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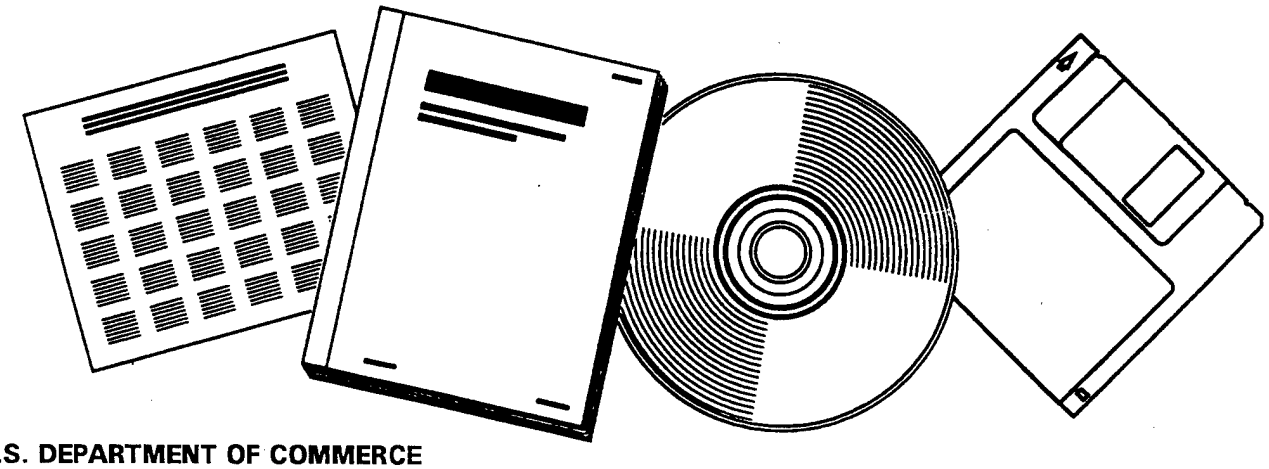
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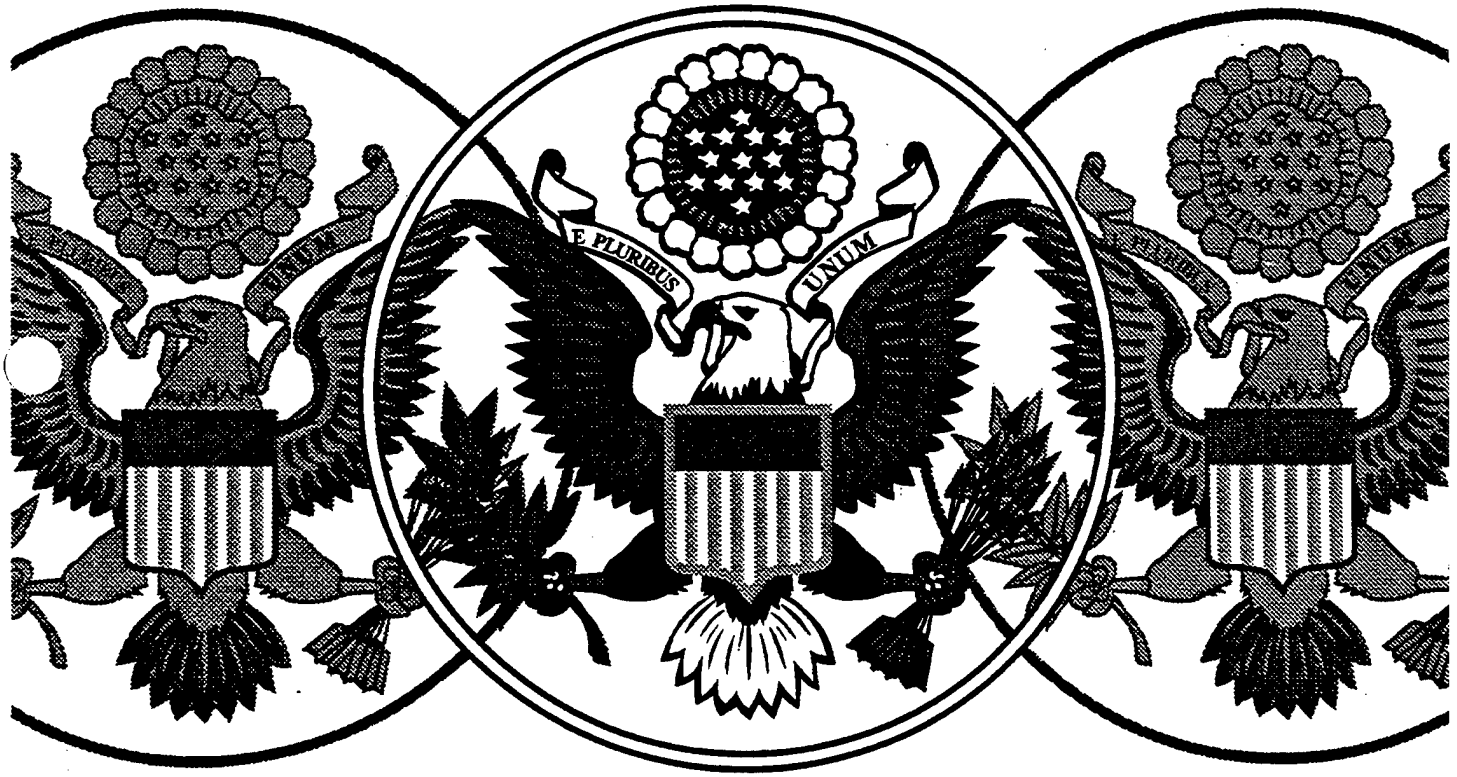
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Transcripts of Regional Hearings

Long Beach, California



Annex L to
Adjusting to the Drawdown

Report of the
Defense Conversion Commission

DEFENSE CONVERSION COMMISSION

PUBLIC HEARING

August 6, 1992

Long Beach, California

OFFICIAL RECORD OF HEARING PROCEEDINGS

COMMISSIONERS PRESENT:

David J. Berteau, Chairman

Charles A. May, Jr., Commissioner

Carl Dahlman, Commissioner

Robin Higgins, Commissioner

Douglas Lavin, Commissioner

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TAPE TRANSCRIPTION

MR. HANLEY: Good afternoon, ladies and gentlemen.

We have an extremely full schedule today. We have got people spaced at 15-minute intervals, which means that we are going to have to cut you off, I am afraid, after 10 minutes of testimony. If you could, please limit your remarks to that.

Anybody who has written remarks, we encourage you to just deliver the written remarks to the commission. Just hand it to us and summarize them. That way we get more opportunity for verbal give-and-take with the commissioners. We guarantee you that any written material that you present to us will receive our closest attention.

With that, the five commissioners that you see on your right are David Berteau, our Chairman; Dr. Carl Dahlman from the Defense Department; Mrs. Robin Higgins from the Department of Labor; Mr. Douglas Lavin from the Department of Commerce; and Mr. Charles May from the Defense Department.

Mr. Berteau, if I could ask you to start us off, please.

CHAIRMAN BERTEAU: Thank you Paul. I want to start by expressing my thanks to the City of Long Beach for hosting this.

We are here in Southern California in essence because the Cold War is over. And because the Cold War is over, the defense budget is going down considerably. There are significant personnel costs, personal costs, impacts on both people and industry and business. Our charter is to look at those impacts, to look at federal programs for retraining people, to look at programs that would help industry make the transition from being dependent on defense to being commercially viable and make a contribution to the commercial side.

We are approaching that charter through a series of field visits and hearings and site visits. This is a second of our series over the next couple of months. We are going all around the country. We are here to listen. We are here to find out what your experiences are. We are here to find out what's working; find out what is not working; find out what you think needs to be done to make things work better, and what recommendations you may have for others who are going to undergo this process as well as recommendations for what the federal government either needs to do better or maybe needs to quit doing because sometimes the help we are giving already may not be focused correctly.

I want to thank the folks who are turning out here today. We do have a very tight schedule. We have a lot of demand. We have had additional people sign on even since we came in today. We are already scheduled up through about 7:00 this evening. We would really appreciate it if you would stick to the schedule. Have consideration for the people scheduled after you, and give us a little time as well to ask you a question or two before your time is expired. I am sure we'll have them for everybody. We look forward to all of the presentations this afternoon.

Thank you.

Paul, are we ready to begin?

MR. HANLEY: Thank you, Mr. Chairman.

Our first speaker is someone who absolutely needs no introduction,

especially in Long Beach. It is the Mayor, Mr. Ernie Kell. Thank you, sir.

MAYOR KELL: Thank you.

Welcome to the City of Long Beach. Thank you for the opportunity to address to the Defense Conversion Commission this afternoon. My name is Ernie Kell, and I am the Mayor of the City of Long Beach.

Let me say at the outset that I am pleased that you have chosen Long Beach as the location to conduct this hearing. By choosing Long Beach, you are validating what the entire Long Beach community knows, and that is that Long Beach is being severely impacted by both the general decline of the defense industry in Southern California and by the decision of the defense Base Closure and Realignment Commission to close the Long Beach Naval Station and its attendant facilities.

Let me assure you the timing could not be worse. It comes at a time when this area is reeling from the dramatic worker layoffs (largely created by defense and aerospace reductions) affecting some 20,857 Long Beach workers since 1990, a national and state recession of major intensity, state and local unemployment rates at a 20-year high, a state budget crisis that threatens to rob the city of precious dollars needed locally, and during a period in which the nations' banks and other commercial lending institutions are in near-cardiac arrest.

As though this were not enough, the civil unrest which affected Los Angeles, Long Beach in April of this year has caused losses of up to 400 Long Beach businesses totaling over $40 million in damaged property and contents.

