



Washington Update

Developments in Federal Workforce Policy

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The President's Fiscal Year 2008 (FY08) budget proposal cuts more than \$1 billion (16 percent), including a \$325 million rescission of carryover Workforce Investment Act (WIA) funding, to key job training and employment programs under the Department of Labor (DOL). Although funding at the Department of Education (DOEd) is increased by more than \$1 billion (8 percent), the bulk of this increase comes from a proposed increase of \$1.8 billion in Pell Grant funding. Other key programs such as vocational education and adult basic education face cuts of nearly \$679 million (36 percent). Unfortunately, this budget continues a six-year effort by the Bush Administration to reduce federal investments in human capital at a time when demand for skilled workers continues to grow.

Summary

During his recent State of the Economy address, President Bush acknowledged for the first time the growing income inequality in the U.S. "The fact is that income inequality is real – it's been rising for more than 25 years," said Bush. "The reason is clear: We have an economy that increasingly rewards education and skills because of that education." Federal Reserve Board Chairman Ben Bernanke similarly spoke of this problem recently, arguing that "policies that boost our national investment in education and training can help reduce inequality while expanding economic opportunity." He went on to say that "policies that focus on education, job training, and skills that facilitate job search and job mobility" are likely to promote widespread economic opportunity.

Of course, suggesting that access to education and training entirely explains income inequality in the U.S. wildly oversimplifies a complex problem driven by a wide range of factors unaddressed by either the President's or the Chairman's remarks (for example, trade policy, tax treatment of wealth, wage erosion, and changes in unionization). Still, education and training is certainly one important tool to promoting economic opportunity and mobility. Unfortunately, the President's recognition of education and training's importance is not borne out by the FY08 budget he released on February 5th.

TWA's analysis indicates that rather than increasing federal investment in workforce skills, the Administration's FY08 budget proposes cuts of more than \$1 billion (16 percent) to job training and related workforce development programs, and over \$678 million (36 percent) in cuts to vocational and adult education programs.

Notable elements from the proposed budgets for the Departments of Labor and Education include:

- The elimination of funding for programs connected either to the Workforce Investment Act (WIA) or the Employment Service (ES) to create a new block grant – funded at nearly \$887 million (22 percent) less than the sum of the replaced programs – which States would use to implement a new federally defined system of Career Advancement Accounts. (Congress rejected a nearly identical proposal last year).



- Further elimination or drastic reductions for national programs targeted at migrant workers, senior citizens and youthful offenders.
- Continuation of a number of DOL's discretionary grant programs, including its Community College Initiative (Community-Based Job Training Grants), its High-Growth Job Training Initiative, and possibly its Workforce Innovation for Regional Economic Development (WIRED) grants.
- Proposed increase in the maximum value of Pell Grants to \$4,600 in FY08 (from an expected \$4,310 in FY07) and to \$5,400 over five years. However, unless Congress accepts an Administration proposal to eliminate the Perkins Loan program – which currently serves about 460,000 students – the
- Administration's FY08 budget proposal would actually drop maximum Pell Grant levels back to just \$4,050.
- Proposed increase of nearly \$50 billion over 10 years for the American Competitiveness Initiative, which includes new federal funding for research, extension of an existing research-and-development tax credit, and a \$365 million increase for math and science education programs for K-12 students, without any proposed new investment for adult workers.

The Administration's FY08 budget proposal increases defense discretionary spending by 10.7 percent (nearly \$54 billion) over FY07. However, the requested increase in non-defense discretionary spending is limited to 1 percent (less than \$4 billion), well below the rate of inflation. Compared to FY06, \$13 billion (3 percent) would be cut from these programs. The President's budget also proposes making a number of tax cuts permanent – cuts that largely benefit the very wealthy – at a cost of \$2.3 trillion over the next 10 years.

Additionally, the President's FY08 budget proposal includes numerous funding cuts that, while not directly effecting education and training programs, will likely strongly impact the people typically served by these programs. For example:

- The President's budget would reduce access to healthcare by sharply decreasing investment in Medicare, Medicaid, and the State Children's Health Insurance Program (S-CHIP). The FY08 budget assumes more than \$70 billion in savings over the next five years from Medicare and Medicaid, and funding levels for SCHIP are inadequate to maintain current levels of coverage.
- The Bush budget would cut funding for the Low Income Home Energy Assistance Program (LIHEAP) by \$404 million (18 percent) compared to FY07. In FY2006, when the program was funded \$1.1 billion more than is proposed for FY08, fewer than 1 in 4 eligible household received LIHEAP assistance.



