturing businesses, but many displaced apparel workers were not qualified for the jobs and either found employment in the service sector or remained unemployed. Based on available but incomplete Department of Labor data, nationally only 61.5 percent of dislocated workers who responded and entered new

employment reported that their new jobs paid at least 80 percent of their old job's wages.⁷

Some communities feared that the loss of relatively well-paying, but low-skilled jobs could lead to a decline in the standard of living for a large segment of the population. Food processing jobs in Watsonville, California, and apparel manufacturing jobs in El Paso, Texas, have been considered a means of upward mobility for recent immigrants with limited English skills. Workers who had these jobs were paid union-scale wages and received fringe benefits, which provided an opportunity to buy homes and send their children to college. Officials in Watsonville and Washington said that, until recently, young people could count on a factory job after high school where they might stay for most or all of their working lives. However, workers who have lost manufacturing jobs in these communities have limited prospects for obtaining new jobs with similar wages and benefits, since the jobs now available require higher skills or more education, according to community officials.

Communities we visited were also concerned about the threat of additional trade-related layoffs and plant closures. Washington and Martinsville community leaders said that they expect their textile and apparel industries to continue to decline because of increased foreign competition. Martinsville leaders also fear that the furniture industry, another large employer in their community, will begin to feel the impact of increased furniture imports. Watsonville leaders also expected that the city would continue to lose food processing jobs as more companies shift operations to Mexico.

⁷Research on dislocated workers has found that high-tenure workers separating from distressed firms suffer long-term earnings losses averaging 25 percent per year. See L.S. Jacobson, R.J. LaLonde, and D.G. Sullivan, "Earnings Losses of Displaced Workers," *The American Economic Review*, 1993. vol. 83(4), p. 685. More recent work found that import-competing displaced workers who re-enter employment experience sizeable average weekly earnings losses of about 13 percent. This average masks considerable variation, with a quarter of displaced workers reporting earnings losses of 30 percent or more. This is similar to findings showing that older, less educated, lower-skilled production workers, with established tenures on the old job are more likely to experience earnings losses in excess of 30 percent. See Lori G. Kletzer, testimony presented before the Subcommittee on International Trade, Committee on Finance, U.S. Senate, on July 20, 2001.

Assistance to Dislocated Workers Can Be Substantial, but Structural Problems Impede Service Delivery

The communities we visited had experienced serious adverse impacts from trade-related layoffs. The primary source of trade adjustment assistance they received came from Labor's TAA and NAFTA-TAA programs for dislocated workers. TAA and NAFTA-TAA are widely available and can provide substantial assistance to trade-impacted dislocated workers through extended income support and training benefits. However, local program administrators told us that these programs have structural problems that hinder the effective delivery of services. The states also varied in how they implemented training benefits. Furthermore, it is difficult to evaluate the efficacy of the varied training or job placement approaches used across communities or states, because Labor's outcome data for these programs are incomplete.

Most TAA and NAFTA-TAA Assistance Was Income Support

The trade adjustment assistance that our case study communities received primarily came through the TAA and NAFTA-TAA programs for trade-impacted dislocated workers. These are entitlement programs, available to dislocated workers whose eligibility had been certified by Labor. TAA and NAFTA-TAA provide substantial assistance, primarily by supplying extended income support after unemployment insurance is exhausted, as well as training benefits.⁸

TAA and NAFTA-TAA program data show that the largest benefit delivered to displaced workers was in the form of extended income support, primarily for partial wage replacement while in training. As shown in table 2, the two programs paid a total of just over \$66 million in income support to individuals in these communities over 6 years. Of this amount, almost \$44 million was for "basic" allowances,⁹ or payments made in the 26 weeks after unemployment benefits are exhausted. About \$22 million was for "additional" allowances made after basic allowances are exhausted, if the dislocated worker is in training or has a training waiver. Thus about 78 percent of TAA and NAFTA-TAA assistance that went to workers in the case study communities was used for income support. In these communities, training courses, which can last up to 104 weeks, cost \$19 million over the 6-year period, which was about 22 percent of total funding. Forty-four percent of all program recipients in these communities

⁸Nationwide, the TAA and NAFTA-TAA programs provided about \$1.2 billion for income support and \$500 million for training benefits between fiscal years 1995 and 2000, according to Labor Department data.

⁹Called the Basic Trade Readjustment Allowance by the Labor Department.

enrolled in training. Total payments for income support and training was \$85 million. Among the communities, El Paso had by far the highest number of recipients—8,581—and the highest total payments—at almost \$70 million.¹⁰ Watsonville, which received \$390,000 in assistance payments for 27 recipients, received the lowest amount of income support and had only 48 individuals enrolled in training.

Table 2: TAA and NAFTA-TAA Payments and Numbers of Recipients in Case Study Communities, Fiscal Years 1995-2000

	Watsonville, CA	Coushatta, LA	Owosso, MI	Washington/ Chocowinity, NC	El Paso, TX	Martinsville/ Henry County, VA	Total
Dollars in thousands							
Basic Trade Readjustment Allowance							
Payments	\$60	\$308	\$1,544	\$1,428	\$39,075	\$1,241	\$43,656
Recipients	27	105	400	243	8,581	1,144	10,500
Additional Allowance							
Payments	\$30	\$192	\$484	\$591	\$16,565	\$4,543	\$22,405
Recipients	12	72	46	57	3,343	6	3,536
Training							
Costs	\$300	\$323	\$916	\$201	\$14,250	\$3,345	\$19,335
Recipients	48 ^a	120	135	496	9,803	1,343	11,945
Total payments	\$390	\$823	\$2,944	\$2,220	\$69,890	\$9,129	\$85,396

Notes: Recipients may appear in quarterly reports spanning more than 1 fiscal year. Likewise, workers could have received more than one type of benefit in a fiscal year.

^aCalifornia program administrators said that many more displaced workers in Watsonville enrolled in training under the Job Partnership Training Act.

Sources: GAO analysis of Department of Labor data collected quarterly from the states, except for data on training costs and recipients in Watsonville, which came from California's Employment Development Department.

Structural Problems Hinder Effective Delivery of Services and Benefits

The effectiveness of the TAA and NAFTA-TAA programs is hampered by a number of problems in the way the programs have been structured, according to state program administrators and program participants. In the communities we visited, we consistently heard concerns expressed about problems related to inconsistency between the length of income support and training benefits, which resulted in hardships and increased numbers of dropouts; funding problems resulting in training delays; maintaining two separate trade-dislocated worker programs; and

¹⁰This does not include a \$45 million grant El Paso received from the Labor Department for extended trade adjustment assistance benefits for dislocated workers.

programmatic requirements that hinder efficient delivery of services and benefits to workers.

Length of Time for Income Support Limits Training Options

Program administrators, training providers, and workers in training consistently said that the TAA and NAFTA-TAA programs needed to close the gap between extended income support payments, which are provided for up to 18 months, and training, which is provided for up to 24 months. Although there are mixed views and little data on the outcomes associated with shorter and longer training programs, as discussed below, the gap in income support is believed to create difficulties for workers in 2-year training programs because when income support payments stop, dislocated workers generally drop out of training because they cannot afford to remain in classes without financial assistance.

The local administrator for the TAA and NAFTA-TAA programs in Washington, N.C., said that he and his staff advised workers to enroll in a course of study that would take no more than 18 months to complete, unless they had other sources of income. Dislocated workers we spoke with, most of whom were currently enrolled in training, frequently referred to workers who had to drop out of training due to financial constraints. Family responsibilities and the need to make mortgage or car loan payments had made it impossible for them to subsist without income support. Some workers we interviewed said they could afford to continue because they had a spouse who was working, but others said that they chose training that lasted 18 months or less. This choice precluded them from pursuing a 2-year Associate of Arts degree program, which could result in higher earnings or better skills, or any 2-year course of study involving initial remedial courses.¹¹

Funding Problems Lead to Training Delays

Another problem cited by local program administrators with program structure was the lack of a stable funding stream for training benefits. Although training is a key part of a worker's benefits, some states had difficulties providing consistent funding for training due to budgetary problems in the Department of Labor. The amount of funding the Department of Labor can provide is governed by legislatively set caps on training funds, with an annual limit of \$80 million for TAA and \$30 million for NAFTA-TAA. According to the Trade Act Coordinator in North Carolina, funding the trade programs has been an "administrative

¹¹Department of Labor program data show that about 12 to 16 percent of those entering training took remedial courses during fiscal years 1995-2000.

nightmare” and that state funds frequently must be used.¹² Generally, federal funding is provided to states quarterly and is based on prior expenditures. Because TAA and NAFTA-TAA certifications fluctuate, in some cases, states may not have received sufficient funding to cover workers enrolled during a quarter. In addition, state and local officials reported that insufficient federal funds are available for the programs toward the end of the fiscal year (Department of Labor officials said these problems primarily occur in the first and last quarters of the fiscal year). High levels of certifications from unanticipated layoffs and plant closures have resulted in states—Texas and North Carolina, for example—with large numbers of workers enrolled in training at the same time that program officials were informed that no additional federal funds remained.¹³ As we noted in our recent report, although Labor has issued formal guidance that states should not stop enrolling workers in program services and benefits when funding is temporarily unavailable, agency officials report that few states have done so.¹⁴

In some cases, when federal training funds are depleted, states use Workforce Investment Act (WIA)¹⁵ or other state monies. According to officials from case study communities, dislocated workers were frequently enrolled in training under WIA and then shifted to TAA or NAFTA-TAA after Labor approved their petitions and certified them as eligible for benefits.

Difficulties Stemming From Maintaining Separate Trade Programs

A basic structural problem exists from maintaining separate TAA and NAFTA-TAA programs, resulting in inefficiency, problems in administration, and confusion, according to state program administrators and program participants. Officials in every state administrative office and case study community we visited stated that the certification and training enrollment procedures of the two programs are different. They claimed

¹²North Carolina, statewide, also had the highest number of TAA and NAFTA-TAA certifications during fiscal years 1995-99.

¹³When this happens, states may apply for funding, such as National Emergency Grants from the Secretary of Labor, put workers on waiting lists, or suspend the training program.

¹⁴*Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs* (GAO-01-59, Oct. 13, 2000), p. 15.

¹⁵The Workforce Investment Act of 1998, Title I, provides assistance to persons who have been laid off due to plant closures or mass layoffs and/or meet the eligibility requirements outlined in the act. There is no special category of causation, such as that for trade-impacted workers under TAA and NAFTA-TAA.

this hinders effective program administration—particularly because many workers are certified for benefits under both programs and must select one under which to take benefits. Officials said standardized requirements would make the program easier to administer. This reaffirms what state administrators from the 20 states with the largest TAA and NAFTA-TAA programs told us in 2000.¹⁶ Maintaining two separate trade programs, with differing timeframes and provisions for training waivers (available under TAA but not NAFTA-TAA) is confusing to both program administrators and dislocated workers. Dislocated workers in El Paso and Owosso stated that the explanations about the differences that were provided by program officials before they had to choose between programs were inadequate and did not sufficiently clarify their questions. Officials in every state administrative office and case study community we visited thus consistently supported the consolidation of the TAA and NAFTA-TAA programs. These officials believed that consolidation would simplify program administration and rules and would be more efficient. The Department of Labor agreed with this position in its letter of October 5, 2000, commenting on our evaluation of these programs, stating that it supported measures to harmonize the requirements of the two programs.¹⁷

Other Program Requirements Hinder Delivery of Benefits and Services

Other program requirements can also impede dislocated workers from successfully completing training, according to state program administrators and program participants. For example, to obtain income support assistance, the NAFTA-TAA program generally requires that the dislocated worker enroll in training by the last day of the 16th week following their layoff or by the last day of the 6th week after publication of the certification, whichever is later. State program administrators said this requirement can limit training options for workers seeking to study at community colleges because training courses may be semester-based and not begin within the enrollment deadline. As a result, according to program administrators, workers must sometimes enroll in less suitable courses to retain their eligibility for income support. The TAA and NAFTA-TAA programs also prohibit dislocated workers from receiving income support if there is a break in training exceeding 14 days. Program administrators we interviewed explained that community colleges generally have semester breaks lasting longer than 14 days, which means

¹⁶*Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*, p.24.