The naval station's closure will cause substantial economic hardship to Long Beach and the greater Long Beach area. The city estimates that the total annual losses will be between $750 million to $1 billion or more. This will be caused by the losses of 38 homeported ships, 16,700 ship- and shore-based naval personnel, 1,300 civilian personnel, annual naval and civilian payroll losses of $379 million, losses in service and supply contracts totaling in excess of $18 million annually, and the resulting secondary economic impact.

The financial losses have begun. As of July 1992, the Navy has already reduced the number of Long Beach homeported ships to 28, a full 26 percent decrease from the fleet level of less than one year ago.

Perhaps the greatest insult to the Long Beach community stems from the fact that the announced naval station closure is not truly a closure in a typical sense. The Navy plans to retain the vast majority of the naval station by switching the "command" of the naval station to the naval shipyard. What little property the Navy has discussed making available for surplus is either adjacent to a known installation restoration site or an area where the Navy knows soil contamination conditions exist -- or is being offered by the Navy to other Navy users which may wish to "tenant" these properties once they become surplus. How is this a military-base closure?

What truly scares me, and I know it concerns all the members of Long Beach City Council, is the impossible position the city finds itself in.

The city will lose all the economic benefits of the military presence in Long Beach once all these ships and personnel are deployed. Then, the city further loses because the community will be unable to implement new, economically viable re-uses

because the Navy retains all of the naval station property. This would truly be a lose-lose situation.

The city is committed to working with the Navy in a positive way to meet the Navy's goals to retain strategic property and facilities which support the function and purpose of the Long Beach Naval Shipyard. We do believe, however, that compatible re-uses can be identified that meet these goals while still enabling the Long Beach community the opportunity to re-use some of the naval station property. This would allow the city to implement strategies which incorporate new and useful economic development initiatives at the naval station while still maintaining compatibility with the retention of the naval shipyard.

Thank you, and have a good day.

CHAIRMAN BERTEAU: Thank you, Mayor Kell.

I would comment a little if I could on the situation with the naval station. We did meet this morning with the assistant city manager and some other folks from the city office on some of the concerns there with respect to grant money, with respect to the reutilization and Navy's schedule for that, and with respect to the environmental clean-up. I think we did make some progress, both in terms of understanding the city's concerns and in making sure that those are going to be addressed, and we appreciate the opportunity to have met with them and go through that as well.

Do any of my fellow commissioners have any questions for the mayor?

MAYOR KELL: I want to thank you very much. And the idea of retaining or getting back some of the property, I think if you look at the history of the naval station, you will find Long Beach gave it to the Navy for about a dollar. And we would like it back for maybe a little interest and at least some of the land back.

CHAIRMAN BERTEAU: I can say that it is certainly in the interest of the Department of Defense to giving a high priority to speeding up the economic re-use and restoring some benefit to the community as a result of that. We will focus on that.

MAYOR KELL: Thank you, and I appreciate the opportunity to testify before you. Have a nice day.

CHAIRMAN BERTEAU: Thank you, sir.

MR. HANLEY: Thank you, Mr. Mayor. Our next witness is Mr. Ray Grabinski, who is a member of the City Council of the City of Long Beach.

Mr. Grabinski?

CHAIRMAN BERTEAU: Mr. Grabinski, we want to welcome you here. We are ready for your remarks. If you have got something in writing that you could leave with us, that would be great.

MR. GRABINSKI: I will leave them with you.

I would like to echo the mayor's comments about welcoming you here. I feel like we are welcoming you to almost like a funeral. This used to be the hub of economic vitality of this region. It's suddenly not that any more.

I will go through these. If I could finish them quickly, I will comment kind of off-the-cuff, if I can. I appreciate your coming today, and communities around Long Beach I'm sure appreciate that too because this isn't a Long Beach situation, this is a regional situation.

I would like to direct my comments, if I could, to the Long Beach Naval Shipyard which is not slated for closure, but which has been the repeated target of attempts and failed attempts to close it. I would like to underscore the words "failed attempt." The Long Beach Naval Shipyard has, almost every two years, been scrutinized, reviewed, evaluated, attacked and warned that it will be closed.

The shipyard has survived every challenge thus far with flying colors. Why? The Long Beach Naval Shipyard consistently ranks among the top shipyards in the nation when compared to public or private facilities. The shipyard consistently performs on time, work on time and ahead of schedule.

The shipyard has a work force that is second to none. When other shipyards from around have complex projects, and this happens quite often, or they need specialists, they call Long Beach.

Long Beach is a proven leader. Several years ago when the Secretary of the Navy challenged this city and its shipyard to become leaner and meaner -- and I will, just for your edification, I was the person who brought that back from Secretary Pyott. He told us that we needed to be a lean, mean producing machine. I brought that back to our shipyard. The Long Beach Naval Shipyard responded. And in turn the shipyard rapidly earned the prestigious Meritorious Unit Commendation Award from the Secretary of the Navy. Four months later we were again on the list for closure.

Long Beach Naval Shipyard has been, and remains, one of the most important surface ship maintenance and repair facilities in the nation. The assessment was underscored by Rear Admiral Roger B. Horn in testimony given before the Defense Secretary's Commission on Base Realignment and Closure on August 8, 1988. Stated Rear Admiral Horn, "Long Beach Naval Shipyard is located strategically close to the homeport of the Pacific Surface Fleet to provide fast and uninterrupted support of surface ship complex combat systems. There is no comparable skill base in the private sector on the Pacific Coast to support ships with complex combat systems."

"The Long Beach facilities and dry docks are key in providing support and docking capability on the west coast. As a fallback, the shipyard can be used to dock nuclear ships and some carriers." The nuclear ship Los Angeles was here Tuesday. "Currently, Long Beach is a depot overhaul point for 4,400 depot-level repairable items. It is the only West Coast public shipyard available for emergent non-nuclear surface ship repairs because the nuclear and carrier work loads at Puget Sound and Mare Island Naval Shipyard consume their facilities. The facilities at these three West Coast shipyards, as with any other naval shipyard, could not be duplicated anywhere without long-term government subsidy."

The Long Beach Naval Shipyard is a long, large, full capacity facility which includes approximately 347 acres -- and as the mayor has reminded everybody, those acres used to belong to the City of Long Beach -- and consists of four industrial piers, two wharfs and three dry docks. The shipyard is the Navy's primary surface ship repair facility on the West Coast. The yard has one of only two dry docks on the entire West Coast physically capable and certified to dock aircraft carriers, including nuclear carriers. This vital and unique capability fulfills the Navy's important requirement that there must be a minimum of two nuclear aircraft carrier dry docks on each coast to

support the readiness of this primary arm of the Navy's strategic power. No West Coast private shipyard can handle emergent nuclear carrier work.

One of the main reasons I wanted to address you today concerns the closure of the adjacent naval station as the mayor talked about and how, I believe, this will injure the ability of the Long Beach Naval Shipyard to continue with its proven record of excellence.

When the Base Closure Commission acted to close the naval station even a casual observer could see that this would be a tremendous blow to the shipyard's viability. Obviously in order for a shipyard to perform its mission, it must have work. By closing the naval station and redeploying the 38 ships that were homeported here, I'm very concerned about the shipyard's ability to generate sufficient workload to justify its existence.

True enough, Long Beach Naval Shipyard provides fleet support to San Diego -- but even this function is being threatened by parochial views of some elected officials and private ship repair interests in San Diego who don't want to see San Diego's fleet come to Long Beach for ship repair work, although that has happened on regular basis because it cannot match the quality of work that they receive in the Long Beach public yard.

Ladies and gentlemen, who pays in the end? The taxpayers. Big time. We don't low-ball bids at the Long Beach Naval Shipyard. They returned $60 million to the taxpayers over the last two or three years.

The private shipyards in San Diego don't have the facilities nor the track records to compete with Long Beach on a level playing field. So what have they done? Legislated away their competition, which will drive up costs and reduce the Navy's ability to meet its readiness requirements -- I want to emphasize that -- our readiness requirements. We are quickest to sea of any place on the West Coast. Quickest to sea.

Who loses? 4,100 highly skilled ship repair people who work in Long Beach Naval Shipyard and whole lot of taxpayers who I believe they would be sickened -- and they would be sickened if they knew the truth. The 4,100 people who work at the Long Beach Naval Shipyard are predominantly minority, many of them women heads of households.

You could not build a facility any place in Southern California that does a better job of putting people to work at careers and giving them futures than the Long Beach Naval Shipyard.

But the Base Closure Commission did something else to the Long Beach Naval Shipyard which further reduces the ability to compete. When the Closure Commission decided it would "close" the naval station and give command of the station to the shipyard, you can rest assured that the operating costs for the shipyard increased tremendously. Will the Navy offset these added costs for the shipyard? Gentlemen and ladies, I don't think that will happen in a million years. They will put our shipyard in a non-competitive position again after these people, these federal workers, have become so competitive that they saved the federal government millions of dollars. Now they are being thrown back again with more weight to bear as if this was a horse race. And I am not going to guess at that. I want to leave that part out. I don't want to think about that.

I know it's going to hurt us.

I would also like to make this point. There are no cost savings to the taxpayers if the Long Beach Naval Shipyard closes. I am sure you have heard this before. The Navy's own COBRA analysis said that the payback on closing the Long Beach Naval Shipyard is 79 years. And the Navy's own estimated cost -- being a government official myself I will let you know that I understand sometimes we underguess these things -- the Navy's own estimated cost of closing the shipyard is $1 billion.