- More than 325,000 people would lose their Food Stamps under a proposal in the President's FY08 budget to significantly restrict program eligibility guidelines.
- The President's budget reopens the recently reauthorized Temporary Assistance for Needy Families (TANF) program by proposing to eliminate the 90 percent participation rate for 2-parent married families, yet fails to address other shortcomings in the program, including limited access to education and training.
- Under the FY08 budget, environmental programs would suffer some of the biggest cuts. Funding for pollution control, for example, would be cut by a total of \$5.5 billion over the next five years.

Department of Labor (DOL)

Workforce Investment Act (WIA), Employment Service (ES), et al. consolidated into Career Advancement Accounts

For the past several years, DOL has repeatedly sought to eliminate a number of Employment and Training Administration (ETA) programs – usually those connected to WIA and the ES – by combining them into a single block grant to states. With its FY08 budget request, DOL has recycled yet another such block grant proposal, which would cut and then consolidate funding for the following programs:

- **WIA Adult**
- **WIA Dislocated Worker state grants**
- **WIA Youth**
- **Employment Service** – Including ES formula grants, labor market information grants, and grants for administration of the Work Opportunity Tax Credit (WOTC) and the Welfare-to-Work (WtW) Tax Credit.

Cumulatively, current funding for these programs is over \$3.9 billion in FY07. TWA estimates the Department would cut this cumulative total by 22 percent (\$887 million), including a \$335 million rescission of WIA carryover funding, and then apportion the remaining dollars to a \$3.078 billion Career Advancement Accounts (CAA) block grant.

CAAs are described by the Department as training accounts of up to \$3,000 that states would distribute to out-of-school youth, unemployed adults, dislocated workers, or incumbent workers to purchase training from an undefined list of training providers. Accounts could be renewed for one additional year, for a two-year account of up to \$6,000 per worker. DOL claims that the consolidation of the above-listed existing programs, along with new limits on administrative costs and the requirement that CAAs be used for training, will more than triple the number of people trained under the workforce system to 600,000 annually. Additional features of the CAA proposal include:



- **States would be required to use the majority of their funds for Career Advancement Accounts.** Remaining CAA funding would be used to provide basic employment services to job seekers, such as labor market information, job search assistance, and career and skill assessment to workers.

Last year, DOL had proposed that states spend 75 percent of their formula allocations on CAAs, as opposed to this year’s “majority” requirement. Last year, DOL had also proposed that centers other than One-Stops could distribute CAAs, whereas One-Stops are identified as the primary delivery infrastructure in this proposal.

- **Strict limits would be imposed on the use of grant funds for administrative and overhead costs.** Caps of five and ten percent at the state and local levels would be applied with a more rigorous definition of administrative costs. DOL claims that administrative and other overhead costs account for about 30 percent of current WIA costs, though that contention has been challenged based on DOL’s overly broad definition of administration and overhead.
- **CAAs vs. ITAs.** Where state or local WIBs currently determine the amount and duration of Individual Training Accounts distributed to workers, CAAs would be federally defined with a mandated cap of \$3,000 per year. [According to a recent report by the GAO](#), only 8 percent of Local Workforce Investment Boards currently cap their ITAs up to \$3,000; as such, most local systems would have to dramatically change how they issue training accounts under the CAA proposal. DOL states that workers who have received a CAA would have the option of applying for a second year for an additional \$3,000.

Last year the Republican controlled Congress rejected CAAs, as well as other Administration efforts to undermine the existing WIA structure. Given the Democratic control of both chambers in the new Congress – and their even stronger opposition to changes that would undermine the basic WIA infrastructure – it seems unlikely that this proposal will be seriously considered this year. Furthermore, if language included in the FY07 Continuing Resolution (CR) is retained, the Department will be prohibited from any attempts to alter WIA through the regulatory process until legislation reauthorizing the program is enacted.

Other DOL Programs

DOL’s FY08 budget request has significant effects on other Labor programs under ETA:

- **Community-Based Job Training Grants Initiative (CBJTI):** The Administration requests \$150 million to fund CBJTI, otherwise known as the President’s Community College Initiative. This is up from the \$125 million the Administration requested in FY07.
- **High-Growth Job Training Initiative (HGJTI):** DOL intends to continue the HGJTI in



FY08. Although the Department hasn't provided data on funding levels, we assume they will continue using H-1B visa fees collected from employers to fund this program, as they have in the past. (These fees used to fund the H-1B Skills Training Grant Program which DOL allowed to expire in 2004.) However, an examination of funding trends over the last three years suggests the possibility that DOL is moving away from this initiative to make greater investment in other areas, such as the more recent WIRED Initiative.