¹⁷*Ibid.*, p. 35.

that dislocated workers cannot receive any financial assistance during that period.¹⁸

Other factors complicating service and benefit delivery include certification delays at the Department of Labor and federal paperwork requirements. As noted in our recent report, Department of Labor delays in certifying TAA and NAFTA-TAA petitions or state program administrative office delays in approving workers' training plans can limit workers' options.¹⁹ Dislocated workers we interviewed in El Paso said that acquiring approval for their training plans had taken months. Training providers in North Carolina and Texas told us federal administrative and paperwork requirements were cumbersome, rigid, and highly bureaucratic. In North Carolina, the Trade Act Coordinator at the state Employment Security Commission must approve any request for a dislocated worker to change a community college class. Department of Labor officials said that nearly all states have centralized approval of workers' training plans because local officials have less experience with TAA and NAFTA-TAA regulations.

Communities Face Significant Challenges in Improving Dislocated Workers' Skills

A number of challenges influenced implementation of TAA and NAFTA-TAA training benefits in our case study communities. One issue is related to the profile of the dislocated workers, a significant percentage of whom were in their 40's, had not finished high school, and needed remedial courses before they could start a degree or certificate program. Many in El Paso, Tex., and Watsonville, Calif., also had limited English proficiency. Given this dislocated worker profile, there was a debate in most communities about whether workers should enroll in 2-year degree programs or take shorter certificate programs and return to the workforce as quickly as possible. These issues were particularly challenging in El Paso, which had to contend with overwhelming numbers of dislocated

¹⁸Our most recent report on these programs included a Matter for Congressional Consideration regarding this issue. We noted that Congress may wish to consider permitting workers who experience an unavoidable break in training of more than 14 days (such as semester breaks) to continue to receive income benefits. See *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*, p. 26.

¹⁹*Ibid.*, p. 23. We found that in fiscal year 1999, 58 percent of NAFTA-TAA investigations exceeded the 40-day statutory requirements and 34 percent of the TAA investigations exceeded the 60-day limit.

TAA and NAFTA-TAA
Dislocated Workers Present
Training Challenges

workers, many of whom had low educational levels and limited English proficiency.

The profile of dislocated workers that emerged from our visits and discussions with program administrators, training providers, and small groups of dislocated workers is consistent with the Labor Department's available national data on TAA and NAFTA-TAA dislocated workers. The Department's data on these programs suggest that, nationwide, almost two-thirds of the participants were women, with an average age of 43, and generally low levels of education. Twenty-five percent had less than a high school education when laid off. According to available data and discussions with program administrators in El Paso and Watsonville, many program participants in their communities also had limited English proficiency. Officials in these two communities told us that the majority of these workers were Hispanic, spoke little or no English, and many had not gone much further than elementary or middle school. In Owosso, Mich., most dislocated workers were high school graduates. However, in Coushatta, La.; Washington and Chocowinity, N.C.; and Martinsville, Va., significant numbers of the dislocated workers had not finished high school, according to local officials.

Many dislocated workers had been with their employers for a considerable number of years. We interviewed some dislocated workers in El Paso who had worked for Levi-Strauss—one for almost 30 years. Similarly, many workers at the Sunbeam plant in Coushatta and the Hamilton Beach/Proctor-Silex, Inc., plant in Washington had worked there for more than 20 years when they were laid off. Program officials and training providers stated that these dislocated workers generally had an excellent work ethic and wanted to reenter the workforce as quickly as possible. However, many did not have a high school diploma or a General Equivalency Degree (GED), and few businesses would hire them without one or the other. Thus, many dislocated workers needed GED classes and sometimes English as a Second Language classes before entering occupational training and obtaining a job.

As a result of these factors, moving these workers further on the educational or job skill continuum is a challenge. Moreover, considering that the participants who did complete high school may have been in the workforce for 2 decades, it is difficult for them to reenter the educational system. Given these factors and the maximum 2 years of training available, earning an Associate of Arts degree would represent a considerable achievement yet may still leave these participants short of the skills required for the new economy jobs.

Communities Debate Training
Alternatives Without Adequate
Outcome Data

While program and training officials in most communities we visited were debating the best method for retraining trade-dislocated workers, limited outcome data on wages and employment outcomes make it difficult to assess which methods are most successful. Specifically, the debate centers on enrolling dislocated workers in 2-year degree programs to pursue an Associate in Arts, Science, or General Education, which may give them more options for a new, higher-skilled career, or enrolling them in short-term certificate programs that provide specific occupational skills training. In El Paso, the County Judge and the director of a community-based training advocacy group told us that they believe the central problem facing these workers was underemployment and that training should ensure that dislocated workers have basic language skills and a 2-year degree so that they can get a better job with a living wage. They saw training as a way to help dislocated workers climb the employment ladder, rather than ending up in another low-skilled, low-wage job with little hope of advancement. The training advocacy group official said training should be viewed as an investment that would provide a good return to the local economy.

Others pointed out that many dislocated workers need remedial courses to earn a GED, and in some cases they also need courses to gain proficiency in English, which would take up most, if not all, the allotted training time. They also pointed out that most dislocated workers need to complete training in 18 months, rather than the 24 months allowable, because income support ends at 18 months. They stated that it was important to ensure that dislocated workers could complete their training program and that shorter programs resulting in certification, such as those for certified nursing assistants or truck drivers, were more practical. Finally, an instructor we interviewed at El Paso Community College said it was best to take a flexible approach in meeting workers' needs. Some workers could manage a 2-year degree program, but most needed a realistic assessment of what they could accomplish in 18 or 24 months. For most, she believed a shorter certificate course was the best option.

Program data suggest that most dislocated workers in these communities are taking shorter training courses. While 11,945 workers enrolled in training during fiscal years 1995 through 2000, only 3,536 workers (30 percent) received additional allowances, which provide income support during the 12 to 18 months of program participation. (See table 2.) According to program administrators and training providers, workers generally do not continue training after income support benefits have stopped.

Some Officials Saw
Supplemental Funding as
Ineffective in El Paso's
Challenging Situation

Determining how well various training alternatives assist dislocated workers is difficult, due to the lack of outcome data on wages and reemployment. Although the Labor Department instituted a system to measure performance in fiscal year 1999, the level of responses from workers who have left the TAA and NAFTA-TAA programs has been low. To address the low response rate, the Labor Department changed its reporting system in fiscal year 2001, requiring all states to match data on dislocated workers with state wage records to determine whether dislocated workers have reentered employment and at what wage.

El Paso, Tex., faced a particular challenge in providing trade adjustment assistance training benefits to dislocated workers because of the large numbers involved. In 1994, nearly half of El Paso's 50,000 manufacturing jobs were in the apparel and textile industry. According to Texas Workforce Commission data, from January 1994 to February 2001, a total of 17,069 workers in El Paso were certified by the Labor Department for the TAA or NAFTA-TAA programs, with the majority of these jobs in the apparel and textile industry. Trade adjustment assistance program administrators in El Paso said that the sheer number of dislocated workers overwhelmed the system. In addition to the other types of assistance provided, about half of these workers enrolled in training during fiscal years 1995 through 2000. There were not enough case managers to handle the inflow, which averaged 475 cases per case manager in fiscal year 1998 and 325 in fiscal year 1999. All the dislocated workers we interviewed in El Paso were critical of the service they received, saying they were given inconsistent information, little respect by case managers, and no vocational counseling. El Paso's training providers did not have enough seats for all the dislocated workers at the peak of the layoffs, according to an El Paso Community College official, and the college was not prepared for the bilingual training most workers required. These dislocated workers eventually ran out of trade adjustment benefits but were no more employable than they had been before entering these programs, according to local program officials.

In June 1998, the Labor Department awarded El Paso a \$45 million grant to assist 4,500 workers displaced between January 1, 1994, and December 31, 1998. This grant was used for the El Paso Proactive Reemployment Project (PREP), which was to provide retraining, readjustment services, and income support for workers who had not yet received occupational training under their initial TAA and NAFTA-TAA benefits. However, some officials said that PREP instead extended income support without requiring sufficient accountability for their progress. The result, according to the El Paso Community College official, was that the college was

basically “warehousing dislocated workers” who needed to attend classes to obtain income support.

Adjustment Assistance Does Not Match Communities’ Challenges

Case study communities face fundamental challenges in restructuring economies, while the available adjustment assistance is limited, targeted, and short-term. Human capital challenges appear formidable, particularly helping workers in their mid-40’s with a high school or less education to find employment in the new economy. Physical infrastructure needed to renew economic growth is a related obstacle. While each community we visited experienced adverse economic impacts as a result of trade-related layoffs, the severity of these impacts and the communities’ responses varied. Martinsville, Va.; El Paso, Tex.; and Watsonville, Calif., have embarked on economic adjustment strategies aimed at diversifying their economies and attracting jobs to replace those that were lost. Alternatively, in Coushatta, La., and Owosso, Mich., where most trade-displaced workers have found similar but lower-paying jobs in the area, community leaders have not settled on an economic adjustment strategy, although they recognize that in the long run such strategies may be necessary.

Communities Face Challenges to Economic Growth

As the communities we visited work to recover from the trade-related job losses they sustained, many face fundamental challenges that will make it difficult to attract new businesses. These challenges encompass the need to develop both their human capital and physical infrastructure in order to complete the economic adjustment of their communities.

Communities Have “Old Economy” Workforce

One challenge consistently cited by government and civic leaders in the communities was the issue of human capital. They said that they needed to improve local educational systems, which often had high school dropout rates much higher than the national average. In several communities, local leaders said that school facilities and curricula needed to be improved to better prepare students for high-skilled jobs and to develop a more attractive environment for companies that they would like to recruit. In some communities, local officials said that they were caught in a difficult situation in which local residents who graduate from college leave for better jobs elsewhere. At the same time, they were hampered in recruiting firms that needed a college-educated workforce, in part, because they had low numbers of such workers in their area.

Table 3 illustrates another aspect of the human capital challenge facing these communities. The table compares trade-dislocated workers nationwide to the total U.S. workforce. Trade-dislocated workers include a

higher percentage of women, who had lower educational levels and lower average wages in the jobs they held before dislocation. While 42 percent of the nation's total workforce has a high school education or less, 80 percent of trade-dislocated workers fall into this category. Among trade-dislocated workers, the average age was 43, and 59 percent were over the age of 40. These data suggest, and community leaders we interviewed confirmed, that trade-impacted workers tend to be less mobile and face difficulties reentering a workforce that increasingly requires more skills and training.

Table 3: Profile of TAA and NAFTA-TAA Participants Compared to Total U.S. Workforce, Fiscal Years 1999-2000

Worker characteristics	Nationwide TAA and NAFTA-TAA participants (percent)	Total U.S. workforce (percent)
Gender		
Male	36	53
Female	64	47
Average age	43 years	N/A
Limited English proficiency	12	N/A
Average old wage	\$12.13 per hour (at separation)	\$13.36 per hour (current wages for production workers)
Average new wage	\$10.31	Not applicable
Median tenure	7 years (at separation)	3.5 years
Education		
Less than high school	25	10
High school graduate	55	32
Some post-high school	17	28 ^a
College graduate	4	30

Legend: N/A = not available.

Note 1: TAA and NAFTA-TAA participant data based on data from 36,000 workers who left the TAA and NAFTA-TAA program in fiscal years 1999-2000 and filled out a survey. Total U.S. workforce data come from Bureau of Labor Statistics Employment Situation Report for May 2001, except for average wage and average tenure data, which are Bureau data for February 2000.

Note 2: Totals may not add up to 100 percent due to rounding.

^aSome post-high school for total U.S. workforce includes some college, no degree, and associate degrees.

Sources: GAO analysis of data from Department of Labor TAA and NAFTA-TAA programs, and Bureau of Labor Statistics.

Communities Face Infrastructure and Land-Use Challenges

Another challenge faced by the communities was the lack of access to major transportation arteries and inferior transportation infrastructure. Officials in three of the communities, Washington, Martinsville, and Coushatta, believe that their economic growth was hampered because their communities are not located near interstate highways. There are no four-lane highways in Coushatta or Red River Parish. While Virginia and North Carolina are considering interstate extensions that would run near Martinsville and Washington, both projects are still in the early proposal phase and, even if approved, are years away.