I hope you take these comments under consideration and will express to the administration how insidious and devastating defense conversion can be. It's not a pretty picture out there. I guess my closing comments will have to do with the people. You are looking at someone who went back to Washington, sat in a room with Mr. Pyott, and let him talk to us about public and private competition and what a great thing that was. A year later he admitted the failure of the public/private competition.

When our public shipyard began to take those bids and save the taxpayers millions of dollars, I felt like we had done a really good job. Then the commission, the Base Closure Commission, comes out here and tells federal workers who are recognized nationally by their Navy for the great job they did, the pat on the back they get is not even to put the award up on the wall before they attempt to close it.

I guess my closing comments have to do with where we are going from here. If I could ask you to take a comment back to the administration, it would be to live up to the promises made to the people in the region, live up to the promises to those federal workers. If I were a federal worker, I would look at something like this and think, what good is there in me performing well. Look what happened to Long Beach.

I want to remind you that while this is a city of almost half a million, most of the workers live outside of Long Beach.

I take this personally because I came back and thought we won it. I think we have done a great job. It wasn't a political thing. They had 5,500 workers there before they cut themselves down to 4,100 to make this payback go back to the federal taxpayers. Then they came and asked me, gee, I thought you said they wanted a level playing field.

Now what we are saying is we are going to take the ships, the jobs and everything else out of there but we are going to keep the land. I don't think so. I don't think that's at all fair to the taxpayer. I think the question needs to be asked why was that even a consideration? Why was that even a consideration?

This city has given to the Navy for the last 55 years. Always been a Navy town. Still is a Navy town and just built a U.S.O. a block and half away from here. The Bob Hope U.S.O. so we could bring it from Hollywood where it wasn't doing quite well. We don't even have the grand opening and the rug comes out from under us.

Do we lose one thing? No. They are ready to take everything in the city away from us.

MR. HANLEY: Thank you, Mr. Grabinski.

CHAIRMAN BERTEAU: Mr. Grabinski, let me ask you one question if I could before you go. You mentioned the legislative constraint on the competition with San Diego. I was aware of a constraint in terms of the competition with the private yards

to compete for work there. I was not aware that was legislative. I thought that was within the power of the Department of Defense.

MR. GRABINSKI: No. There was recent legislation by a congressman from San Diego who, quite frankly as far as I'm concerned, back-doored all of this. 15 miles is the difference between whether or not they could do work here.

CHAIRMAN BERTEAU: We will look into that. Let me ask you also, is there anything that could be done in the process -- you talked about the increase of overhead that would result with the shipyard picking up the naval station responsibilities. Are there things that could be done that could reduce that overhead burden.

MR. GRABINSKI: I think what clearly could be done is decision making on the part of the federal government. The Navy vacillates back and forth because they don't know how this will all work out. Obviously we don't know as a region. We have got to know where we put our training bucks and our bucks in our city. I suppose the best thing they can do for us is give us a clear decision as to what is going to happen at the facility. We could use that for a number of different things to revitalize the economy around here.

I don't think anybody realizes how much it is. We are talking about $300 million worth of spin-off just from that shipyard if that goes off.

I can tell you right now, you will hear in the next six or eight months that shipyard is going to be on another list again because the work has been legislated away.

CHAIRMAN BERTEAU: Thank you, sir. You have given us a very clear message.

MR. GRABINSKI: My pleasure. I hope none of that was taken personally. I just was the one who delivered that message. I have to tell you as a public official, I don't feel real good when I come back and tell folks at that shipyard that all you have to do is perform excellently and they do and we still lose.

CHAIRMAN BERTEAU: I understand. Thank you.

MR. HANLEY: Thank you, Mr. Grabinski.

I would just like to remind everybody that we are limiting folks to 10 minutes each. If we could stick to that, we would be grateful.

For those of you who so desire, I would like to draw your attention to the fact that we do have a sign language interpreter available, and also the transcript of these proceedings will be available on request if you get in touch with the commission. Just let anybody, any of our workers know. That transcript will be available in large print and in Braille for those who desire it.

Our next witness is Dr. Robert Schlesinger. Dr. Schlesinger is professor of Information and Decision Systems at San Diego State University.

Dr. Schlesinger.

CHAIRMAN BERTEAU: We want to welcome you here this afternoon. You have been kind enough to give us a little advance reading material as well. We look forward to hearing your ideas.

DR. SCHLESINGER: Thank you for inviting me. You have set up a fairly tight schedule and a tough task to address these problems in such a short time.

What I would like to do today is discuss two ideas, not for the retention of

jobs, but rather for job creation in a small business arena. I am not going to talk about saving jobs but rather the process of creating new companies, and hence, new jobs. I should mention to you that these companies are small, typical start-up companies. Three to maybe twelve people. I am not talking about building another Super Collider Program.

Let me start by pointing out one of the processes that currently goes on and that has to do with downsizing of defense contractors. They inadvertently destroy synergy and in so doing throw away potential start-up companies. The shrinking firms destroy synergy by paying, in some cases, outplacement firms to come in and disassemble functioning operations and possible spin-off enterprises.

Remember, these organizations that they are disassembling have been created over the years with taxpayer money assembling engineers, marketing people, skilled workers and factories to work together and make a product. Existing employees in the form of the spin-off process are taught how to write a resume, job hunt by phone and perhaps shine in an interview. The focus is in this downsizing operation is finding jobs rather than creating them.

By the time the breathing space of weeks or perhaps a few months are over, any synergism that the original group of workers has been piecemealed out the door one by one.

Formerly, many of these employees worked as a team. Planning, design and manufacturing, very complicated and complex software and hardware systems. Consider instead of disassembling a team, if one added the requisite entrepreneurial capacity and business skills to the team, -- those skills are not generally held by these internal groups -- might you not then have the makings of a small start-up commercial enterprise?

Here is how the Intrapreneurial Conversion System might work. The defense contractor would identify those areas that he is downsizing, moving out of the market and for any reason I mentioned. Doesn't have to be defense contracts, it could be some of the large companies that now engage in what they call rightsizing, cutting down, okay?

He would invite in what I would call an outside Entrepreneurial Management Team, an EMT. An EMT team is two or three people. Those of you who have been through true entrepreneurial exercises know you don't want a big cadre. You have got just so much venture capital. The fuse has to burn slowly. You can't bring out a lot of people.

If the EMT company then came into the contractor's activity, he would meet with the employees of risk, brainstorm ideas with them, look at the product lines and product areas, techniques, processes and equipment, all of the things that the contractor is going to divest themselves of.

If the EMT team can identify a viable commercial product or service, the defense contractor would agree to keep the selected workers on the payroll for maybe a fixed period, not long, maybe 120 days. During that time -- this is the quid pro quo, okay?--during that time, the EMT team would oversee and bankroll, with their venture money, the writing and detailed business plan in the creation of a formal corporation.

Remember, the defense contractor would assign them the necessary physical

and intellectual properties to this new corporation that has been created. In exchange, both the defense contractor and the working team would receive equity interest in this new company.

Now, armed with a plan, people and assets, the EMT would attempt to raise major venture capital for the fledgling venture. If at the end of the 120 days there has been no success, the defense contractor would terminate the workers with no further compensation. The new company, however, including the workers, could remain intact.

Efforts to raise capital, by the way, might continue for some agreed-upon period, maybe another year or so. If the ongoing operation proved no-go, those assets that had been assigned to this fledgling company would revert back to the downsizing corporation, the big company.

It's sort of a quid pro quo. One risk is letting people come in, take a look, put together some business plans, the business plans are financed and try to start a company.

Could this Intrapreneurial Conversion System work? During my years in the defense industry, I found no shortage of ideas among workers for commercial-product application of military technology. The ideas were usually rejected because they didn't fit the current "mindset." It didn't take long for the employees to be conditioned to "stop that nonsense," as the saying goes, by the boss and get back to the proper contract.

Times are different now. The new world order seems to have permanently eliminated a lot of old-world jobs. Receiving pinkslips concentrates the mind wonderfully. Beleaguered communities and companies, faced with the prospect of declining jobs and declining profits, just can't afford to throw away these ideas.

Let me jump down here so my time doesn't run out. Let me talk about what I think is the Achilles' heel on this problem. I think the toughest one will be to get the top management to invite these EMTs, these two man teams, into their plant to try the concept.

One of the factors is NIH syndrome, Not Invented Here. Management takes the position that if they can't see the application of a particular technology or process it is about to abandon -- that's very key -- how could outsiders? Companies also exhibit a general concern about inviting outsiders to come "look around." In the defense case, possibly a security problem is concerned and in larger companies it might be some other concern.

Fortunately, you have to remember that the companies that I am talking about that are downsizing are going out of that business. What you are asking people to come in and look at is something you are going to write off as an accounting gesture at some future point in time. I am saying, come in and look at the techniques that I am getting ready to divest myself of, and see if we can't by transferring them to you in a spinoff concept, start-up a new company.

Let me see what else I want to say. Investing. I have said that the equity position of the spinoff company would be retained by the parent company, I want to make sure that is clear. How does one encourage a company in the midst of downsizing? How do you get them to invest in resources and a risky start-up operation? Remember we are talking about jobs and resources which are to be written off anyway.

Decision logic suggests that if the expected pay back from the spinoff investment is greater than expected savings from the write-down, the spinoff company will be supported. The logical decision creates a new company, new jobs and expands our technical base. This is a management decision that is made in cold tables and won't be discussed in great detail here. However, this commission -- if you understand the model, I am sure it is not that complicated to grasp that it has within it the power to set up procedures that will encourage large companies to invite in EMT teams.

Many forms of incentives can be considered: modified capital gains relief, recapitalization, depreciation, accelerated write-offs, and so on. The parent company can enjoy the incentive for years -- given that the small company is created and takes off -- on profits generated by the spinoff activity.