- **Workforce Innovation in Regional Economic Development (WIRED) Initiative:** DOL launched the WIRED Initiative in February 2006 with \$195 million in first generation grants to 13 regions. In January of this year, the Department committed another \$65 million for a 2nd generation of WIRED grants. DOL had indicated, prior to the release of its budget, that it was preparing for a 3rd generation of WIRED grants, but there is no information to that effect in its budget proposal. Like the High Growth Job Training Initiative, WIRED grants are funded with H-1B visa fees.
- **Migrant and Seasonal Farmworker program:** As it has for the past several years, DOL has targeted this program for elimination. Congress has rejected this request each time, funding the program at \$80 million in FY07.
- **Reintegration of Ex-Offenders:** DOL is proposing to combine the existing Prisoner Reentry and the Youthful Offenders programs. In FY07, these programs were funded at \$19.6 million and \$49.1 million, respectively. However, DOL's FY08 budget proposal includes just \$39.6 million for the new combined program, a cut of \$29.1 million (42 percent). Funds would be awarded through competitive grants.
- **Job Corps:** In December 2005, Congress enacted a change in its Labor-HHS appropriations bill that moved Job Corps out of ETA's authority and into the Secretary of Labor's office. The Department is proposing in its FY08 budget that ETA again be made responsible for administering the program. However, despite this recognition that Job Corps is an important part of our federal education and training system, DOL is proposing to cut program funding from \$1.6 billion in FY07 to \$1.5 billion in FY08.
- **Youth Build:** The budget proposes to transfer the YouthBuild program from the Department of Housing and Urban Development to DOL, as recommended by the White House Task Force on Disadvantaged Youth (DOL's FY07 budget included a similar proposal). The program provides unemployed young people (age 16-24) with training and work experience combined with community service while building affordable housing for homeless and low-income families in their own neighborhood. It would be flat-funded at \$50 million under the DOL FY08 budget request.

Unemployment Benefits and Insurance operations under ETA

- **Trade Adjustment Assistance (TAA):** TAA is up for reauthorization this year. The Administration's FY08 budget proposal provides \$3.4 billion over the next five years to continue TAA Trade Readjustment Allowances (TRAs), a \$73 million increase over current law. TRAs continue income support for workers who lose their jobs due to import surges or outsourcing after their state unemployment benefits are exhausted. However, the Administration's budget proposal also provides just \$220 million – flat funding from FY07 – for TAA training. This limit on training funds provides an effective cap on total income support payments, since benefits terminate for workers who aren't enrolled in training after an initial period. Authorization for the program expires at the end of 2008, and the Administration plans to announce specific reauthorization proposals at a later date.
- **Unemployment Insurance (UI):** The Administration is proposing a set of changes to the UI program that they suggest will improve program integrity, primarily by reducing fraudulent payments. The proposal would:
 - Impose at least a 15 percent penalty for UI benefit overpayments resulting from fraud;
 - Enlist private collection agencies in the recovery of fraud overpayments;
 - Penalize employers when their repeated inaction leads to overpayment to former employees;
 - Collect delinquent benefit overpayments and unemployment taxes through garnishment of federal income tax refunds;
 - Boost states' resources to go after benefit overpayments and UI tax evasion by allowing them to use a portion of recovered funds on fraud and error reduction; and
 - Decrease benefit overpayments by providing more accurate date-of-hire information in state and national new hire directories so that states can quickly stop UI benefit payments to those people who have returned to work.

The Administration estimates that these proposed UI changes would save more than \$3.6 billion over ten years.

For more information, DOL-ETA's budget briefing materials are available online at:
<http://www.doleta.gov/BudgetFY08.cfm>.



Department of Education

The Department of Education requested a total of \$56.0 billion dollars in discretionary funding (i.e. funds appropriated annually by Congress) for FY08. The main focus of the Department's budget is the No Child Left Behind (NCLB) Act, which is up for reauthorization this year. Overall, the Administration has requested an additional \$1.2 billion for NCLB, which represents over 40 percent (\$24.5 billion) of the DOEd's total budget request. Other priorities identified in the DOEd FY08 budget include global competitiveness and increased access to higher education.