Local land-use policies pose additional challenges to economic development and growth in Watsonville and Owosso. Watsonville is surrounded by prime agricultural land, and Santa Cruz County has

imposed stringent restrictions on the conversion of this land to other uses, including manufacturing and housing. Watsonville officials said that only a limited amount of land zoned for manufacturing is currently available in the area. To expand its manufacturing base to provide employment opportunities for displaced workers, Watsonville officials believe the community must annex agricultural land, which local officials said is rarely approved. Owasso also has limited land available for new industries within its city limits. Independently governed townships, comprised of residential neighborhoods that surround the city, want to limit industrial expansion. Owasso officials said that there has been limited collaboration on economic development among area jurisdictions. Recently, however, a local development corporation has initiated an effort to promote cooperation among business and civic leaders in Owasso and surrounding areas.

Communities Have Differing Economic Adjustment Strategies

These communities are struggling with difficult choices needed to rebuild their economic base and retool to better compete in the national and global economies. Watsonville, Martinsville, and El Paso have what could be termed “middle path” strategies that aim for economic diversification while preparing their workforce for the high-skilled, well-paying jobs that they hope to attract. However, these communities realize that they still need jobs suitable for low-skilled displaced workers who will not qualify for new economy jobs. The other three communities have yet to come to grips with which economic adjustment course to pursue.

El Paso, TX

El Paso received a \$275,000 EDA grant to develop an economic adjustment strategic plan, which was adopted by the city in December 1999. The strategy encompasses a 10-year horizon and is linked to three principles: the value of human capital, access to Mexican and Latin American markets, and the radical transformation of the economy through technology. El Paso’s strategic plan recommends following a middle path between recruiting lower-wage industries to employ displaced workers and recruiting those that offer higher-wage employment. The plan’s authors argue that recruiting only lower-wage industries that could employ the current group of displaced workers would expose the city to companies concerned entirely with low-cost labor and risk further business closures if they relocate to Mexico. On the other hand, offering incentives only to higher-wage industries would create few opportunities for currently displaced workers and further strain the community’s social infrastructure. The strategy emphasizes the importance of making workforce development programs employer-driven and linking these efforts to businesses.

Martinsville/Henry County, VA

In Martinsville/Henry County, the Patrick Henry Development Council, which is the local economic planning board, received a \$350,000 grant in 2001 from the U.S. Department of Housing and Urban Development to develop an economic development strategy. The strategy seeks to diversify the area's economic base by recruiting both high-paying technology and heavy manufacturing companies. The strategy also focuses on human capital, and the council contracted for a worker profile survey to determine what skills the local workforce needs to develop to attract high-paying companies and to assess the local educational system's ability to produce that workforce. Martinsville/Henry County is also part of an EDA-designated Economic Development District and received a \$60,000 grant in 2000 to prepare a regional strategy that focuses on mitigating adverse trade impacts. Both strategies propose and prioritize projects, such as industrial parks and business incubators, qualifying for state and federal assistance.

Watsonville, CA

Watsonville officials concluded that efforts to train many dislocated food processing workers have resulted in limited success. Their economic adjustment strategy thus has two goals: (1) to attract labor-intensive manufacturing jobs for which these displaced workers can qualify and (2) to improve job opportunities for the city's youth by providing training in computer and other skills required by high-wage employers.²⁰ In addition, the county and community college are collaborating on a project to support the creation and retention of quality jobs. There is also a business incubator to facilitate new business start-ups.

Owosso, MI

Owosso city officials have done little economic adjustment planning, although local business leaders have taken steps to attract new jobs. Because of Owosso's proximity to the industrial centers of Lansing and Flint, where automotive industry jobs are available, the city has not developed an economic adjustment strategy. However, the private sector in the Owosso area has taken some steps to address job loss. Business and community leaders have begun work on a plan that looks to the area's future economic development, part of which is to develop an industrial park.

Coushatta, LA and Washington, NC

Coushatta and Washington have taken some action to improve their local economies. Coushatta officials said that the town, which has only 2,299 residents, has limited resources for development, and has not developed a

²⁰The "high-tech" Silicon Valley area is about an hour's drive from Watsonville.

comprehensive economic plan. The town, however, has spent \$1 million to renovate the city-owned Sunbeam building and leased it to a pillow and mattress manufacturer that employs about 200 workers, including many former Sunbeam employees. The town has also contracted with a consultant to help attract new companies. In Washington, local officials said the Beaufort County Planning Commission would begin developing an economic adjustment strategy when it filled its Executive Director position. In the meantime, the Commission is considering acquiring a building to serve as a business incubator.

Assistance Available for Communities' Economic Adjustment Efforts

Officials from the communities we visited generally reported that they had received modest assistance from federal and state governments, mostly federal loan guarantees. Table 4 shows that a total of \$59.5 million in economic adjustment funding was received by the communities from federal assistance programs from fiscal year 1995 to the present. Reflecting the varied sizes of the communities and the impacts they experienced, this assistance ranged from \$413,000 to Coushatta, La., to \$44.5 million for El Paso, Tex. In addition, the largest source of adjustment funding for these communities—\$42.3 million—was provided by Community Adjustment and Investment Program (CAIP) guaranteed business loans, most of which were made in El Paso (\$38.7 million).²¹ The second largest source of funding was from EDA, which provided \$10.5 million to the communities.

²¹As noted earlier in this report, CAIP makes loans, loan guarantees, and grants available to trade-impacted communities.

Table 4: Federal Economic Adjustment Assistance to Case Study Communities, Fiscal Year 1995-Early Fiscal Year 2001

Dollars in thousands

Source of assistance	Watsonville, CA	Coushatta, LA	Washington/ Chocowinity, NC	Owosso, MI	El Paso, TX	Martinsville/ Henry County, VA	Total
CAIP loan guarantees	\$2,598	\$413 ^a	\$0	\$0	\$38,693	\$600	\$42,304
CAIP direct loans	0	0	0	0	1,180	0	1,180
CAIP grants	0	0	0	0	900	0	900
Economic Development Administration	6,050	0	0	0	2,975	1,460	10,485
Other federal economic adjustment assistance	500	0	0	3,000	750	450	4,700
Total	\$9,148	\$413	\$0	\$3,000	\$44,498	\$2,510	\$59,569

Note: This table does not include all federal economic assistance funds. It includes only those funds linked to trade-related job losses and plant closures. The Trade Adjustment Assistance for Firms Program is not included because none of the case study communities received funds from the program.

^aCAIP guaranteed loan funds listed for Coushatta were used in a neighboring community impacted by Coushatta's trade-related layoffs.

Sources: CAIP, EDA, and case study community officials.

Limited Assistance Provided by State Governments

Each community received some economic development assistance from its state government. The most common forms of state assistance were business tax abatements and refunds available to new and expanding businesses in economically distressed areas. A Martinsville city official said that, since 1996, when the city was designated a State Enterprise Zone, all businesses that located or expanded in the city have taken advantage of these incentives. Some communities also received state economic development grants and loans. In Coushatta, the Louisiana State government helped fund improvements to the former Sunbeam building to make it more attractive to potential manufacturing tenants. Likewise in Martinsville, after the Tultex closure in 1999, the state of Virginia loaned the city \$945,000 to construct a shell building²² in its industrial park and provided a \$250,000 grant to convert Tultex's former headquarters building into a business incubator.

²²A shell building is a structure equipped with basic utilities that can be leased to a business.

Federal Trade Economic
Adjustment Assistance Mainly
Provided by CAIP

The communities received limited assistance from the two federal programs designed to mitigate the adverse economic impacts of trade—the Trade Adjustment Assistance program for firms and CAIP. The program for firms provides consulting services to trade-impacted firms to make them more competitive. According to Department of Commerce records, only one firm in the six communities, an El Paso wood cabinet company, received assistance from the program. While the program helped the company to develop an adjustment plan, the company did not implement it and did not receive funding, according to program records.

Three of our case study communities received assistance from CAIP. Since 1997, businesses in El Paso have applied for and received about \$38.7 million²³ in guaranteed CAIP loans, more than any other community in the country.²⁴ CAIP has also made two direct loans in El Paso, one in May 1999, for \$1 million to the El Paso Workforce Collaborative to renovate a former Levi-Strauss factory to be used as a Workforce Development Center and a Business Resource Center. The second loan was made in March 2001, for \$180,000 to La Mujer Obrera, an advocacy group for dislocated women workers, for equipment and working capital for a restaurant that is also a training facility. El Paso also received two CAIP grants of \$450,000 aimed at improving workers' skills, one to a plastic injection molding training and contract center, and the second to retrain workers for health field jobs. In Watsonville, CAIP has guaranteed three loans totaling \$2.6 million for plant nursery businesses. A business in Martinsville obtained two CAIP guaranteed loans totaling \$600,000. Near Coushatta, a portable building business received a CAIP guarantee for a \$413,000 loan. Owosso was ineligible for the CAIP program because of its low unemployment rate, and while Washington was eligible, no businesses there received CAIP-guaranteed loans. Officials in most communities we visited said that CAIP assistance is not sufficient to spur economic recovery. We noted in our recent report²⁵ that CAIP adds marginal benefits to trade-impacted communities because it guarantees loans that would

²³This amount was as of May 29, 2001.

²⁴In El Paso, most of the participating small business lenders and borrowers we talked to during our evaluation of CAIP in 2000 said that the program had been valuable in paying the guarantee fee for small business loans, thus freeing up needed operating capital.

²⁵See *Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program* (GAO/NSIAD-00-229, Sept. 29, 2000), p. 22.

Some Assistance Available
From Other Federal Programs

likely have been made under existing Small Business Administration programs.²⁶

Other federal programs, although not targeted specifically at trade-impacted communities, offer assistance to economically distressed areas. For example, EDA provides grants to communities in economic decline to upgrade or expand their economic infrastructure and to design and implement economic adjustment strategies. Most of our case study communities received some economic adjustment assistance from EDA and other federal agencies, but community leaders believed more was needed.

In Martinsville/Henry County, a team of federal officials from several agencies, working under the coordination of the President's National Economic Council, went there after the Tultex bankruptcy in December 1999 to explain the federal assistance available and to assist the communities in filing grant applications. In 2000, the community was awarded about \$800,000 in EDA and Department of Agriculture grants for a business incubator. In 2001, a \$840,000 EDA grant for a water line for a new plant was approved. In addition, the West Piedmont Planning District received a \$60,000 EDA grant to prepare its economic adjustment strategy.

Regarding El Paso, the city was awarded about \$2.6 million in EDA economic adjustment assistance during the period 1995 to present. This amount included a \$1.4 million grant to aid in converting the former Levi-Strauss plant and a \$1.2 million grant to La Mujer Obrera, an advocacy group for dislocated women workers.

Enterprise Community and
Empowerment Zone Funding
Also Used

Watsonville and El Paso, cities that historically have had high percentages of low-income residents, have had sections declared federal Enterprise Communities on the basis of their high poverty rates and low per capita income levels. Enterprise Communities received \$3 million in block grants through this program, which is administered by the Departments of Agriculture or Housing and Urban Development. Businesses in these communities are eligible for tax-exempt bond financing to build or expand facilities. Enterprise Communities' applications for other competitive

²⁶CAIP guarantees loans in partnership with the Small Business Administration and the Department of Agriculture. CAIP loans differ from conventional small business loans offered by these agencies because CAIP pays the loan guarantee fee. Many small businesses in the case study communities probably qualify for conventional small business loans. We did not determine how many of these loans were made in the communities.

federal economic and community development grants are given special rankings by the agencies that administer the grants. Watsonville, which was designated an Enterprise Community in 1995, devoted much of its grant, provided by the Department of Agriculture, to fund youth training programs. It has used other federal grants and loans to finance a downtown business incubator, two motels, and the expansion of a community college branch campus. El Paso, which also received its Enterprise Community designation in 1995, is using its funds for human capital efforts such as job training and has offered tax-exempt bond financing as an incentive to attract and encourage business expansion.

El Paso was also designated an Empowerment Zone by the Department of Housing and Urban Development in 1999, based on criteria similar to those used by the Enterprise Community program. As an Empowerment Zone, the city thus far has received \$19 million. The funds are being used to promote projects similar to those under the Enterprise Community program.

Local Views on Trade-Impacted Communities' Access to Federal Funds

Officials in the communities believe that they are limited in their ability to obtain federal economic adjustment assistance and cite a number of reasons. Some officials said that, without a central source of information on available economic adjustment programs, they are not always aware of those for which their communities might qualify. For example, officials at the West Piedmont Planning District, which includes Martinsville, said they are familiar with EDA and Department of Agriculture Rural Development programs but have limited knowledge of other federal programs. Officials also cited the lack of financial resources to meet the federal grant matching requirements. El Paso officials said they primarily have sought assistance from programs with no or low matching requirements. Some officials described the grant application process as time-consuming, technical, and expensive. Officials in Owosso, Coughatta, and Washington said that their communities lacked the personnel and expertise necessary to secure federal grants. Local officials believe that the scope of programs targeted at trade-impacted areas is too limited to make a difference in their communities.