I should say in passing that the more resources that the parent initially invests in the small start-up company, the greater likelihood the success of the spinoff. The greater the likelihood of the success, the greater the benefits to the parent. As a result, the parent company has utilized its people and some resources, and has a vested interest in a commercial entity -- and that commercial entity will hopefully grow, such as an apple or whatever, and make more jobs and more jobs.

But I can't start off by proposing to you that we start another Super Collider Program and bring all the people from the B-1 Program to come to work for this. What I am proposing is that we encourage some entrepreneurial activities.

Let me just make one final point. This is an important one. I think I am addressing a current problem. Today there is much discussion concerning whether America should have an industrial policy or not. Both sides have logic to the problem.

Regardless of which side you are on, there is one point on which both sides agree. We Americans have not done a good job in developing the processes and manufacturing processes in the country. We have not done as well as we could. Quality control, we are coming up the power curve. We are good at technical innovation, but poor at followthrough in bringing innovative products to market. Even when products make it to the marketplace, there is concern about whether we can introduce them in the process which will reduce costs through manufacturing improvements.

The foreign competition frequently "reverse engineers" a product, redesigns it for improved manufacturing processes, and mass produces it at higher quality and lower price than we are able to do. The classic examples are the VCRs, televisions, automobiles and now fax machines.

In many of these companies that are being downsized and moving out of the defense market is a good deal of research & development (R&D), paid for by you and me, that stops short of the manufacturing cycle. The investment may never see the light of day of the marketplace. And management in the big companies -- and I have talked to some senior vice-presidents of Fortune 100 companies -- there are many reasons for the lack of interest:

- o The design is too costly.
- o There is no perception of a commercial market.
- o The Government owns the rights to it.
- o We can't mass produce it.

o General risk aversion to new ventures.

o And most important of all, it just doesn't represent enough cash flow for Goliath Incorporated to care about it. A $3 million a year or $5 million or $10 million product line is not of interest to McDonnell Douglas, Hughes Aircraft, you name it. But to you and me it is a pretty nice company. I can employ 50 or 100 people once I get up over the $8 - 9 million level.

Part of the peace dividend can be derived by sorting out the commercially useful items. I'll say a few words about some of the problems there. It's not that easy. Identifying a match between some obscure military device and a high volume commercially-viable product is not a task that just anyone off the street can address. The composition of the EMT teams is likely to be one major problem areas.

However, this is my final point. I believe that if an invitation were extended to an EMT to create one by a downsizing defense company to meet with their employees at risk, many smart engineers and business would come forward to be involved as EMT members all across the country. They would quickly recognize the entrepreneurial potential is considerable.

I won't talk about all the technical things I have in mind. But I have to say I suspect the problem would be one of choosing rather than searching for the candidates to join EMT teams. We have so many good people in that class. I call that a high class problem. One I would gladly solve.

I think that concludes the essence of the remarks that I have to the commission today.

CHAIRMAN BERTEAU: Dr. Schlesinger, you have proposed a very intriguing set of ideas here. I think you have pointed out a number of ways that the government might be able to assist something like this. There is also a couple of possible problems above and beyond that would obviously have to be dealt with. Questions about companies, whether the costs would be allowable costs under government contracting rules, et cetera.

Let me ask you though, are you aware of anybody who has actually tried this who has attempted to support this kind of thing?

DR. SCHLESINGER: I am not aware of anybody in the fashion that I have addressed here. I am well aware of the problems. I have spoken to one of largest legal firms in San Diego that expressed interest, appreciated the legal implications, disclosure rights, if you go in and look at company for two weeks -- and that by the way would be on the part of EMT.

Let me say one last thing. When a company invites an EMT team in the company can have an option. We are going to work with you to spin this thing off or we might just hire you initially, pay you for your time and later make the decision whether we want to create a new company and spin it off or whether we say thank you for the idea you envisioned here. We will go ahead and build it ourselves.

As I say, one of the largest law firms in San Diego has already suggested to me that they would be willing to be involved in the legal implications, and so on.

CHAIRMAN BERTEAU: Good. Very interesting. And I wish we had more time to explore it. You have given us additional reading material. We will look at

that as well. We will get back to the questions as we develop our thoughts on that.

MR. HANLEY: Thank you, Dr. Schlesinger.

Our next witness is Dr. Nancy Mary, Assistant Professor and Admissions Coordinator. She works at the Long Beach Economic Conversion Task Force, Department of Social Work.

CHAIRMAN BERTEAU: We are delighted to have you join us this afternoon. You have a unique challenge certainly that you have taken on with your tasks here with the Conversion Task Force. We look forward to hearing what you have to tell us.

DR. MARY: I have sort of two jobs. I work for a living at Cal State San Bernardino. And I have this job that I have taken on with the local task force. I want to thank you for giving us an opportunity to speak to you.

CHAIRMAN BERTEAU: The mikes are quite powerful, and you don't have to have it that close to your mouth.

DR. MARY: We are a non-governmental community-based task force of educators, social workers, union members and activists, which came together in the summer of '91, with the concern about what the effects of the target naval base and hospitals closures would be on our community. Our purpose is to heighten the consciousness of the community around this concern and act as a catalyst for those groups who are responsible for the economic and human development of civilian products and services to meet the needs of our community.

As a catalyst, what we did was conduct a town meeting this last June sponsored with other community groups to facilitate a community update on the base closures and share a vision of conversion to a peacetime economy. And I think we actually had more people there than we do today. That's kind of sad. It was a good meeting. We had 50 participants. It broke into four sector groups; labor, business, human resources education and government. We brainstormed around this problem, this issue.

And a more detailed report I will give to you about some great ideas that came up from various sectors.

As you might imagine, each had a unique prospective. There were some common suggestions. Two are real important to share with you today. One, groups agreed that the city needs to join forces and involve concerned citizens and responsible planning groups in a community-wide plan for economic development that includes economic conversion. They also identified that there is a limit that we can do locally. There must be state and federal commitment on a much larger scale than is current, to the economic health and well-being of the citizens of this city.

Now, what do we suggest? What are we recommending today? We as a community group have studied the issue of conversion for over a year. We are not here to provide you detailed statistics on the extent to which this community is impacted by the downsizing of the military. We would refer you instead to two sources of information. One, the March, 1992 L.A. County Aerospace Task Force Report for impact as well as recommendations regarding aerospace. And two, our city's Economic Development Bureau, which I am sure you have spoken with staff, for impact data on aerospace job loss, as well as the closure of the naval base, the housing and the hospital.

However, we would like to point out two realities. First a conservative estimate by the city in late '91 suggests that the economic impact of the closure of the base and hospital alone is over $700 million. This doesn't account for the cost of related contracts and services supporting the hospital. It leaves aside the issue of the shipyard, which is still vulnerable. It employs over 4,000 people.

Secondly, we want to point out that blows to the region's aerospace has been major. Employees numbering 45,000 two years ago at McDonnell Douglas now down to 30,000. Projections continue. This isn't news to you.

What would we recommend? For the short-term, two things. One, reconsideration of two elements of the Defense Economic Adjustment Act. That's HR 101, which was reintroduced in Congress in January 1989. There are two elements in that we think are critical: one, the establishment of mandatory alternative-use committees in military-related facilities for the development of detailed conversion plans, we think it can happen from the inside to begin with; two, income support, career assistance and retraining programs for defense workers while conversion is underway. Secondly, for the short-term we recommend assistance through federal dollars with the environmental cleanup of the Long Beach Naval Station and the conversion of the base hospital and housing tracts to meet the following kinds of possible projects. We would like your support on this. Low income housing. Expansion of public schools, industrial parks, manufacturing ventures which make use of renewable energy. For example, a regional recycling center. There are many more ideas on the report I have attached for you. Job training, recreation, child care centers for our city's youth.

These are the short term, in our view. For the long-term our recommendation is that the Defense Department in partnership with Congress determine a military strategy that is realistic in today's world. Many, including General Powell, recognize "the decline of the Soviet threat has fundamentally changed the concept of threat analysis force for planning."

We as a nation are beginning to see the large part of the national security involves economic strength. Thus the reduction of military expenditures is sorely needed to balance our national security through the internal rebuilding of our nation's resources.

Many have suggested, including retired Rear Admiral La Roque that a $100 billion shift of the defense budget could accomplish this rebuilding without jeopardizing our national defense.

This task force believes that the future security of our community depends upon the extent to which we commit our resources to four efforts. One, a reasonable strategy for the military defense of our nation and its allies, which includes a greater commitment to peacekeeping capabilities of the U.N. Two, the development of our children, which are our future, through education, health care and opportunities for leadership. Three, the preservation of the environment through the development of renewable energy resources. Four, the production of socially useful products through jobs which pay livable wages.

Then we need a partnership between business, government and citizenry at every level that integrates these above four in planning for the security and economic development communities.

Our message I think to you today and to the Secretary of Defense is that it's evident there is no potential opponent of the U.S. who has or will have military capabilities even remotely comparable to the now defunct Soviet Union and Warsaw Pact. Our worst enemy we feel, is over a decade of neglect of our city's infrastructure, its children, its natural resources due in part to an overreliance on a military industrial economy. This is what we feel is in dire need of adjustment.

The best recommendation we give you today is take this message to the Secretary of Defense together with Commerce, Labor, Health and Human Services, help us to defend our communities against our real worst enemy, internal neglect.

CHAIRMAN BERTEAU: Thank you. I would point out it has certainly been my experience and I agree with you absolutely that the only way you can really have a successful effort is through cooperation of not only the city and the entire local community, but the state and federal governments participating as well. We have seen some examples of that in the past. I think we still have a ways to go in terms of achieving perfection in that regard.