Higher Education Act (Pell Grants)

The Department's FY08 budget requests \$13.2 billion in discretionary Pell Grant funding, \$377 million less than is expected in FY07. This would maintain the maximum Pell Grant at \$4,050 and expand the number of recipients by 204,000 to just under 5.5 million. (The FY07 CR increases the maximum Pell grant to \$4,310). The Department also proposes making available an additional \$2.2 billion in mandatory funds (i.e. funds that don't have to be appropriated each year) through the elimination of some loan programs and lender subsidies, in order to increase the maximum Pell Grant by \$550 to \$4,600 in 2008 and by \$200 annually up to \$5,400 by 2012. If achieved, this would represent one of the largest increases in Pell maximums.

Of course, maximum Pell Grants are not awarded to most recipients. Based on Department projections, the *average* Pell Grant in FY08 is expected to be \$2,770, an increase of \$314 over FY07 but still less than half the costs of the typical 4-year public college.

While an expansion in the Pell ceiling and the number of Pell recipients is necessary, the Department's approach to achieving that end would eliminate other forms of student aid for millions of students, including the Federal Supplemental Education Opportunity Grants (SEOG) (\$771 million in 2007), the Leveraging Educational Assistance Partnerships program (LEAP) (\$64.5 million in 2007), and the Federal Perkins Loan program (\$65.5 million in 2007). Currently, SEOG, LEAP, and Perkins loans provide over \$2.2 billion of assistance to almost 2 million low-income students annually.

It should further be noted that without the proposed elimination of the Perkins loan program or the reduction in lender fees, the discretionary Pell levels requested by the Department would put the maximum Pell Grant back at \$4,050, which is less than the \$4,310 maximum included in the FY07 CR.

Other new Pell Grant policies proposed in the FY08 budget include:

- **Access to Pell year-round.** Pell Grants would be available year-round at 2- and 4-year institutions, basically creating a third-semester of Pell eligibility per year. Unfortunately, the Department's budget proposal does not include additional funding to accommodate this third semester.
- **A decrease in eligibility from 20 semesters to 16.** Current law states that individuals can receive up to 20 semesters of Pell Grants throughout their lifetime. The Administration is seeking to limit this number to 16. Coupled with the year-round Pell proposal, some non-traditional students would only receive Pell Grants for 5 years, which may not be enough for a part-time student.
- **Elimination of tuition sensitivity.** Under current law, Pell Grant awards increase based on the cost of tuition at the institution a recipient is attending, which has meant that students at lower-cost institutions (e.g., community colleges) receive a smaller proportion of total Pell aid. The Department is proposing to instead index the maximum award based solely on need.
- **Exclusion of Section 529 savings and investment accounts from need analysis.** Section 529 Savings Plans are state-administered college savings accounts that currently count as a parental asset in the assessment of student financial need. Although they already receive some preferential treatment over other savings accounts because they count as a parental asset as opposed to a student asset, DOEd is proposing that they not be counted at all toward the assessment of a student's need.
- **Applicant data matching between the FAFSA and federal tax data.** In order to reduce fraud, DOEd is proposing that data from the Free Application for Federal Student Aid (FAFSA) and Federal tax data be matched, contingent on applicant's consent.

The Department also continues to emphasize academic rigor through large increases in funding for Academic Competitiveness Grants (ACG) and National Science and Mathematics Access to Retain Talent (SMART) Grants. Both are supplemental grants offered to Pell eligible students based on merit as opposed to financial need. The FY08 budget requests \$830 million for ACGs – almost double the funding for FY07 – and \$350 million for SMART Grants, a 10 percent increase over FY07. Although these grants are only available to undergraduates who qualify for Pell Grants, recipients must also have completed a rigorous high school curriculum and be participating in rigorous math and science programs with a 3.0 GPA. The 755,000 recipients of SMART grants and ACGs represent about 14 percent of Pell recipients.

Increases in merit based supplements to Pell Grants, coupled with the proposed elimination of SEOG and LEAP, emphasize the Department's prioritization of merit over need, and provide less funding for adult students.



Perkins Vocational and Technical Education

DOEd again targets the Perkins Vocational and Technical Education program for drastic reductions in its FY08 budget request, despite the fact that last year Congress fully reauthorized the Perkins program with strong bipartisan support.