Lessons Learned From Trade-Impacted Communities' Experiences

The six case study communities in our study pose a particularly severe test for the trade adjustment assistance programs since we used criteria that were designed to identify hard hit communities. As a result, these experiences may not be typical of communities affected by trade-related layoffs. Nevertheless, the lessons learned by these communities may be applicable to other hard hit communities, as well as to other communities where the impact of trade-related layoffs was not so severe. These lessons may also be relevant for communities where technology or other forces have led to significant job losses.

These communities face long-term challenges in improving job skills and human capital of dislocated workers and developing physical infrastructure needed to attract new businesses. Those involved in worker adjustment assistance programs in the communities pointed to the need for more flexible training programs linked to the employment needs of local businesses. Community leaders working at economic adjustment efforts had a harder time drawing lessons from their experiences and have faced difficult choices and found few off-the-shelf answers. One of the fundamental challenges facing trade-impacted communities is helping dislocated workers—generally older workers with a high school degree or less—adjust to an increasingly globalized economy that requires different skills than were needed when these individuals entered the workforce. Trade adjustment assistance program administrators and training providers in the communities said that program rules regarding income support benefits limit their flexibility in addressing dislocated workers' training needs. Although administrators believed that limiting income support to 18 months presented financial hardships that discouraged workers from completing 2-year training programs, available data indicate that most workers leave training after 1 year. However, even if these programs were more flexible, these relatively short-term training programs may not bridge the gap between these workers' current skills and the skills they need to enter the new economy workforce. Our discussions with training providers and workers indicated that enormous sacrifices are necessary for dislocated workers — many of whom have been out of school for 20 years or more — to be successful in an educational system that has become significantly more challenging while maintaining family and other responsibilities.

Still, additional funding does not mean that these challenges are easily addressed, as indicated by El Paso's experience with a \$45 million supplemental grant from the Department of Labor. Local officials learned that the necessary training infrastructure must be in place to meet dislocated workers' needs. According to community leaders, supplemental

grant funds were used to place many workers in training programs that had not been evaluated. Further, insufficient bilingual training designed for adults was available. With no clear sense that training would improve their job prospects, some workers stayed in training to continue receiving income support benefits. Eventually, grant managers began offering workers monetary incentives to leave training and take available low-skilled jobs.

One of the lessons that emerged from our discussions is the central role of education and training, which included training to provide basic language skills to laid off workers, strengthening the links between business and educational institutions, or emphasizing education for the next generation of workers. In Martinsville, the local planning authority, in conjunction with businesses, has contracted for a workforce survey that will identify the human capital needed to attract and retain businesses. The survey results will serve as the basis for developing training courses at the local community college. In Owosso, the local training provider, a private college, has local business leaders sit on an advisory board to ensure that the college's curriculum includes needed job skills training. In El Paso, a training provider that specializes in training displaced workers has worked with local businesses to develop an internship program to give students work experience. Such efforts to define local needs, establish priorities, and link education and training with jobs is a common theme among our trade-impacted communities.²⁷

Finally, one of the lessons that appeared in our discussions with many community leaders was that helping the dislocated workers is the immediate challenge but does not lead to—and may even detract from—the efforts to address the longer-term structural problems. Watsonville, Martinsville, and El Paso appear to have chosen the path of economic diversification and are emphasizing the importance of education for the generations now entering the workforce, since it is often much easier for them to acquire the skills that are necessary for higher-paying jobs in the new economy. However, leaders in these communities acknowledge that

²⁷ Guidelines to assist communities adjust to changing economic conditions have been prepared by the Departments of Labor and Defense, and provide a framework for developing a strategic plan. See *Conducting a Community Audit: Assessing the Workforce Development Needs and Resources of Your Community*. Office of Adult Services, Employment and Training Administration, U.S. Department of Labor, 2000, and *Workforce Adjustment Strategies: Coping with the Human Aspects of Base Closure and Defense Industry Downsizing*. Office of Economic Adjustment, U.S. Department of Defense, 1996.

they also need jobs suitable for low-skilled displaced workers who will not qualify for new economy jobs. Balancing these competing demands will determine how successfully these communities will adjust to changing national and global economic conditions.

Agency Comments and Our Evaluation

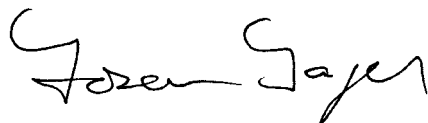
We received written comments on a draft report from the Departments of Commerce and the Treasury. The Department of Commerce said that the report fairly and accurately describes EDA assistance programs. The Department of the Treasury said that the report makes an important contribution to understanding the issues that a community faces when an abrupt change takes place in its economy as a result of job dislocations attributable to changing trade patterns. The comments we received and our evaluation of them are contained in appendixes VIII and IX. In addition, the Department of Labor provided technical comments, which we incorporated in the report as appropriate.

The Department of Commerce said that our characterization of the difficulties of Martinsville, Virginia in obtaining economic adjustment assistance did not fully reflect EDA's eligibility or competitive selection criteria for its Public Works and Economic Adjustment programs. We have revised the report to reflect EDA's clarifications.

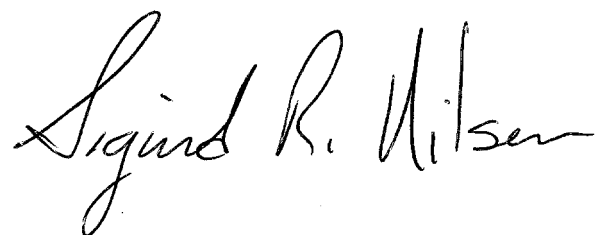
The Department of the Treasury, while not disagreeing with our characterization of CAIP funding as limited, stated that more CAIP financing for communities was available if the communities requested it. We clarified the report by stating that businesses and potential grantees must apply for CAIP financing. CAIP does not provide funding directly to eligible counties, but rather offers access to competitively awarded grants or enhanced access to credit through loans and loan guarantees. The Treasury also disagreed with our statement that CAIP loan guarantees made in partnership with the Small Business Administration would likely have been made anyway without CAIP's participation. We based these statements on our recent evaluation of CAIP. Our position, which remains unchanged, is that outcome measures and a monitoring system are needed to demonstrate the benefits CAIP has brought to communities.

We are sending copies of this report to appropriate congressional committees. We are also sending copies of this report to the Secretary of Commerce; the Secretary of Labor; and the Secretary of the Treasury. Copies also will be made available to others upon request.

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Additional contacts and staff acknowledgments are listed in appendix X.



Loren Yager
Director,
International Affairs and Trade



Sigurd Nilsen
Director,
Education, Workforce and Income Security

Appendix I: Watsonville, California, Case Study Profile

Located in the center of the El Parajo Valley, in Santa Cruz County, Watsonville is on the central California coast, 48 miles from San José. Latinos comprise 75 percent of the population, most of whom are recent immigrants who came to work in the area's agricultural sector. The second largest city in the county, Watsonville has an unemployment rate that is twice that of the county. Table 5 provides more details on the community's characteristics.

Table 5: Profile of Watsonville, CA

Community characteristics	
Population, as of 2000	44,265
Population, percentage change, from 1990 to 2000	42%
High school graduates, persons 25 years and over, 1990	54%
College graduates, persons 25 years and over, 1990	11%
Median household income, 1997 estimate	\$44,607 ^a
Persons below poverty, percentage, 1997 estimate	13%
Unemployment rate, 2000 annual average	12%
Major employment sectors	Farming
Percent of population employed in manufacturing, 1997 estimate	11%

^aData for 1997 are only available for Santa Cruz County. The most recent data available are for 1989 and indicate that Watsonville's median household income is \$27,980, which is 75 percent of the Santa Cruz County 1997 median household income.

Sources: U.S. Bureau of the Census and U.S. Bureau of Labor Statistics.

Impact of Trade-Related Job Losses

Watsonville's economy has been severely impacted by increased imports of frozen vegetables and natural disasters over the last two decades, according to local officials. Imports of low-cost vegetables from Mexico, Guatemala, and other countries have resulted in the reduction of Watsonville's frozen vegetables industry. Thus, the industry's decline was already well under way before the North American Free Trade Agreement (NAFTA) was enacted in 1994. According to the University of California, Los Angeles, North American Integration and Development Center, 510 permanent and 440 seasonal processing workers lost their jobs between 1983 and 1994. This was followed in 1996 with the closure of Dean Foods plants and the loss of 600 jobs. Natural disasters have also hurt the community, which is still recovering from the Loma Prieta earthquake of 1989. Further, in 1995, the community experienced a major flood and suffered agricultural losses.

The closures of the frozen vegetable plants have had a major impact on Watsonville. Since the mid-1980s, Watsonville has lost more than 5,000

frozen food and cannery jobs, many of which were mid-level union positions that paid about \$8 an hour and provided fringe benefits. For the community's many migrant farm workers, these jobs provided an opportunity for upward mobility but were replaced with poorly paid seasonal or part-time work. The unemployment rates in Watsonville for the last 10 years (1990 through 1999) has been in the double digits, averaging 16.5 percent. In 1993, the unemployment rate peaked at 20.8 percent and declined to a low of 11.9 percent in 2000, when the annual average for the United States and Santa Cruz County was 4 percent and 5.6 percent, respectively. Nevertheless, the food processing and production industry still remains the largest employer in the area, providing employment for more than 18,000 workers. However, since 1994, the number of jobs in food processing has declined at an average annual rate of 6.8 percent. Many residents and leaders believe that unless the city can reduce its dependence on low-skilled, low-income, seasonal jobs, the community will see further economic decline.

Assistance to Dislocated Workers

Watsonville has not experienced a large, trade-related layoff of workers since 1996, and the results of efforts to assist earlier trade-impacted workers are limited. Several local officials said that one of the main problems with the Trade Adjustment Assistance (TAA) program was that the allowance of 2 years of training might not be long enough when dealing with workers who only speak Spanish or are illiterate in their native language. They said that considering these individuals' remedial education needs, it would probably take 3 to 5 years to train them for new jobs.

For workers who had enrolled in a local training school or community college, local officials had no data on wages earned after graduation and did not know the number of workers who had found jobs in areas of their training. Rather than relocate, however, most dislocated workers have chosen to remain in the Watsonville area. Some share homes with multiple families and have found employment in plant nurseries, farms, or small businesses. To help reemploy these people, city officials said that they have focused on attracting assembly jobs that are appropriate to the local population's skill level. They recruited a company that makes bike and snowmobile parts, which opened in 2001.

Economic Adjustment Efforts

The city of Watsonville has received a wide range of federal, state, and county economic adjustment assistance to help implement its strategic plan. Federal agencies have worked to deliver a variety of assistance to Watsonville. The Department of Agriculture has assisted the city with loans and grants through local partnerships with financial organizations and local economic organizations. It has also provided loans for several business projects, such as the Red Roof Inn and Holiday Inn Express hotels, a small business incubator building with office and retail space (see fig. 3), and a warehouse facility. The city was also awarded almost \$200,000 from the Department of Agriculture and \$500,000 from the Department of Health and Human Services to help the El Pajaro Community Development Corporation with development of the business incubator building. The El Pajaro Development Corporation is one of several local corporations working with federal agencies to improve Watsonville's economy.

Figure 3: Photos of Watsonville, CA



Plaza Vigil, the new business incubator building in downtown Watsonville.



Construction is finishing on the new Cabrillo College campus in downtown Watsonville.

Source: City of Watsonville.

Watsonville was included in the first round of cities the Department of Agriculture designated as Federal Enterprise Communities in January 1995. This designation will result in about \$3 million in federal grant funds over the next 10 years and will improve the city's ability to qualify for additional federal program funds. In its Enterprise Community application, Watsonville officials listed unemployment and the school dropout rate as their most severe community problems. Local officials also acknowledged that most training efforts are targeted at the younger population, conceding that they have largely given up on training older workers now unable to work in the local agricultural industry, primarily with strawberry production.

Watsonville also has participated in the Community Adjustment and Investment Program (CAIP). Under this program, Watsonville received about an additional \$2.6 million in guaranteed loans in fiscal years 1998 through 2000 to support several plant nursery business projects.