Also with regard to the sources you pointed out, we did receive detailed reports and met with members of the Aerospace Task Force yesterday and went through their report in some detail. We did meet with economic development people from the City of Long Beach and got some of their information as well.

I look forward to looking through your report. We certainly will carry that message. I can't promise you what will work out with the Congress in terms of defense cuts. There are already a number of places where the Defense Department has proposed reductions which Congress has found too difficult to swallow because of the impact, obviously. We do have a very real dilemma here. The faster you bring down the defense budget, the more the impact is of the reductions at the same time you are preparing to make the trade-off.

So, some of those trade-offs are difficult to make and require a considerable amount of will, if you would.

DR. MARY: Thank you.

MR. HANLEY: Thank you very much, Dr. Mary.

Our next witness is Mr. Michael Picker who is the West Coast Director of the National Toxics Campaign Fund.

CHAIRMAN BERTEAU: Mr. Picker, welcome. We are delighted you could join us today.

MR. PICKER: I do work for the National Toxics Campaign Fund. We are a national organization, essentially a coalition of about a thousand grassroot community-based organizations all seeking preventative solutions to toxic problems and clean up. Our board members here in California include representatives from San Diego's Environmental Health Coalition, the Silicon Valley Toxics Campaign, Richmond's West County Toxics Coalition and Worksafe, which is an occupational health and safety organization.

We have within this region what we call our Western Military Toxics Network, which is groups specifically working on military facilities and contractors that pose toxic problems in our communities. As well as those other groups in that network

are included, the Sacramento Valley Toxics Campaign and a Reno-based group called Citizen Alert.

During the Cold War, there was a great tide of money that swelled over our economy and buoyed us up. But as it is receding we can start to piece out the wreckage that lies below the surface. That includes widespread toxic pollution in military facilities and contractors, the noncompetitive corporations and this entire sector of our productive economy that's aimed at products we really don't need now.

The loss in California is hard to describe. But in 1985 we got $50 billion per year into the state's economy. $30 billion of that went to prime contractors. $30 billion of that total went to Los Angeles County. That's all going away.

And I mean, we have tremendous hope for the future. We think that this actually presents opportunities, particularly since environmental needs create some specific opportunities for economic adjustment and economic development. We see this as two-fold. The highly skilled work force, a massive research and production apparatus that is already in place and thousands of acres of valuable real estate scattered in important economic regions in the state.

They have been freed up at a time when society is demanding new technologies, products for transportation, for environmental protection, and for public health. We think that elements of the military industrial complex can be harnessed in a creation of a new sustainable economy in our region.

Environmental problems, unfortunately, could be an obstacle to that economic recovery. The problem is not regulation, however. We believe sensible, efficient environmental regulation is important to rebuilding our economy. We think it is important to protecting the residents of the State of California.

We see one of the very real obstacles as the widespread contamination of California's land and groundwater by the armed services and their contractors. There are 1,459 contaminated hot spots at 107 different federal facilities at our last count in 1991. Some 25 different contractors contributed to the massive cleanup at the Stringfellow Acid Pits. Recently, a $150 million settlement was announced for the groundwater there that is creeping towards the drinking water supply for the City of Riverside.

Let me give you an example of how this recent spate of base closures is creating severe stress on local economies. Jobs are being lost. They have been lost. And because of contamination at formal work sites, it is very difficult to find anybody who wants to acquire title to the property or who wants to acquire any of the liabilities that would be involved in setting up operations at those sites.

So, one facility in Sacramento, one of the two bases undergoing closure, Sacramento Army Depot, has been estimated as having $117 million in potential value as an industrial site in the city. No one in their right mind is going to want to acquire title to that given the contamination. It's a toxic ghetto until it is cleaned up.

Mather Air Force Base, one source told me extractive rights for gold located in gravel fields in that facility could be as high as a billion dollars. You can well believe that nobody is going to be allowed to dig out there until the sources of the contamination have been identified and controlled. The digging will simply encourage the spread of that contamination into the vitally important regional groundwater base.

So, we have to expedite these cleanups. We have got to put this real estate back into our economy. One of the things we see as vital for this is a guaranteed position on technical review committees for the many local community leaders who have a clear understanding of the importance of those bases and for the potential uses for them. These are already available at many federal facilities, but not in contractors.

An example of where this has really helped is the Moffett Naval Air Station in Mountain View where citizen oversight is widely credited for having moved the process along.

We also think that in order to make this participation of the highest quality that there should be attention to providing the same kind of technical assistance grants that are currently available in the federal Superfund sites that provide an outside prospective that sharpens the participation of these community leaders and again gives the kind of collegial program that moves these things along.

Now, in general, this military economy, particularly the funding for contractors, is on its way out. We think it is very important to pay attention to the human capital here in this state. That's an important piece that we see that is needed to rebuild our sustainable economy.

We have as environmentalists spoken long and loudly for what we call a federal Superfund which puts money into cleaning up contaminated dirt.

The message that is very important for the Department of Defense to understand is that if the two great resources of our country are the people and the land, and we are willing to spend billions of dollars to clean up the land, then it would be very important for the Department of Defense to start to at least treat the workers that have built the great military economy, at least treat them as well as it's treating the dirt.

We see the need for a federal Superfund for workers. You will hear here this afternoon from the machinists that job training is not enough. Those jobs are not there. We need to focus that towards those programs that will actually support the growth of these new industries. I will let the machinists outline that some more.

We think that there needs to be a much more dramatically well-thought-out intervention here. And that's in finding these new pensions for our economy. And the best analogy that I can use is that when President Kennedy, and somebody said this far better than I did, called to put a man on the moon in the early 60's, he didn't deregulate the airlines and wait for them to reach escape velocity. He called people together; he used his leadership. He brought the best and the brightest together in NASA and created a civilian aerospace industry.

We think that kind of dramatic federal leadership is required to create these new industries just as it did with the military economy. We think that in order to get a public consensus around these things we are going to have to start looking at some of these socially demanded programs, like new transportation systems, like environmental cleanup.

Again, the human infrastructure is vitally important. These new industries that we are seeking to promote should be more environmentally sustainable. That means that we don't want to see efforts to increase the use of toxic technologies. We would like to see the use of toxic technologies decreased. The military and its contractors have long

been major purchasers of highly hazardous materials.

The recent debate over the use of CFC's is a good example. We estimated here in the State of California the military contractors resulted in well over 50 percent of emissions of those ozone-depleting chemicals. Yet, there have been for many years safe, feasible substitutes. Simply a feature of military procurement landscape that they require the use of CFC's in certain manufacturing. That's nonsensical. It only adds to the benefit of the chemical manufacturers. It's not good for the rest of the economy. It's not good for the rest of the environment. It's not good for the workers.

We think that some time and attention ought to be put to designing new industries that are less toxic and more sustainable. An example of where that is taking place already within the Department of Defense is the new Sematech Program, a hundred million dollars contributed to the Sematech Fund which is designed to find new electronics technologies, faster chips, will include a chunk of money to find safer ways to manufacture.

So, just as a one final note, it is very important to make sure that the bases and contractors remaining in operation meet the highest environmental standards so that we don't have more toxic problems. That means that Department of Defense should really consider making all cleanups and operations comply with both state and federal and local laws related to hazardous materials environmental quality.

For example, we are told that finally DoD facilities will begin to comply with the federal Toxic Release Inventory. But already here in California, the San Diego naval facilities have begun to comply with a state law, AB2588 Toxic Hot Spots Air Inventory Program.

We think that's the direction that the military must go in order to avoid extending this horrendous problem that we are already grappling with.

Thank you.

CHAIRMAN BERTEAU: Mr. Picker, I have got a minute or two. Let me ask you a couple of questions if I could. In fact, I am delighted to hear that the Navy here is already complying with the California part of that because the Toxic Release Inventory nationally should be easier to comply with than California's own. I'm pleased to hear that the Navy is already doing that.

Let me ask, you mentioned Sacramento Army Depot. I know there is already a groundwater contamination site there. It's been through the feasibility study and remedial investigations. It has a pump and treat operation already underway there.

Is it your view that potential reuse, set aside the question of liability -- I'll come back to that in a separate question. Is it your feeling that reuse should in fact be halted or prevented once the identification is in place and the remediation is already underway?

MR. PICKER: No. In the past we spoke in favor of parcelization. There are some challenges to be overcome in terms of getting different agencies to agree when it's appropriate to open up a facility to development. But in general we favor the idea. We think it's important to get these properties back into regional economy as quickly as possible.

CHAIRMAN BERTEAU: Again, the second question would be the

liability. If in fact the federal government assumes the liability, would that address some of that question of only a fool would take it on?

MR. PICKER: I can't answer for you the question as to whether the federal government actually can assume all the liabilities. I think that both federal and the state tort law means that anybody who has anything to do with this has some responsibilities. I would like to talk more with people before I give you a real answer to that. It may be that we want to have more people worried about how these things get done. So that a good job gets earmarked.

CHAIRMAN BERTEAU: Thank you. I take to heart your comment about it's important to treat our people at least as well as we are treating the Earth.

Would it be your view, though, that defense workers who are being affected by essentially the defense draw down should have programs that treat them different than other workers being laid off elsewhere within the economy?

MR. PICKER: I think the issue is more that the two principles of anticommunism and military development have been important in our regional economy. As those two driving impulses lose their impetus, we have to think strategically about what might replace it. I think that there are problems in other parts of the economy. When you are talking about the sunbelt in the west, these are certainly some of the important things.

That $50 billion into the state economy is winding down. Industries are going to die. But aside from the general cutbacks and expenditures, we are finding those industries are chasing congressional committees' members to other states. They want to be in the districts where those people are going to vote on those contracts. And frequently that's not here in California.