This year, while the Department resisted the complete elimination of the Act's Career and Technical Education State Grants, it still recommended that the program be funded at only \$600 million in FY08, a drastic reduction of more than 50 percent from FY07. Additionally, the Department requests no funding for Tech-Prep Education State Grants, which support links between postsecondary and secondary institutions for career training, arguing that the grants are duplicative. Overall, the FY08 budget requests that funding for Career and Technical Education programs be cut by almost \$700 million (47 percent).

Adult Education and Family Literacy Act (WIA Title II)

The DOEd budget offers flat funding for Adult Basic and Literacy Education State Grants at \$564.1 million, which includes the continuation of a \$68 million set-aside for English Literacy/Civics Education State Grants. Additionally, level funding is requested for the National Institute for Literacy (\$6.6 million) and National Leadership Activities (\$9.1 million). The Department also proposes eliminating the Smaller Learning Communities (\$90.4 million in FY07) and State Grants for Incarcerated Youth Offenders (\$22.8 million in FY07).

Other Education Programs

Under the FY08 budget, TRIO and GEAR UP, two college preparatory programs previously targeted for elimination, are this year flat-funded at FY07 levels (\$828.2 million and \$303.4 million, respectively). Additionally, the Childcare Access Means Parents in School (CAMPIS) Program, a grant program supporting campus-based childcare services, is funded at FY07 levels (\$15.8 million) and expected to fund 175 existing projects.

Surprisingly, DOEd has decided to request that funding for Vocational Rehabilitation (VR) State Grants – a program supporting employment training, work supports, treatment, and other services to help individuals with disability gain employment – be leveled off in FY08, rather than indexed to inflation as is authorized by the VR statute. Such a proposal would require Congress to change the VR law. Further, the Department is proposing the elimination of Projects With Industry (funded at \$19.5 million in FY07), a program authorized under Title VI of the Vocational Rehabilitation Act that engages business to provide innovative opportunities for the employment of individuals with disabilities.

For more information, DOEd's budget briefing materials are available online at:
<http://www.ed.gov/about/overview/budget/budget08/index.html>.



Department of Agriculture (USDA)

Food Stamp Employment and Training (FSET)

The USDA budget includes funding for the Food Stamp program. Although Food Stamp funding is mandatory, the Administration this year is proposing significant changes to the Food Stamp eligibility guidelines that would deny Food Stamps to more than an estimated 300,000 low-income working families.

The Food Stamp program has included employment and training requirements since the 1970s. Currently, all able-bodied adult Food Stamp recipients between the ages of 16 and 60, with some exceptions, must register for work, accept suitable employment, or take part in an employment and training program to which they are referred by their local Food Stamp office.

The Food Stamp Employment and Training (FSET) program provides education and training services to Food Stamps recipients. Each state is required to have an FSET program, and services funded under FSET must include at least one of the following:

- Job search activities.
- Job search training, including skills assessment, job finding clubs, training in techniques for employability, and job placement services.
- Workfare programs.
- Programs designed to improve the employability of eligible individuals through actual work experience, training, or both.
- Educational programs to improve basic skills and literacy.

Although the FY08 USDA budget does not directly reduce funding for the FSET program, the Administration's proposal to change the Food Stamp program eligibility guidelines would likely affect many of the people this program is intended to serve. Under current federal law, states have the option to treat families receiving TANF-funded services as categorically eligible for Food Stamps, meaning they don't have to apply separately for Food Stamps. The Administration has argued that by this logic, anyone who has ever even received a pamphlet printed with TANF funds would be eligible for Food Stamps, and they have proposed changing the program so that *only those families receiving TANF cash assistance would be categorically eligible for Food Stamps.*

Unfortunately, an estimated 329,000 Food Stamp recipients would lose eligibility under this proposal, and households in about 40 states that have taken the categorical eligibility state option would be affected. It is likely that many of these families are the same people who would benefit from education and training services under the FSET program. If they are made ineligible for Food Stamps, they will also automatically be made ineligible for FSET-funded services.

The Administration included this same proposal in its FY07 budget proposal, and it was soundly rejected by Members of Congress. The Food Stamp program has strong, bipartisan support and it is unlikely that the current Congress will adopt any proposal that would result in fewer families being served by the program.

For more information, USDA's budget briefing materials are available online at:
<http://www.usda.gov/wps/portal/usdahome?navid=BUDGET>.

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