Watsonville has also received more than \$6 million in grants from the Economic Development Administration's (EDA) Public Works and Economic Development Program. The funds can be used to support (1) new building construction, (2) business incubators, (3) industrial parks, (4) roads and streets, and (5) water and sewer systems. Watsonville applied for the EDA program under the Santa Cruz County Economic Adjustment Strategy plan. The projects are funded with federal, state, and local agency funds. Some of the projects EDA has approved include a new Cabrillo College satellite campus (see fig. 3), a youth training center, and a parking garage in a downtown commercial building.

Watsonville's designation as one of 39 state Enterprise Zones located throughout California went into effect in 1997 and will be active until 2012. As a state Enterprise Zone, the city's industrial area will receive a wide array of incentives to retain, expand, and attract businesses, to diversify the community's economic base.

However, local land use decisions are frequently contentious and sometimes challenged by farmers and environmental groups in the area. According to Watsonville officials, Santa Cruz County has an ordinance prohibiting the conversion of agricultural land to industrial uses or housing developments. The county ordinance is used to encourage new development efforts to locate in urban areas to protect agricultural land and natural resources in the rural areas. Also, environmental groups are against the development of the area because of the potential effects on the Monterey Peninsula and Bay.

Appendix II: Coushatta, Louisiana, Case Study Profile

The town of Coushatta in Red River Parish in northwest Louisiana is approximately 50 miles southwest of Shreveport (parishes are comparable to counties). Red River Parish has a small industrial base and no multilane highways or public port facilities. Table 6 presents a demographic and economic profile of Coushatta.

Table 6: Profile of Coushatta, LA

Community characteristics	
Population, as of 2000	2,299
Population, percentage change, from 1990 to 2000	26.6%
High school graduates, persons 25 years and over, 1990	51.7%
College graduates, persons 25 years and over, 1990	9.3%
Median household income, 1997 estimate	\$21,928 ^a
Persons below poverty, percentage, 1997 estimate	26.0% ^a
Unemployment rate, 2000 annual average	9.1%
Major employment sectors	N/A
Percentage of employees in manufacturing, 1997 estimate	N/A

Legend: N/A = Not available

^aData for 1997 are only available for Red River Parish. The most recent available data are for 1989 and indicate that Coushatta's median household income was \$12,756 and that 42.3 percent of residents are below poverty level.

Sources: U.S. Bureau of the Census and U.S. Bureau of Labor Statistics

Impact of Trade-Related Job Losses

In late 1996, the Sunbeam-Oster Corporation, a manufacturer of small appliances such as toasters and irons, announced the closure of its Coushatta, Louisiana, plant after 31 years of operation (see figure 4). The closure, effective December 31, 1996, was part of a nationwide downsizing by Sunbeam that cut more than 6,000 jobs due to increased imports. With the closure of the Sunbeam plant, a major employer in Coushatta, the unemployment rate for Red River Parish rose to 23.7 percent in 1997. A total of approximately 520 workers lost their jobs, many with more than 20 years of service. According to local officials, most workers affected by the closure were white, female, and approximately 40 years of age. The closure of the Sunbeam plant also meant the loss of a \$10 million annual payroll, a decrease by one fifth of Red River Parish's gross income, and the erosion of its tax base. Coushatta's unemployment rate was 9.1 percent in 2000.

Figure 4: Photos of Coushatta, LA, and a Training Facility in a Neighboring Community



Former Sunbeam plant in Coushatta, LA.



Private truck driving school 50 miles from Coushatta.

Source: GAO.

Assistance to Dislocated Workers

The workers who were laid off from the Sunbeam plant received a severance package and health insurance coverage for 26 weeks. Some dislocated workers have since reentered the workforce and are employed at the same wage or higher. Some found jobs in the service sector,

including retail stores or restaurants, while others found jobs in manufacturing plants in nearby towns. For instance, soon after Sunbeam closed, another company opened a plant in a nearby town hired 80 dislocated workers. Company officials said that more dislocated workers would have been hired if they had applied. Because the company requires a high school diploma or General Equivalency Degree (GED), it offers a computer-based training program to aid interested applicants in preparing for the GED and other training geared at third grade through the first year of college. Company officials said they have a strong incentive to train workers well. Local officials also said that the local education system is very poor, so some companies prefer to conduct on-the-job training for workers. As noted in table 6, in 1990, about 52 percent of people 25 years and over had graduated from high school.

The TAA and NAFTA-TAA programs made one-on-one vocational counseling and career assessments available to participants by the TAA and NAFTA-TAA programs. After the Sunbeam plant closure, about 130 workers attended various classroom training programs during 1996 to 1997. Eleven of the former Sunbeam workers began on-the-job training, and 54 received Certificates of Continuing Eligibility forms, which can be redeemed for training for 2 years. The local training provider is a state technical college that provides vocational training in certificate and diploma programs and offers an associate degree program. Local program administrators told us that there is a clear trend that dislocated workers will drop out of training as soon as they can find a job rather than waiting to complete training at this school, which they said is not well regarded and has a low job placement rate. Another training provider, a private institute, located more than 50 miles from the impacted community, also trained some of the dislocated workers (see fig. 4). This school offered training in tractor-trailer driving and clerical skills and reported a 96-percent job placement rate. School officials attribute their success to the students' commitment, stating that dislocated workers who commute to attend the institute are serious about wanting to be reemployed.

After June 1997, active enrollment in training programs declined because those who had completed their training programs had found employment. Enrollment continued to fluctuate as more of the Sunbeam workers' income support benefits ended. Some dislocated workers interested in on-the-job training were referred to companies that had active on-the-job training contracts. According to officials, most of the Sunbeam workforce requested referrals to a new company that opened in Natchitoches in early 1997.

Economic and community development needs in Coushatta are met by the Coordinating and Development Corporation, a nonprofit entity that provides specialized services to northwest Louisiana's parishes, municipalities, other industrial and economic development groups, and public organizations. The Coordinating and Development Corporation also provides assistance to individuals, especially dislocated workers. It conducted local workshops on job relocation, job skills, interviews, and resumes with the Louisiana Department of Labor. The corporation invited various training vendors to participate by presenting programs on the training options available to displaced workers. These programs were held throughout December 1996 and continued as needed over the next year. When the Sunbeam closure occurred, the Coordinating and Development Corporation provided emergency assistance by setting up an office for 2 years in the Coushatta courthouse, because its closest permanent office was 35 miles away.

Economic Adjustment Efforts

Coushatta does not have its own comprehensive economic development plan but is included in the Red River Parish plan. Although no single organization focuses on economic development in Coushatta, numerous officials and entities are involved in economic development efforts. For example, the Coordinating and Development Corporation prepared a needs assessment for northwest Louisiana for the year 2000 that identified barriers to economic development for each parish. Some new plants in the vicinity need water and sewer lines extended or expanded. In addition, following the Sunbeam plant closure in Coushatta, Louisiana Tech University prepared an estimated impact analysis for the corporation as a public service. The report estimated the probable economic impact of the plant's closure on the economies of northwest Louisiana at almost \$30 million. It said that Red River Parish will bear over \$16 million of the burden and will likely lose 35 "secondary" sector jobs, 175 trade and service sector jobs, and 81 government sector jobs.

The Sunbeam facility was owned by the town of Coushatta and leased to Sunbeam. When the plant closed in 1996, the town took the building back and maintained it until another business was brought in to take over the facility. In 1999, a mattress and pillow factory opened at the Sunbeam site. Economic development officials and the Mayor were instrumental in getting the factory to locate in Coushatta. The company now employs approximately 200 workers from the Coushatta area.

Many communities within Red River Parish—including Coushatta—are located within the state's Enterprise Zones, which provide economic

incentives to businesses that locate there, including tax credits and sales and use tax rebates to businesses hiring at least 35 percent of their new employees from targeted groups. In addition, a \$2,500 tax credit is generated for each new job created. An additional \$2,500 tax credit may be generated in the second year of employment, if the new employee is certified as removed from state financial assistance rolls.

Appendix III: Owosso, Michigan, Case Study Profile

Owosso is located in Shiawassee County between two major cities, Lansing and Flint, and near major interstate highways connecting Canada to Mexico. About 20 percent of Owosso's workforce works in manufacturing. Service sector growth has been concentrated in lower-paying jobs, particularly the retail sector, the second lowest paying sector in the state. Table 7 provides a profile of Owosso.

Table 7: Profile of Owosso, MI

Community characteristics	
Population, as of 2000	15,713
Population, percentage change, from 1990 to 2000	-3.7%
High school graduates, persons 25 years and over, 1990	75.5%
College graduates, persons 25 years and over, 1990	11.3%
Median household income, 1997 estimate	\$38,430 ^a
Persons below poverty, percentage 1997 estimate	10.1% ^a
Unemployment rate, 2000 annual average	4.1% ^a
Major employment sectors	Manufacturing, services ^a
Percentage of employment in manufacturing	20% ^a

^aShiawassee County.

Source: U.S. Census Bureau and U.S. Bureau of Labor Statistics.

Impact of Trade-Related Job Losses

Owosso lost several automobile parts manufacturers to Mexico in the mid-1990s. A total of 583 workers lost their jobs and were certified for TAA benefits. The owner of an airbag and seatcover manufacturing company closed his Owosso plant and laid off 362 workers because his firm was unable to compete with Mexican competitors. He also closed other manufacturing facilities in Michigan, laying off a total of 2,000 workers. He believed that NAFTA-related trade was a contributing factor to the closures.

Civic and business leaders we interviewed said that the jobs lost did not have a major impact on Owosso's economy because the jobs lost were replaced by retail and food service jobs. However, a civic leader we spoke to was concerned with the decline in wage rates in Owosso. For example, according to this official, someone who once made \$12 to \$14 per hour in the automotive parts industry now may be earning \$6 to \$8 per hour. People wanting better wages must commute to Lansing or Flint, Mich.

Assistance to Dislocated Workers

Owosso has a satellite office of Career Alliance Inc., headquartered in Flint, Mich., which is designated by the state of Michigan to administer the TAA, NAFTA-TAA, and other dislocated worker programs in the area. The state's Rapid Response Team informs dislocated workers that Career Alliance Inc. representatives are available to help them with job counseling, assessment, placement, and supportive services. In addition, Career Alliance staff visit companies where there are expected layoffs and brief workers about the types of assistance they offer. Figure 5 provides photos of downtown Owosso and the sign for the One Stop Career Center that served the dislocated workers.

Figure 5: Photos of Owosso, MI



Downtown Owosso, MI.



One Stop Career Center in Owosso, MI.

Source: GAO.

A local, private nonprofit college in Owosso also provides training services for the TAA and NAFTA-TAA programs. When they are notified that a plant intends to close, college personnel go to the plant to inform the

workers about the occupational training programs they operate at the college and help them prepare resumes and applications for unemployment compensation. The college offers academic degree and certificate programs. A college official told us that the college's primary goal is to make students employable. The college has an advisory board comprised of business leaders who help the college determine the training individuals need to obtain employment in the area. According to college officials, they place 100 percent of their students in jobs when they graduate, and about 87 percent obtain jobs in the field for which they were trained.

In addition, a trucking company in nearby Corunna operates an on-the-job training program for the college to train dislocated workers to drive trucks. The 26-week training course provides students with a combination of classroom training at the college and hands-on training at the trucking company. The company owner said that trainees who completed this program have been successful in finding jobs.

Economic Adjustment Efforts

According to an Owosso civic leader, the community is enjoying a low unemployment rate and does not see a need to develop an economic development or job growth plan. Moreover, there have been difficulties in getting the local, township, and county officials together to develop joint and comprehensive approaches to economic development. He said that people do not organize at the local level to apply for assistance from the state and federal governments. In addition, there is no one entity at the local level that identifies and seeks out financial assistance. An Owosso business leader told us that about 3 years ago, several business and government leaders joined together to plan and develop an industrial park in Owosso. It has taken 3 years to bring parties from neighboring Corunna and Owosso to the point that they can work on a project that would benefit them all. This group will be receiving financial assistance from the Michigan Economic Development Corporation to help fund water, sewer, and road connections to the park.