CHAIRMAN BERTEAU: Any other questions? Thank you very much.

MR. HANLEY: Thank you very much, Mr. Picker.

Our next witness is Mr. Eugene Leonard. Mr. Leonard is chairman of the Patriotic Alternative to Commercial Takeover of American Aircraft Production and Maintenance.

CHAIRMAN BERTEAU: Mr. Leonard, welcome.

MR. LEONARD: I am replacing last minute Mr. Sparks who has suffered a severe bee bite and is suffering problems with that. We suspect that it was an Asian bee, but we are not sure yet.

CHAIRMAN BERTEAU: So noted. Recognizing that you didn't have as much time to prepare as you probably would have liked today, we look forward to hearing from you.

MR. LEONARD: The American people have shouldered the problems and debts of the world for over 50 years, and they have done this with pride, even though there were many sacrifices along the way.

We have forgiven the loans to other countries while we continued to pay off our own individual loans. Foreign governments did not have to repay what they borrowed, and we paid for it through higher taxes and higher interest rates. We paid for the rebuilding of our former enemies' countries and economies through taxes and higher interest rates. We defended other countries from aggression with the lives of our soldiers

and the use of our tax dollars.

We have paid dearly for our own defense with our tax dollars. We have fed the Soviet Union with cheap grain, while our own people pay higher prices for food for their own tables and our farmers suffer under huge private debts.

We have provided food and medicare to the world while we have millions of working poor and homeless here in the United States. Through tax-supported research and development, we have provided the world with cheap technology that gives other countries an unfair advantage over American producers.

Now that the Cold War has been won, we are facing downsizing of the defense industry. This means that millions of people will be laid off from their jobs that many have worked at for their entire adult lives. Will these people find new jobs that allow them to remain a productive and active part of our society or will they be rewarded with unemployment, then welfare, or, if they are very fortunate, a job that pays minimum wage and won't support a family?

We all know that most of the steel industry is gone, so is the textile and clothing manufacturing as well as appliances, electronics and one third of the auto industry. These jobs have been moved to other countries at slave labor wages.

Where will we find jobs for workers of the defense industry who will be laid off? And who are the workers of the defense industry? They are the people who have given us most of the technology we have today. They have given us not only machines of defense and war, they have given us space flight and the satellites for television, telephones, computers, medicine, lighter plastics and metals for cars and appliances. The list goes on because almost everything we have today is a result of the spinoff of research and development for the defense and space industries.

The American defense workers are the people who can turn their skills and abilities to peacetime products and produce a better country for all of us. The American defense workers are probably the most vital natural resource our country has at this time, and we cannot afford to waste their skills and abilities by throwing them on the unemployment ranks and welfare.

We must find ways to keep those people employed in jobs that will benefit this country now and into the future. To this we need to return to a full blown effort to get back to the moon and or the stars through a space program like we had in the 1960's.

If this country can pay the wages of Russian nuclear scientists to keep working in Russia for the Russians, then we can certainly pay our own defense workers to work in the United States for our own benefit. If it takes every penny of the peace dividend to accomplish this, it will be money well spent for the future of all of us.

The savings from a reduced defense budget should be made available for research, development and production of peacetime products to all companies, not just those who have been in the defense industry.

We ask that one very important requirement be included for any company that wants to be included in the shift from defense to peacetime products through the use of taxpayers' money. That one requirement is that the products resulting from the research and development must be manufactured in the United States. We must not allow anyone to take our money, skills and abilities and then move to a foreign country.

We need to pay for a future now. We have already paid enough for the rest of the world.

That's signed by Mr. Sparks.

CHAIRMAN BERTEAU: Mr. Leonard, we appreciate that. Let me ask you, if I could, I think you have proposed a couple of things there. But as I understand it, what you're really proposing is that we create the jobs that the workers would work at. It's not your proposal that only defense industry employees who are being laid off would be eligible for this kind of a program. You are essentially proposing the federal government expenditure that would create the work for the contractors that would hire the people?

MR. LEONARD: Certainly. I worked for Local U.A.W. 148, and we're currently going through massive layoffs. Most of the layoffs are occurring in the commercial end of the business. We don't think they should be treated any differently as far as finding new products for them to work on.

There are just so many jobs that you can fill. There are so many jobs at McDonalds. You just can't train people to do work that's not there.

CHAIRMAN BERTEAU: And I think your comment that we need to find ways to keep people employed in jobs that will benefit the country as well as take advantage of their skills is certainly a key point.

One of the things that we have though if we reduce the defense budget and then put that money right back in, what does that do with our national economy problems in terms of deficit?

MR. LEONARD: Well, I am not a tax expert.

CHAIRMAN BERTEAU: Nor am I.

MR. LEONARD: Obviously the comments said that the money you put into the worker's paycheck returns by four times turnover, returns back to the government. There is no money being returned to the government from welfare checks or from unemployment checks or any of these other sources. If you pay them in paychecks to produce products, then you will start getting the tax back on that. It keeps rolling over.

I've often argued there is not one single tax dollar that the Mexican workers will be paid in Mexico for doing our work, the Taiwanese, Chinese. They will not pay one tax dollar back into the United States Treasury. That's why we think the work ought to stay here and our people will pay the taxes to continue that process.

CHAIRMAN BERTEAU: Any other questions?

Thank you very much, sir.

MR. LEONARD: Thank you.

MR. HANLEY: Mr. Chairman. We have time for a break at this stage if you would like to take 15 minutes and stretch your legs.

CHAIRMAN BERTEAU: I think I would certainly appreciate that, and my fellow commission members would appreciate it as well.

MR. HANLEY: If we could take a 15-minute break and come back at about 25 after 2:00.

(Recess taken.)

MR. HANLEY: The next witness is Dr. Michael Closson, who is

Executive Director for the Center for Economic Conversion.

Dr. Closson?

Once more I would like to thank everybody for sticking with the clock. There are a lot of people that we want to hear testify. We are keeping it to 10 minutes each.

CHAIRMAN BERTEAU: Dr. Closson, we want to welcome you. You also provided us with some advance reading material. I was pleased to go through that. I look forward to hearing from you. I will only echo Mr. Hanley's comments that we appreciate people sticking to go the schedule. It's probably harder for me than anybody else, because I have a zillion questions. But people have been willing to permit us to followup afterwards as well. We appreciate that.

DR. CLOSSON: I will keep my remarks quite brief. I appreciate the opportunity to testify here before you today on the timely and critical topic of economic conversion. I would like to commend the Department of Defense for bringing this very important issue out of the closet and addressing it in the light of day.

The Center for Economic Conversion, which I represent, is a 17-year old not-for-profit organization located right in the heart of Silicon Valley in the heart of California. Our organization serves as national clearinghouse and resource center on positive alternatives to military dependency. In addition to various public education activities, a major part of our work involves providing conversion planning assistance to public officials and concerned citizens in military dependent areas across the country. Our experience in this work informs my following remarks.

Military cutbacks are underway. These cuts pose both a threat and an opportunity for the citizens of our country. The threat is quite obvious. Substantial job loss and economic dislocation in military dependent areas. The opportunity is less obvious but no less real. It arises from our unprecedented chance to shift much of the defense sector's valuable talent and technology to other critical areas of national need.

In order to minimize the threat and maximize the opportunity posed by military cutbacks, we suggest the following steps be undertaken. Number one, government at all levels must move rapidly to address the conversion challenge. Thus far, the federal role in fostering conversion planning has been inadequate. Legislation passed in October of 1990 authorized $200 million for economic adjustment assistance. A very inadequate amount for the massive task at hand.

To complicate matters, the access to that modest amount of money was limited by bureaucratic redtape within the Departments of Defense and Commerce. Some have even characterized the delays in freeing up the monies as a deliberate stonewalling. Whatever the case, the upshot was that an insufficient amount of money was authorized and it was much too slowly allocated.

As a footnote here, this is not a criticism of the entities that are spending the money once it becomes allocated, and I am very supportive of the Office of Economic Adjustment within the Department of Defense. Although I know they are not recipients of any of that $200 million specifically, I worked closely with a number of staff people over the past few years, and I am very impressed by them and by their commitment and talent.

As a result of this state of affairs, the inadequate amount of money, public

officials and concerned citizens in many impacted states and localities have been left largely to their own devices to confront defense cutbacks. I do not have time here to go into the array of local and state level conversion planning efforts currently underway. It is really very remarkable and quite diverse.

I have left some materials with your people here that you can peruse at your leisure.

I want to stress that it is very appropriate and desirable and necessary for the affected state and local governments to get fully involved in conversion planning. The federal government has a crucial role to play as well, especially in terms of providing leadership and adequate financial resources.

In regard to implementing conversion planning, the establishment of a large federal bureaucracy should be avoided. Rather I would like to see some sort of Office of Economic Conversion established, ideally outside of the Department of Defense, with the charge of providing leadership and directing financial resources to targeted states and localities.

Recommendation number two, the concept of conversion planning should be expanded to include two complimentary areas of emphasis. The first one is economic adjustment assistance, the one that most of us are quite conversant with -- enabling the companies, the workers and the communities to make a smooth transition to productive civilian activities. The second area, which I think often gets left in the lurch, is economic revitalization activity -- stimulating sustainable economic development in critical fields of national need.

Traditionally, conversion planning has been conceived of solely addressing first dimension. The focus has been on a supply side of the equation helping the affected entities to adjust. We must broaden our horizons and creatively answer the question, conversion to what? If we fixate upon the supply side, we will end up with former defense workers graduating from retraining programs with no job prospects in sight that are comparable to their former defense-related employment in terms of skill level and pay.

I think that's already a problem we are seeing in the Los Angeles basin. We have tens of thousands of defense workers laid off and very few have been able to find comparable employment thus far in the civilian sector.