Owosso's community development director said that the town has taken advantage of federal and state grants and tax incentives to help stimulate

economic growth in the community over the last 5 years. For example, Owosso received federal Urban Development Action Grant funds to improve the city's retail sector and a \$3 million loan from a Department of Agriculture Natural Resource Conservation Service program to build a downtown hotel. Owosso also uses local and state tax incentives to attract new businesses. To help promote economic development in Owosso, companies are offered tax abatements when they locate in Owosso or increase the number of employees they employ. They also have a tax increment and financing program, in which the community takes certain corporate taxes and uses them to upgrade the city's road, sewer, and water systems.

Appendix IV: Washington and Chocowinity, North Carolina, Case Study Profiles

The communities of Washington and Chocowinity are located on the Pamlico River in Beaufort County in eastern North Carolina (see fig. 6). Washington, the largest town in the county, has a population of just over 10,000. Chocowinity, its immediate neighbor, has a population of less than 1,000. The unemployment rate for Beaufort County is 7.6 percent. Between 1997 and 1999, 3,880 workers were certified by TAA or NAFTA-TAA due to layoffs and plant closures at several companies, including Singer Furniture in Chocowinity (see fig. 6) and Hamilton Beach/Proctor-Silex, Inc., in Washington. About 85 percent of dislocated workers from these companies lived in Beaufort County. Table 8 provides more details on the community characteristics.

Table 8: Profile of Beaufort County, NC

Community characteristics	
Population, as of 2000	44,958
Population, percentage change, from 1990 to 2000	6.3%
High school graduates, persons 25 years and over, 1990	65.9%
College graduates, persons 25 years and over, 1990	10.8%
Median household income, 1997 estimate	\$28,614
Persons below poverty, percentage, 1997 estimate	17.4%
Unemployment rate, 2000 annual average	7.6%
Major employment sectors	Lumber, small electronics
Percentage of industry represented by manufacturing	30.5%

Sources: U.S. Census Bureau and U.S. Bureau of Labor Statistics.

Impact of Trade-Related Job Losses

Between 1997 and 1999, Beaufort County experienced massive trade-related layoffs of workers. The closure of two manufacturing companies resulted in the displacement of more than 1,500 workers, many of whom were female, between 40 and 50 years of age, with minimal skills and low educational levels. The community's unemployment rate rose immediately following these layoffs and has since declined. Community officials said that many workers have obtained employment, generally at a lower wage in service sector businesses such as retail stores or restaurants. Economically, Beaufort County ranks lower than most North Carolina counties, with a lower per capita income, lower educational levels, higher unemployment, and higher poverty rates.

**Appendix IV: Washington and Chocowinity,
North Carolina, Case Study Profiles**

Figure 6: Photos of Washington and Chocowinity, NC



Washington, NC, from across the Pamlico River.



Former Singer Furniture Factory in Chocowinity, NC.

Source: GAO.

Assistance to Dislocated Workers

In the past few years, Beaufort County has experienced plant closures and layoffs in excess of 1,500 workers. Several manufacturing companies or their employees filed petitions with the U.S. Department of Labor and were certified for NAFTA-TAA and TAA benefits following initial certification by the North Carolina Department of Commerce Employment Security Commission. Singer Furniture employees were the first to file a TAA petition in Beaufort County. Hamilton Beach/Proctor Silex, Inc. workers shortly followed. Once the petition was approved, dislocated workers met with a group of community and program officials to discuss financial assistance and employment and training options. However, program officials in Beaufort had not dealt with the Department of Labor's trade adjustment assistance programs prior to these layoffs, and initially they were unsure what benefits were available to workers or how to administer the programs. As a result of these problems and the length of time it takes for certification, many workers were provided benefits under other programs such as the Workforce Investment Act dislocated workers program.

In Beaufort County, the local one-stop service center, or JobLink Career Center, located in Washington, provides counseling services, resume writing, needs assessment, training, labor market information, and employment opportunities. The JobLink Career Center houses and coordinates services provided by numerous agencies in North Carolina. JobLink officials strongly encourage dislocated workers to enroll in GED programs or adult basic skills training as soon as possible.

Officials stated that approximately 22 percent of dislocated workers enroll in training; however, little data are available on the number of individuals that complete training. Officials estimated that only about 25 percent of the dislocated workers that enter GED programs ever continue further. One reason for this high dropout rate is that the local community college requires students to obtain their GED before entering any other type of training at the college. However, Beaufort County Community College does provide GED training and adult basic skills training free of charge prior to entering certificate or associate degree programs. Another reason for the high dropout rate is that income support benefit payments do not coincide with the period allowed for training, and dislocated workers drop out of training as soon as their income support benefits are exhausted. Numerous officials in Beaufort County stated that a major problem with TAA and NAFTA-TAA is that the program allows for 104 weeks of training, but financial benefits are provided for only 78 weeks. They said that this situation contributes significantly to dislocated workers dropping out of training before completing the course.

Officials said that they strive to train dislocated workers for new occupations because, in their view, dislocated workers are no better off taking another job in industries threatened by increased trade, like textiles. However, opportunities to train for new occupations are limited because the community does not have any private training institutes, and Beaufort County Community College is the only training facility within a reasonable commute for county residents. The community college has developed courses to meet the needs of the dislocated workers for training to enter other occupations. However, many of the programs offered are for college students earning associate degrees and are semester based. In addition, an estimated 25 percent of the dislocated workers from Hamilton Beach/Proctor-Silex, Inc., and more than 50 percent of the dislocated workers from Singer Furniture did not have high school degrees or GEDs; however, many of these individuals were reemployed immediately following the layoff at very low-paying, low-skilled jobs, according to local officials.

Economic Adjustment Efforts

Economic development is the most important issue for Beaufort County, according to county economic development officials, because the industrial base is changing. Community officials recognize the need to bring in other types of industries, since much of their business has been manufacturing. This is shifting due to changes in the global economy. Yet, the area has few economic development efforts currently under way. However, the county has recently created the Beaufort County Economic Development Commission to begin addressing emerging needs. The commission does not yet have a strategic plan.

Beaufort County has received state Industrial Recruitment Competition Funds, which are designed to provide incentives for companies to locate in economically distressed areas. Specifically, four companies in the county received a total of \$400,000 in commitments that provided \$1,000 for each job created.

Beaufort County did not apply for any Community Development Block Grant funds over the last few years even though, as the Director of the state Department of Commerce's Finance Center explained, Beaufort may have been eligible for them. He told us that these funds frequently come with "too many strings attached," citing the stringent requirements that generally accompany these funds and the fact that community officials want more flexibility than the funds offer. In addition, the Community Development Block Grant application is about 40 pages long, is extremely time consuming, and is difficult to prepare. Generally, small communities

such as Beaufort County hire a contractor to write the grant application. Community officials said that Beaufort County applied for but was denied a CAIP grant. Officials also said they did not have sufficient staff resources to adequately develop the CAIP grant proposal.

Officials stated that Beaufort County's most pressing economic development needs are infrastructure and natural gas. Insufficient roadways to carry vehicles and trucks through Beaufort County, combined with the long distance from Interstate 95, contribute greatly to the slow economic development of Beaufort County. In addition, the county needs to build additional gas lines for industries before they will move into the area, according to local officials.

One avenue of potential economic development is that the community of Washington and Chocowinity is becoming a popular area for retirees from northern states. Officials explained that both towns are located along the Pamlico River, which has drawn a great number of boaters. The community has built a major retirement community with large and expensive homes, a marina, a golf course, and a restaurant. As a result, the community is now also building a supermarket and drugstore to meet the needs of these new residents.

Appendix V: El Paso, Texas, Case Study Profile

Located at the western tip of Texas, El Paso borders New Mexico and the Mexican state of Chihuahua. It is the fourth largest city in Texas (see fig. 7), with a population of 563,662, 77 percent of whom are Hispanic or Latino. Ciudad Juarez, El Paso's sister city across the border, has about 1.2 million in population. In 2000, their combined population was an estimated 1.9 million. Additional community characteristics are shown in table 9.

Table 9: Profile of El Paso, TX

Community characteristics	
Population, as of 2000	563,662
Population, percentage change, from 1990 to 2000	9.38%
High school graduates, persons 25 years and over, 1990	65.3%
College graduates, persons 25 years and over, 1990	16.2%
Median household income, 1997 model-based estimate ^a	\$25,866
Persons below poverty, percentage, 1997 model-based estimate ^a	27.8%
Unemployment rate, 2000	8.2%
Major employment sectors	Manufacturing, retail trade

^aAvailable data are for El Paso County.

Source: U.S. Census Bureau.

Impact of Trade-Related Job Losses

In 1994, nearly half of El Paso's 50,000 manufacturing jobs were in the apparel and textile industry. Since January 1994, 17,069 workers in El Paso have been certified as dislocated by NAFTA, with the majority having lost jobs in the apparel and textile industry. Jobs were also lost in other sectors, such as electronics assembly and plastic injection molding, which, like apparel, involved labor-intensive, low-skilled jobs. El Paso's proximity to Mexico further accentuated this nationwide trend. As a result, El Paso has the unfortunate distinction of having experienced the greatest number of NAFTA-related job losses in the United States.

While El Paso has experienced a net increase in jobs since 1994, these new jobs have required skill levels and language abilities beyond the capacity of most dislocated workers in El Paso, who were Hispanic, female, single heads of household, over the age of 40, with less than a high school education and limited English proficiency. Most had worked for years in the apparel industry, earning relatively good wages and benefits at companies like Levi-Strauss (see fig. 7). When their factories closed and relocated abroad, they could not get similar jobs to replace them. At the same time, they were not qualified for the new jobs being created in El

Paso, most of which required high school or postsecondary degrees and English proficiency. One dislocated worker told us that he had been earning \$13.65 an hour plus benefits at Levi-Strauss and it was difficult to find another job at that pay rate with his limited education and English. In this regard, El Paso faced its greatest challenge in assisting its dislocated workers: it was not just a matter of training dislocated workers for new occupational skills. Many workers first had to attain basic English proficiency and make up for many years of missed education to earn a GED before they could start to learn a new occupational skill.

Assistance to Dislocated Workers

By the end of 1996, more than 7,000 dislocated workers had filed for TAA or NAFTA-TAA benefits. At the same time, concern was growing that many dislocated workers who were coming to the end of their TAA or NAFTA-TAA benefits were still trying to learn English and earn their GED and had not received any occupational training that would help them get another job. These concerns escalated in 1997 and 1998 as the layoffs and plant closures continued, becoming “traumatic” as Levi-Strauss closed four El Paso plants in 1997, displacing 1,959 workers, and another two plants with 796 workers in 1999. At the same time, Sun Apparel, American Garment, and other apparel firms also closed plants in El Paso. The Chief Executive Officer of the Upper Rio Grande Workforce Development Board said that in prior years, garment workers had always been able to get a job in another plant. By the summer of 1998, he said that there was virtually nowhere to go for a new apparel job.

In April 1997, the Texas Workforce Commission instituted the El Paso Re-employment Pilot Project to address the needs of massive numbers of dislocated workers. It served 450 dislocated workers who had been identified as needing intensive case management, job development, bilingual vocational training, intensive work-based language training, and needs-related payments (extended income support) as elements of a program that would increase the likelihood of employment for these workers. The project was designed to serve workers who had exhausted their trade benefits but had never entered vocational skills training. It also identified the need to bring employers into the project. However, with 72 trade-certified closings between January 1, 1994, and March 1, 1998, affecting 8,173 workers, it soon became clear that a far larger effort than the Texas state Pilot Project would be needed.

In March 1998, the Upper Rio Grande Workforce Development Board submitted a grant application for a Department of Labor National Reserve Account Grant. It was for 2-year funding in the amount of \$55.5 million to

provide administration, retraining, readjustment, supportive services, and needs-related payments to 3,500 eligible trade-dislocated workers in El Paso. The El Paso Proactive Reemployment Project, as finally approved, provided \$45 million over 3 years for 4,500 dislocated workers. Workers who had been laid off between January 1, 1994, and December 31, 1998, and who had not yet received occupational skills training were qualified.

The other component of the community's response to the overwhelming numbers of dislocated workers was to develop the former Levi-Strauss Lomaland plant as a comprehensive One-Stop Workforce Preparedness Center and a One-Stop Capital Shop. The Greater El Paso Chamber of Commerce took the lead in this physical infrastructure project, which had broad community support and participation. The Chamber Foundation purchased the facility from Levi-Strauss in 1998 and converted it into the One-Stop Center. In addition, the Chamber also received a \$1 million direct loan from the Community Adjustment and Investment Program¹ and a \$1.4 million grant from the Economic Development Administration to rehabilitate the building. In addition, Levi's also gave the Chamber a \$250,000 grant to fund its Workforce Development Division, which would oversee the implementation of the strategic plan for the center.