Therefore we must think in terms of stimulating the civilian demand for defense talent and technology. In other words, a comprehensive national conversion program should address both the adjustment problem and the need for new economic development.

I second Dr. Schlesinger's comments about the emphasis on job creation as well as job finding. I have some resource materials back in my office that talk about some entrepreneurial projects being undertaken by some Silicon Valley companies. They are not defense-related. I think they are still very relevant to that particular strategy of encouraging defense firms to spin off entrepreneurial projects if they can't develop them themselves.

I will be happy to share that with the commission as well.

Stimulating any nonmilitary demand is not appropriate. Instead we need to think in terms of developing a national needs-based technology strategy to fill the bill.

The specific needs to which I am referring are the areas in which we must invest to build a healthy society and economy for the 21st century, fields such as renewable energy development, mass transit, environmental restoration, infrastructure repair and urban renewal.

One example of such a project is the CALStart Program, a public-private consortium designed to create a mass transit industry in Southern California. I believe someone is going to be testifying later on this afternoon on that particular project. So, I think it is a very important potential model for others to emulate.

When we start to channel federal resources freed up by Pentagon cuts in these areas of critical need, not only will we commence to resolve the vexing problems themselves, but in the process we will generate millions of high-skilled jobs and thousands of possible business ventures, many of which can take advantage of the talent and technology currently in the defense sector.

Otherwise what I am saying is we can't think in terms of one-to-one replacement of defense workers simply sitting at their desk and doing civilian work where they used to do military work or sitting at their work benches. We have to think about stimulating other areas and other avenues to which they can move and other fields and companies.

Recommendation three. Much more emphasis should be placed upon advanced planning, rather than as is now the case, "after the fact" adjustment assistance. If defense companies are to succeed in the commercial sector, and substantial lay-offs avoided, and of course we are already confronting them, the defense firms need time to plan and implement new civilian business initiatives. Workers need advanced retraining.

Incentives in the form of tax breaks, low interest loans and technical assistance would go a long way towards speeding their smooth transaction to the new world opening up before us.

Recommendation number four. Primary emphasis in terms of technical and financial assistance should be placed upon small- and medium-sized companies, not on the aerospace giants. Most discussions on the defense industry conversion concentrate on the aerospace behemoths. They are large, visible and employ lots of people. But for various reasons these companies may be the most difficult to transform.

Many of the largest, for example, General Dynamics, Lockheed, Northrop and Grumman, make over eighty percent of their sales to the Department of Defense. These companies have had little success in the past designing, producing and marketing products for the civilian sector. Their archaic technologies, batch production processes, old-boy marketing procedures, hierarchical organizational structures and secretive corporate cultures make it difficult for them to adapt to the commercial environment.

Addicted to the Pentagon dole, even in the current climate many of them are more likely to pursue foreign arms sales than conversion alternatives. Conversely, the small- and medium-sized subcontractors and suppliers may be the best candidates for conversion planning, especially if they are innovative and flexible.

However, because of their limited financial and technical resources, thousands of these smaller firms have gone out of business in recent years as Pentagon spending has declined. States such as Connecticut, Washington and New York are already

assisting such companies with some degrees of success. They are providing Small Business Innovation Research matching grants, various forms of marketing assistance in establishing flexible manufacturing networks which promote the sharing of knowledge and resources among these companies.

One of the major challenges confronting the United States is to resurrect our civilian industrial base, a civilian industrial base eroded in part by years of diversion of high-quality white-and blue-collar talent in the defense sector. I believe the targeted assistance in small- and medium-sized defense oriented companies is one crucial part of the formula for redirecting this talent and revitalizing our civilian industry.

Recommendation five. I have only got one more after this. Toxic contamination is a major road block to effective conversion in many instances. Its timely cleanup must be adequately funded. Here I second what Mr. Picker suggested earlier. Most of the attention to the topic of toxic contamination has been focused upon government-owned facilities, especially military bases. But many defense plants are also heavily contaminated. For example, FMC's plant in San Jose, California is reportedly seriously blighted by toxic waste. I am sure that's not an isolated instance.

Obviously such contamination can significantly delay the conversion of both industrial facilities and military installations. It is critical that adequate financial resources be allocated for the timely cleanup of these sites. In the case of federally-owned facilities, the federal government must provide the funding. But private contractors should not be let off the hook when their negligence caused toxic contamination.

Pollution cleanup and environmental restoration are growing fields of business development and some defense firms are moving into that area, which is, I think, a very smart move. We do not want to compensate the companies for cleaning up the messes they themselves might have made. I think there is a potential danger there.

Recommendation six, lastly. In order to achieve best results, all affected stakeholders should be meaningfully involved in conversion planning. Such broadbased involvement has occurred most frequently in the field of military base conversion. Where it has occurred as in the case of Mather Air Force Base in Sacramento, generally the process has gone well and a plan developed that has received wide public support.

Where conversion planning has been dominated by a few insiders, as unfortunately is the case for Pease Air Force Base in New Hampshire, the outcomes generally have been much more problematic.

In regard to the defense industry, the workers can be members and local officials have a powerful vested interest in successful conversion planning. Yet they frequently are excluded from corporate deliberations. Since legislative efforts to mandate the involvement of workers and community members of corporate conversion planning have failed in Congress, it seems the best strategy is for public officials to hold out a carrot to companies in the form of technical and financial assistance.

In this manner they can come to the table as fullfledged participants in conversion planning. Then, of course, it is incumbent upon those public officials to meaningfully involve other stakeholders, especially workers in the conversion planning process. Steps in this direction are being taken in San Diego and Tucson. You will be

hearing more about San Diego, later this afternoon.

In conclusion, I encourage you to recognize that conversion planning should not only be an instrument of economic adjustment but also an instrument of economic transformation. We desperately need an economic "perestroika" in the United States. If it is taken seriously in pursuit with adequate funding, conversion planning can become a catalyst for the creation of a sustainable full-employment economy in our country.

Thank you.

CHAIRMAN BERTEAU: Dr. Closson, I appreciate your clarity in tracking your recommendations there.

You mentioned that you might have some additional material on success stories of companies. I would welcome that. We are actively seeking companies that in fact have made or are in the middle of making transitions, taking their defense technology and putting it to commercial and civilian uses. And we feel that we have an awful lot to learn from people doing it successfully. That may be the best source of recommendation that you can have is the amount of success stories and figure out how to replicate them.

DR. CLOSSON: I think some of the failures are instructive as well.

CHAIRMAN BERTEAU: Clearly you learn a lot from failures. That's the scientific method. That's the nature of life. On the other hand, what you learn most from failures is what not to do. What you learn from success is what to do. You need to have both, if you will.

Let me just ask a point of clarification. It has come up several times already today. With respect to environmental cleanup, I don't know if I am picking up your implication correctly. Are you implying that the rate at which we cleanup should be different depending whether the facility is open or closed or whether not it is converting to commercial production or whether it is remaining in the defense production?

DR. CLOSSON: Actually, I didn't really explicitly address that but I do have feelings about that. I think if a facility is closing down then it is particularly important to address the cleanup in a timely manner. Of course, the worst danger, particularly to the base closures and conversions, is that some of the toxic contamination may delay the ultimate reuse of the facility for a number of years. That, of course, really exacerbates the hardship of the community.

So I would recommend, although I understand now there is a more of a worst-first priority list, I think there is some legislation winding its way through Congress on this particular topic, that we target the facilities that are closing down for the special timely treatment.

CHAIRMAN BERTEAU: Obviously it is difficult to walk away from the worst-first. If there are threats to life and human safety, it is hard to put that on the back burner in order to take care of something that is being closed.

DR. CLOSSON: There is a whole question of adequately financing the cleanup. I know that is a problem given the current federal budget but I do think that we have to put adequate resources in there. I don't think right now we have directed adequate resources.

CHAIRMAN BERTEAU: I would note for the record that defense budget for environmental cleanup has gone up 350 percent in the last three years, while the rest

of budget has come down. It's now almost $2 billion dollars a year for clean up.

Does anyone have any additional questions they would like to raise or comments? Thank you very much. We look forward to both the material you have left over there and whatever else. I don't think we'll read it in our leisure because we don't have any leisure. But we will read it with due diligence.

DR. CLOSSON: We are just completing a report. I was hoping to have an advanced copy today. It will be ready in about a week that is based on a survey of all the media coverage that we could gather in the past ten years on various forms of economic conversion. I will share that with you in about a week.

CHAIRMAN BERTEAU: I would love to have that.

COMMISSIONER DAHLMAN: I appreciate your positive comments about the Office of Economic Adjustment. I agree with that. It is a community-based model as you well know. I know you understand and support that sort of strategy. Yet in one big part of your comments to us, you also talked about a national strategy about picking the winners and losers. That is a very difficult process as you well know too. The political consensus needed to develop that process simply isn't there.

So, on the one hand we have a successful model which is community-based. On the other we have a long-term strategy on a national consensus that is very difficult. I wonder if you would comment on those contradictions between those two approaches in your talk.

DR. CLOSSON: It also hinges on the difference between the adjustment assistance and the stimulation of new economic activity. I think everybody is pretty much in step. Not everybody. But there is a fairly good consensus that adjustment assistance is appropriate and of course the Office of Economic Adjustment has been doing this for about 30 years. I think the community-based approach is very appropriate there.

Where it does get more problematic is the question of what assuming the government has a role in stimulating the economy and stimulating new technologies. How does it pick those areas? I am taking the side that it should focus on the particular need areas rather than on particular technologies per se. I am not recommending that we put a lot of money in Super Collider Fund. Rather, I would like to see us fund smaller pilot projects, for example, in renewable energy development, that sort of thing.