¹The President of the Greater Chamber of Commerce told us that CAIP told the Chamber that it could later request that the \$1 million direct loan be converted into a grant. Currently, the loan remains interest free as long as the Chamber continues to use the building as a workforce development center.

Figure 7: Photos of El Paso, TX



View of downtown El Paso.



One Stop Career Center in El Paso, TX.



This former Levi-Strauss plant is now a One Stop Career Center in El Paso, TX.

Source: GAO.

The results of the efforts in El Paso to assist the trade-dislocated workers were mixed at best. Local officials said the trade adjustment assistance programs were overwhelmed by the large numbers of workers that continually entered the system. According to these officials, the Texas

Workforce Commission did not have enough case managers to handle the inflow, and when they hired new case managers, they were not experienced enough to handle their heavy caseloads. Another problem was that all training had to be approved by commission headquarters in Austin, causing delays. In 1997, the commission finally delegated approval authority to the commission's local El Paso Trade Unit when it became logistically impossible to refer every case to Austin for approval. El Paso's Trade Unit is the only one to have this approval authority, and the waiting time for approval of training declined from 12 weeks to 4 to 6 weeks. Commission officials said the current wait is about 3 weeks, which is due to the funding flow. Officials said that the funding stream available to El Paso could not keep up with their needs and that they frequently ran out of training funds.

Perhaps the greatest criticism of assistance efforts we heard related to the ineffectiveness of the training. According to program officials, El Paso's training efforts were hindered by the lack of sufficient training infrastructure to meet the needs of its displaced workers. Many of these workers had low educational levels and little English proficiency. They needed bilingual training designed for adults. One private training institute we visited, cited as a model bilingual training provider by Texas Workforce Commission officials, used a training method of intensive English as a Second Language classes and GED classes in Spanish in the mornings, and occupational skills training in the afternoon. The occupational training started out in Spanish and shifted gradually to English as students' proficiency increased. However, there were few such bilingual training programs in El Paso, and many dislocated workers languished in English as a Second Language and English-language GED courses without making enough progress to move on to occupational training courses, according to local program officials.

Economic Adjustment Efforts

El Paso received a \$275,000 grant from EDA in 1998 to have an economic adjustment strategic plan developed by an economic consulting company. The plan, published in December 1999, confirmed that El Paso was following the national trend in making a transition to a service economy. The plan focused on encouraging job growth in the near term in demand-related industries such as retail trade, healthcare, services, and construction, all industries that could potentially employ displaced workers. Over the longer term, the plan focused on the need for skilled workers and access to technology, especially information technology, as the principal components of adding value to the city's economy.

The city also received other assistance from EDA. EDA had previously awarded a grant of \$500,000 for a revolving loan fund that had lain dormant. Working together with a newly elected mayor, this grant was reactivated, and matching funds of \$167,000 were obtained from El Paso County. The revolving loan fund has provided 6 loans to small businesses, helping to create or retain 45 jobs, according to city economic development officials.

The EDA grant of \$1.4 million to the Greater El Paso Chamber of Commerce Foundation to rehabilitate the former Levi-Strauss Lomaland plant, mentioned above, was the centerpiece of its economic adjustment assistance efforts in El Paso. The EDA Regional Director stated that this project was a successful model of a public-private partnership that addressed important economic adjustment needs. EDA, CAIP, the Greater El Paso Chamber of Commerce, and Levi-Strauss all participated in this effort.

In addition, EDA also awarded a grant of \$1.2 million to a local advocacy group for dislocated women workers, La Mujer Obrera, that had initiated its own community development corporation, based on a community self-help model. The group obtained the needed matching funds from the city of El Paso and the Rural Development Finance Corporation to acquire and rehabilitate the building. CAIP also provided a \$180,000 direct loan to this group for equipment and working capital for a Mexican restaurant they started in part of the building. The group also plans a business incubator, a Mexican market, and other initiatives designed to create training opportunities and new jobs for displaced workers. In addition, the Hispanic Chamber of Commerce received a grant for \$750,000 over 5 years from the Small Business Administration for a Women's Small Business Border Center, which will be located at the group's facility.

CAIP has been very active in El Paso. Besides the two direct loans already mentioned, since 1997 it has provided more than \$38.7 million in loan guarantees made in El Paso through its partnership with Small Business Administration loan guarantee programs. Of this amount, CAIP provided 145 loan guarantees with a gross loan amount of \$36.6 million under the Small Business Administration 7(a) program and 4 loan guarantees under the Small Business Administration 504 program valued at \$2.1 million.² El Paso also received two CAIP grants of \$450,000 for two private training

²Data are as of May 29, 2001.

programs to train dislocated workers in locally needed occupations and place them in private sector jobs.

Appendix VI: Martinsville and Henry County, Virginia, Case Study Profiles

The city of Martinsville, which lies in Henry County, is located in southwestern Virginia near the North Carolina State line. In Virginia, cities and counties are separate governmental entities. The economies of Martinsville and Henry County are highly dependent on the manufacturing sector, which mostly offers low-skill jobs in the textile and furniture industries. Table 10 presents a demographic and economic profile of Martinsville and Henry County.

Table 10: Profile of Martinsville and Henry County, VA

Community characteristics	Martinsville	Henry County
Population, as of 2000	15,416	57,930
Population, percentage change, from 1990 to 2000	-4.6%	1.7%
High school graduates, persons 25 years and over, 1990	62.9%	53.9%
College graduates, persons 25 years and over, 1990	15.8%	6.7%
Median household income, 1997 estimate	\$28,344	\$30,843
Persons below poverty, percentage, 1997 estimate	17.3%	13.0%
Unemployment rate 2000 annual average	12.1%	7.4%
Major employment sector	Manufacturing	Manufacturing
Percentage of jobs in manufacturing	33%	62%

Sources: U.S. Census Bureau and Bureau of Labor Statistics.

Impact of Trade-Related Job Losses

The manufacturing sector in Martinsville and Henry County has been in decline in recent years due in large part to increased foreign competition, which has resulted in a large number of job losses. Since 1993, Martinsville and Henry County have lost more than 6,000 jobs, the majority of which were in manufacturing. Most of these job losses were trade-related, as indicated by the fact that more than 3,500 of the laid-off workers were certified as eligible for TAA or NAFTA-TAA benefits.

The manufacturing decline in the Martinsville and Henry County economy culminated in December 1999 when one of the area's largest employers, the Tultex Corporation, unexpectedly went bankrupt and closed its operations. Tultex, which manufactured knit goods, employed over 1,700 workers in Martinsville, all of whom lost their jobs. Most workers were given only a few days' notice. None of the workers received severance packages, and most lost their health benefits. The Virginia Employment Commission sent its Rapid Response Team to assist the Tultex workers, making sure they were quickly enrolled for unemployment insurance and informed of available benefits (see fig. 8).

The Tultex and other plant closings and layoffs have had a tremendous impact on the local economy. Unemployment in Martinsville went from 9.3 percent before the layoffs to 19.7 percent immediately afterward. Henry County also experienced a spike in unemployment, although not as severe as in Martinsville. In addition to massive job losses, the Tultex closure also significantly impacted Martinsville's finances. For example, according to a city official, as a result of the Tultex bankruptcy, Martinsville lost \$1.1 million in tax revenues in 1999. According to a local real estate agent, the housing market also declined, because homeowners have left the area for new jobs, and there are few buyers for these homes. In addition, local community leaders said that decreased incomes have had a negative effect on retail sales in the area. Local businesses that supplied Tultex and other closed plants also suffered.

Assistance to Dislocated Workers

We found that many trade-impacted workers did not enroll in training. According to our analysis of Virginia Employment Commission data, less than 20 percent of workers certified for TAA and NAFTA-TAA benefits in the Martinsville/Henry County area during 1999 and 2000 had enrolled in training. Virginia Employment Commission officials said that some workers decided to forgo training to search for new jobs to support their families.

A number of trade-impacted workers who enrolled in a training program did not complete it. Most workers took classes at Patrick Henry Community College in Martinsville, which offers 1- and 2-year programs (see fig. 8). According to officials at the Virginia Employment Commission and the community college, some workers who enrolled in 2-year programs were forced to drop out when their extended income support benefits ended after 18 months. Other workers, many of whom had never completed high school, were required to take remedial classes before entering occupational training. Several of these workers could not complete remedial classes and 1-year occupational training before their income support benefits ran out.

Figure 8: Photos of Martinsville and Henry County, VA



The Tultex distribution center that was built but never occupied before the company filed for bankruptcy.



Patrick Henry Community College provided training to dislocated workers.

Source: GAO.

To give employers an incentive to hire unskilled workers eligible for trade adjustment assistance who do not participate in classroom training, the Virginia Employment Commission offers an on-the-job training program.

Under this program, employers are reimbursed for half of a worker's wages for a training period of up to 26 weeks. Employers eligible for the program must agree to employ the worker for at least 26 weeks after the training period has been completed. Virginia Employment Commission officials told us that few workers have chosen such on-the-job training. One reason they cite for low participation is that many of these positions are in the furniture and textile industries, where long-term job security is a concern.

Virginia Employment Commission officials and several community leaders told us that there are few jobs in the area for workers who complete training. In some cases, workers who trained for traditional jobs such as bookkeeping could not find work, because all existing jobs were filled. In other instances, workers received training in high-tech occupations that do not yet exist in Martinsville and Henry County. Workers we interviewed who are currently enrolled in training said that they were resigned to the fact that they may have to seek jobs in their chosen professions in larger cities such as Greensboro, North Carolina, which is about 50 miles from Martinsville.

Economic Adjustment Efforts

Martinsville and Henry County have undertaken a number of economic development efforts to help the community recover from the massive layoffs of recent years. As part of an Economic Development District designated by the Economic Development Administration, the community is required to prepare an annual comprehensive economic development strategy. It also received extensive attention from the National Economic Council, which coordinated visits to the areas by federal officials. The Economic Development District also has received a \$60,000 grant from EDA to prepare a regional economic adjustment strategy that focuses on the adverse impacts of trade. Both strategies propose and prioritize projects, such as industrial parks and business incubators, that qualify for state and federal economic assistance. Since 1999, Martinsville and Henry County have received \$1.7 million in EDA and Department of Agriculture grants. The communities also have been awarded \$1.6 million in state grants and loans, and they qualify for special state tax incentives for businesses to locate or expand in the area. In addition, the local economic planning board, the Patrick Henry Development Council, has developed a strategy to promote economic development in Martinsville/Henry County that centers on recruiting and retaining industries, attracting new capital investment, and increasing tax revenues.

A number of efforts to implement plans for economic development are ongoing in Martinsville and Henry County. The Patrick Henry Development Council recently contracted with two consulting firms to develop a profile of the local workforce. The profile is intended to promote the workforce skills currently available in the area to prospective new businesses and to point out skill gaps that need to be filled to bring in new businesses offering stable, well-paying jobs. The council also has an ongoing campaign to attract new businesses, including running an ad in the *Wall Street Journal* and distributing a CD-ROM that promotes the area. The council has financed these projects through a \$350,000 grant it received from the Department of Housing and Urban Development.

Martinsville and Henry County have seen a net increase in jobs in recent years, according to the Economic Development District, but local officials are quick to point out that many new jobs are low skilled and low wage. Since 1993, Martinsville and Henry County have lost 6,364 jobs, mostly in the textile and furniture industries. During the same period, 7,043 new jobs were announced for a net gain of 679.

Appendix VII: Objectives, Scope, and Methodology

The Chairman and Ranking Member of the Senate Committee on Finance asked us to follow up on our prior evaluations of federal trade adjustment assistance programs with case studies focused on the experiences of trade-impacted communities. Specifically, we examined (1) the impact of trade-related layoffs on these communities, (2) the experiences of these communities with dislocated worker assistance, (3) their experiences with economic adjustment assistance, and (4) the lessons learned from these communities' experiences.

To address all of these objectives, we conducted case studies in six communities. Between January and March 2001, we visited Watsonville, California; Coushatta, Louisiana; Owosso, Michigan; Washington and Chocowinity, North Carolina; El Paso, Texas; and Martinsville and Henry County, Virginia. We chose these locations on the basis of criteria designed to identify communities hardest hit by trade-related layoffs. First, we identified the total number of workers certified for trade adjustment assistance for fiscal years 1994 to 1999. We then analyzed the top industry sectors and divided cases by community, state, economic sector, and number of certified workers from fiscal years 1994 to 1999. We then added the number of workers certified across communities for these fiscal years; this yielded a list of about 300 communities that had more than 500 workers certified to receive TAA benefits. Next, we obtained 1999 population data for these communities from the Bureau of the Census Web site and calculated the percentage of individuals potentially affected by trade-related layoffs. Then by considering this factor, as well as region, industry sector, and presence of federal program activity such as CAIP, we pared the list to 48 communities. After that, we obtained city and county unemployment data for fiscal years 1994 to 1999 and October 2000 from the Bureau of Labor Statistics Web site in order to determine whether the trade-related layoffs had influenced local unemployment levels and the current local unemployment level. We then ranked the communities on three dimensions: (1) the current unemployment rate, (2) the percentage of the local population that was covered by a Department of Labor certification, and (3) the communities with the biggest change in their peak unemployment rate following a trade-related layoff from 1994 to the present. We called state and local officials to verify the nature and extent of trade-related job losses in these communities and the types of assistance that had been used, that is, training, community assistance, or grants provided by Commerce's Economic Development Administration, CAIP, and the Department of Labor. We dropped one community from our list because their employer had recalled the trade-certified workers.

When we visited each community, we interviewed local government officials; community leaders; training providers; and, if available, workers receiving benefits from trade adjustment assistance programs. During our visit to Watsonville, we also interviewed Department of Agriculture field officials regarding Agriculture's economic assistance in the area. We also obtained in each of these communities, if available, information on worker training programs, economic planning documents, and documentation regarding state and federal economic assistance.

To further address the first three objectives, we met with federal and state officials who administer trade adjustment assistance programs for workers and economic assistance programs for communities and reviewed reports on worker and economic adjustment assistance. In Washington, D.C., we met with officials from several agencies, including the Department of Labor, which administers the TAA and NAFTA-TAA programs; the Department of the Treasury, which is the lead agency administering CAIP; and the Economic Development Administration, which administers the Trade Adjustment Assistance program for firms and provides economic assistance to distressed communities. We also discussed economic adjustment efforts in communities affected by military base closures with staff from the Office of Economic Adjustment in the Department of Defense to determine lessons learned that could be applied to our case study communities. In addition, we met with the Director of CAIP's Los Angeles office to discuss CAIP assistance to potential case study sites. We also interviewed a number of state officials to discuss their administration of the TAA and NAFTA-TAA programs, as well as the state economic assistance available to case study communities. We reviewed our prior reports on trade adjustment assistance to workers and economic assistance to communities, as well as reports by other organizations on the impact of trade on workers and communities.

In addressing the first three objectives, we also obtained and analyzed data from several sources. For the first objective on the impact of trade-related layoffs on the case study communities, we first obtained and analyzed Department of Labor data on the number of workers certified for TAA benefits in the six communities from 1995 through 2000. These data only represents workers potentially displaced for trade-related reasons, not actual jobs lost.¹ However, it is the best indicator available on the potential

¹In some cases, workers certified faced potential job loss but had not been laid off. Thus, program certifications are not an accurate count of job losses due to trade.

effect of trade on workers. As an indicator of the impact of trade-related layoffs on the communities, we examined Bureau of Labor Statistics unemployment data for the periods before and after trade-related layoffs in the communities. For the second objective on the experiences of the case study communities with dislocated worker assistance, we obtained and analyzed information from two other Department of Labor databases. To determine the number of recipients and costs of trade readjustment allowance payments and training under TAA and NAFTA-TAA in the six communities, we obtained and analyzed Department of Labor data on services provided to participants under the programs for fiscal years 1995 to 2000. We also obtained participant outcome data for the six communities and nationwide collected by Labor for 1999 and 2000 and analyzed it, focusing on demographic characteristics, wages, training, and reemployment. For the third objective on the communities' experiences with economic adjustment assistance, we obtained and analyzed information from EDA, the Department of Agriculture, and Department of Housing and Urban Development on the amount and types of assistance that the agencies provided to each community. We did the same with information from the Treasury on CAIP assistance to the communities.

We conducted our work from November 2000 through June 2001 in accordance with generally accepted government auditing standards.

Appendix VIII: Comments From the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

AUG 17 2001

Mr. Loren Yager
Director, International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Yager:

The Economic Development Administration (EDA) has reviewed the draft General Accounting Office (GAO) report entitled "Trade Adjustment Assistance - Experiences of Six Trade-impacted Communities." The draft report describes EDA assistance programs fairly and accurately, with the exception of the following two factual inaccuracies:

- (1) Page twenty-nine and fifty-six refer to a \$840,000 grant to Martinsville, Virginia, as "pending approval," when in fact EDA has actually awarded the grant.
- (2) Page twenty-nine, under the heading "Some Assistance Available from Other Federal Programs," contains a misstatement. Speaking in the context of EDA assistance to Martinsville, Virginia, the report makes the following general statement about economic development assistance:

However, because most economic development grant programs base eligibility on per capita income and poverty levels, and Martinsville/Henry County's recent economic downturn is not yet reflected in these statistics, the area is currently less competitive for grants.

This statement does not accurately reflect the eligibility or competitive selection criteria required under EDA's Public Works and Economic Adjustment programs. (EDA used both to respond to the Martinsville, Virginia dislocation.)

See comment 1.

See comment 2.

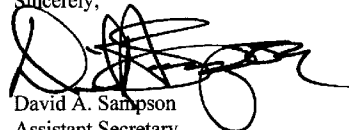
Mr. Loren Yager
Page 2

With regard to EDA eligibility, an area may qualify on the basis of unemployment, per capita income, or any one of several Special Need Criteria as described in the EDA's Annual Notice of Funding Availability. Martinsville, Virginia, qualified under two such Special Need Criteria: (1) Closure or Restructuring of Industrial Firms; and (2) Local Negative Impacts of Foreign Trade. In determining eligibility, EDA does not place greater weight on one distress indicator over another.

With respect to the competitive selection process, EDA does give priority to proposals addressing circumstances of greater economic distress over proposals addressing less severe economic circumstances. In no case, however, did EDA view Martinsville, Virginia, as "less competitive" for EDA assistance on the basis of per capita income or poverty levels, as the GAO draft report indicates.

Thank you for the opportunity to comment on the draft report. I look forward to working with the General Accounting Office in the future.

Sincerely,



David A. Sampson
Assistant Secretary
for Economic Development

The following are GAO's comments on the Department of Commerce's letter dated August 17, 2001.

GAO Comments

1. The statement in the draft report on page 29 said that this grant was pending as of May 2001, which was consistent with the information provided to us by EDA. We have updated the text to reflect that it has since been awarded.
2. Based on clarifications provided by EDA, we have dropped this statement from the text.

Appendix IX: Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

August 16, 2001

Loren Yager
Director, International Affairs and Trade
United States General Accounting Office
Washington, DC 20548

Dear Mr. Yager:

Thank you for the opportunity to review and comment on your draft report, "Trade Adjustment Assistance: Experiences of Six Trade-impacted Communities" (Code 320011). The report makes an important contribution to understanding the issues a community faces when an abrupt change takes place in its economy as a result of job dislocations attributable to changing trade patterns.

The Department of the Treasury, as chair of an inter-agency committee, is pleased to play a role with other federal agencies and the North American Development Bank in helping to create and preserve private-sector jobs in trade-affected communities through the Community Adjustment and Investment Program (CAIP). CAIP financing is provided through three programs: (1) the CAIP federal agency program; (2) the CAIP direct loan program (recently renamed the CAIP credit program); and (3) the CAIP grant program. We offer the following comments on the draft report:

A. CAIP Assistance

Page 27 of the draft report states that six communities received limited assistance from two federal programs, including the CAIP, which are designed to mitigate the adverse economic impacts of trade. While we do not disagree with your characterization of CAIP funding as limited, more CAIP financing for those communities exists, if the communities request it. For example, the CAIP federal agency program and the CAIP credit program provide loans and loan guarantees in response to applications from businesses, nonprofit organizations, and any other entities with borrowing capabilities. The CAIP grant program provides grants through a competitive application process to States, local governments, Indian tribal governments, institutions of higher education, and nonprofit organizations.

Now on p. 29.
See comment 1.

See comment 2.

The footnote to the chart on page 27 states that a CAIP-guaranteed loan listed for Coushatta, Louisiana was used in a neighboring community impacted by Coushatta's trade-related layoffs. This use of CAIP guaranteed loan funds is consistent with the CAIP guidelines in which eligibility for CAIP financing is determined on a countywide basis, with adjacent counties sometimes being deemed eligible upon a determination that there is a need for assistance, and that job dislocations within those adjacent counties are the result of changing trade patterns.

We would like to add, on page 28, information about the CAIP loan to La Mujer Obrera. The CAIP loan does provide working capital and equipment for a restaurant. However, the restaurant facility, in keeping with the philosophy and ideals of La Mujer Obrera, is much more than a restaurant. It also is a food service training facility, catering business, and community anchor. One of its main purposes is training people to advance in jobs in the food service industry and to start their own food service businesses.

B. CAIP loan guarantees

See comment 3.

Pages 28-29 of the draft report states that loan guarantees under the CAIP federal agency program would likely have been made under existing Small Business Administration (SBA) programs. While such loan guarantees are reviewed under the same criteria as other SBA loan guarantees, the purpose underlying the CAIP loan guarantees is to create and preserve jobs in specific communities experiencing job dislocations as a result of changing trade patterns. The fact that a business could qualify for an SBA loan guarantee without the CAIP federal agency program does not mean that the business would have chosen to locate or remain in the specific trade-affected community. Specifically, SBA, in its September 13, 2000 letter contained in the General Accounting Office's report, "Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program (GAO/NSIAD-00-229, September 29, 2000), advised that its participation in the CAIP federal agency program is making a difference by: (1) creating and preserving jobs in CAIP eligible communities that might not otherwise be created or preserved; and (2) creating larger small businesses, greater capital formation, and more employment than prior to the CAIP. This may be a singular achievement in communities where access to credit is declining.

Footnote 25 on page 29 of the draft report states that CAIP loans differ from conventional small business loans offered by SBA and the Department of Agriculture (USDA) because CAIP pays the loan guarantee fee. For USDA loan guarantees under the CAIP federal agency program, payment of the loan guarantee fee is possible but rarely done with CAIP funds.

Again, we appreciate the opportunity to comment. The CAIP can be important in communities adjusting to adverse trade impacts. It is a flexible tool with the ability to purchase technical expertise to develop an economic adjustment strategy and to bring infrastructure and business investment into communities.

Sincerely,

Sheila C. Bair / PB

Sheila C. Bair
Assistant Secretary for
Financial Institutions

The following are GAO's comments on the Department of the Treasury's letter dated August 16, 2001.

GAO Comments

1. The Department of the Treasury agreed with our characterization of CAIP funding as limited, but pointed out that more CAIP financing for communities was potentially available, if the communities requested it. We clarified the report by adding a statement that businesses and potential grantees must apply for CAIP financing. CAIP does not provide funding directly to eligible counties, but rather offers access to competitively awarded grants or enhanced to credit through loans and loan guarantees.
2. We revised the text to add that the restaurant was also being used as a training facility.
3. The Treasury disagreed with statements in the draft report that are based on our recent evaluation of CAIP, that CAIP loan guarantees made in partnership with the Small Business Administration would likely have been made anyway without CAIP's participation. Our position, which remains unchanged, is that outcome measures and a monitoring system are needed to demonstrate the benefits CAIP has brought to communities.

Appendix X: GAO Contact and Staff Acknowledgments

GAO Contact

Phillip Herr, (202) 512-8509

Staff Acknowledgments

In addition to the person named above, Leyla Kazaz, Ed Laughlin, Chris Shine, Larry Thomas, Bill Hansbury, Bob DeRoy, Kathleen Joyce, and Lynn Cothorn made key contributions to this report.

Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are also accepted.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

Orders by visiting:

Room 1100
700 4th St., NW (corner of 4th and G Sts. NW)
Washington, DC 20013

Orders by phone:

(202) 512-6000
fax: (202) 512-6061
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

Orders by Internet

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

Info@www.gao.gov

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

To Report Fraud, Waste, and Abuse in Federal Programs

Contact one:

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- E-mail: fraudnet@gao.gov
- 1-800-424-5454 (automated answering system)