CHAIRMAN BERTEAU: Thank you.

MR. HANLEY: Thanks very much Dr. Closson.

Our next witness is Dr. Harry Sello of Defense Conversion Strategies.

CHAIRMAN BERTEAU: Dr. Sello, welcome.

DR. SELLO: Nice to be here. I couldn't ask for better timing on a panel. I'm not used to getting somewhere on time or even quitting on time. So, I need your help with both of those.

CHAIRMAN BERTEAU: We have had a tremendous amount of cooperation from all our witnesses up to now. We appreciate that. A lot of people came a long ways to be here, and we want to accommodate them.

DR. SELLO: Along those lines, please don't take me remiss by my referring to the fact that there is another doctor in the house, and he also happens to be from Silicon Valley. With due respect to my colleague, Dr. Closson, this is not a stacked

deck.

I want to thank you for the opportunity to present this testimony. I see that my aggressive partner has already given you a copy of it, if you haven't already seen it.

I want to also point out that if you wish to generate any heat, we are able to take some of that, but I couldn't be sure how well I would do. That's why I brought my two partners along. So, if you don't mind my occasionally diverting the question should it arise when it gets a little too tough, feel free.

We are a company organized not too long ago for the purpose of assisting defense-oriented companies on a business basis with development and implementation of new commercial businesses and strategies for them to make changes on an individual basis. We see the problem as big as you see it, I am sure. I won't go into the details also presented here.

You have heard how many millions of jobs may be at stake and how many hundreds of thousands are at stake and have been lost. I won't do that. I will cut directly to what we think can be some of the business and hopefully entrepreneurial issues that might be attacked or understood in order to create more jobs and keep the ones we have.

When I say keep the ones we have, I am not restricting the conversation to identically transforming some little bit of a local octagonal-shaped person to a hexagonal-shaped person. Somehow people don't form that way. But at least we are working toward the end of keeping and increasing jobs. That's our mission as Defense Conversion Strategies.

In the matter of jobs, we certainly concur heartily with Dr. Closson and previous speakers that on top of everything we are talking about right here is the issue of time. We are in a business world viciously competitive globally. We cannot afford the luxury once afforded to us when we had high technology available to wait for a long time to get it out on the marketplace. That's the issue.

So, to address a series of points that I would like to cover, likely I will not read my testimony. It will give within 10 minutes if I chose to do so, but I don't think I can read that fast. I would like to start out, if you wish to follow, that any conversion plan of any kind for a business must begin with a plan for diversification and for a plan for changing their business, whoever they are, and that applies to the Defense Department all the way across the board.

Without a solid plan in hand, you go nowhere and that plan has got to be a business plan, not unlike new starting businesses of which we are very familiar in the fast moving world of Silicon Valley and Silicon Forest and all the other silicons around the world.

There are some issues that have to be directly attacked head-on all the way in such a plan. And in understanding the obstacles, I have listed those; retraining of workers, introduction of new production methods, acquisition of new technologies, establishment of a high performance workplace system, development of new products and their applications.

And I would like to cut right to where I want to head. That is to identify the markets that can use the benefits of the technologies that we will lose if we don't keep the people working and put more to work and to then look at it. And this is the crux to

which we wish to testify to, that defense firms wishing to convert, wishing to diversify, have to think in terms of global market penetration.

They had a luxury for many years. Did a nice job, I think. Not a lot of complaints and whatever. Did a nice job of dealing with one customer, DoD in effect and related organizations. Well, that world is no longer there. Now it is going to be hard and tough to get to the commercial world and turn these technologies and products to use, whatever they are out there.

And so the basis of our thesis for solving the problem is we cannot begin with the technology that we have. We have to begin with the marketing and the markets where that technology can be used. It does us no good to pile up stacks and stacks more of our technologies that we have in companies, defense and others, and also in the R&D labs that we were talking about earlier, Gen. May.

To have that put on shelves is not being able to put it into products. So, you have to go to where the marketing is, and that's got to be defined for people like defense industries who have never really had to be what we call in the trade "bag carriers," meaning pick it up and go sell a customer on a deal and close that deal.

I am tired of hearing my partner telling me, "When are you going to close on something instead of just talking about it."

Along with that, many of the small- and medium enterprises that we are dealing with in the defense area are faced with a problem of manufacturing. They have never done manufacturing. I know a few who have always done beautiful R&D work because defense needed it and got it. But they never manufactured it. So, how are they going to attack a market all on their own if they can't manufacture a product to get into that market, let alone where is the market.

So, they have to develop skills which say to them, well I am going to manufacture something because I did it before and I know how, or I am going to if I have to get into the international world, I am going to team up somewhere in the U.S. or outside of the U.S. to penetrate a market by teaming up with a good manufacturing partner. There are many of these, certainly the European world is also growing up, where they are competing with us in defense conversion as well.

Let me give an example of obstacles of which there are a few. I won't dwell on details of all of them. You have got them in front of you. There is the organization known as ISO-9000, ISO-9000. ISO stands for International Standards Organization. This is an international body, nonpolitical, which sets standards by which people can judge how well manufacturing operators maintain their quality and reliability and all of the necessary records that go toward satisfying a consumer.

Now, if you look at requirements for ISO-9000, you find a very nice superposition of the sort of thing that defense contractors have always had to live up to. They have had to have their manufacturing audited, they have had to have their products tested and qualify for quality and reliability.

There is one missing link. To the defense people, before it has been at any cost. Get the product out. No longer have they the luxury of saying at any cost. ISO-9000 provides a set of standards which the Europeans are living by and unfortunately which U.S. companies today if they wish to get into the global world can't enter directly

since the European standards are not applicable for testing in the United States.

In short, if a defense manufacturer wants to convert to commercial manufacturing and he is in the United States, he has to open his lines for audit. You can't do that in the United States. ISO-9000 doesn't apply.

We have a situation where we are not on a level playing field with Europeans in that instance. I think we can get to a level playing field. I think defense can help us. It's the same type of quality reliability problem.

Let me touch on just a few things which face -- the obstacles which face defense people -- defense conversion people in getting into the marketing and manufacturing world where they haven't been in there before. There are rules of origin that have to be lived up to. Those exist in other markets as well as our own.

So, the defense contractor formerly feeding only the DoD with product, how does he know how to get into the world where he has to meet new rules of origin? Unless he has what they call local content, manufacturing content varying from 30 to 50 percent in the outside world, or in the country that he wants to market, he can't manufacture there.

Therefore, we wish to state, go on record as stating that these kinds of obstacles must be somehow put into the factoring and assessment of the level playing field area.

I will mention just a couple of more. This may be old hat to you. The dual use technologies which the military has always supported and thank goodness has helped us to develop. Dual use meaning both commercial and military technologies. One example of that are garden variety computers. Computers have a use in the commercial world and they have a use in the military, had a use in the military world and maybe to some extent will always have a use there.

Now, the regulations that apply to dual use technologies for any company that wants to go into the business of building computers or parts for them cause them to face almost insurmountable obstacles. They come about as a result of jurisdictional problems between the DoD, Department of State and the Department of Commerce. Those are natural jurisdictional areas.

We ought to be strong enough and big enough to look at that and at least level the playing field so that our guys can go in and given the proper information, get permission to use their technology to build products to market outside world, the United States as well, and not have to put up with the long delays and the long intricate previous structure, which is no longer really needed, which some controls are needed on, but which need to be streamlined and helped.

In a way we are kind of saying a very impolite kind of thing. We are saying to DoD as a recommendation, folks, please help us by removing unnecessary restrictions, unnecessary to your definitions as well as ours. But try to not stand in the way of us competing with others, except maintain your watchful oversight eye that you have always been able to maintain.

I am almost finished now in reaching the conclusion. We have a problem now with the obstacle of European preference. The European defense firms today are largely centered in a small number of large ones. There is no, thank God, large

entrepreneurial small company base in Europe as there is in the U.S.

We have well over nine million companies who have less than 50 employees, well less than 50 employees in job. They own most of the jobs in this country. If we don't help little guys like that then they are going to go out of business and most of the jobs will disappear. Therefore, in Europe for example, European governments, even under their new regulations, do not allow companies to fold. If Minneapolis Bull in Europe can't make money building computers, the French government subsidizes them.

We don't want our companies subsidized. Absolutely not. We want them to get out in the marketplace and create a place for their technology and products. But we have got to do something to convince our opposite numbers in defense in Europe that this preference has to stop. In fact, it turns out that foreign suppliers, foreign being U.S., are not permitted into these projects of conversion today in Europe.

So, in conclusion, I would like to say that we have a formidable challenge that requires speedy action. That action should come as a result of the encouragement of companies to plan properly and get into what they would see as businesses commensurate with their skills.

The first thing that is needed is a careful analysis of what I use as a term of their core technology and strength. What do they think they can do and do a business plan based on that.

I have some recommendations. You haven't asked me for them, but I'm not going to risk the chance that you wouldn't.

I would like to see that the DoD sponsored together with states as has been done in New York, for example, diversification studies to assist companies in identifying viable opportunities consistent with their capabilities. Let a company come, ask for support from a government agency, but only for support and in part maybe they have to do matching funds to do a diversification study. But don't deny a small company the capability of doing a diversification study because he doesn't have the immediate resources right in hand.

Second recommendation. We have a large amount of technology stacked in our federal R&D laboratories such as Wright Patterson Air Force Base, Sandia, such as Rome Air Force Base in the east in Rome, New York. Now, there is a ton of technology. The problem we have with that technology is that it was never developed with a marketplace in mind. The implementation that has to take place is to move that technology, make it a viable business to try to get it out there.

And I would suggest to contract the technology, to contract the skills and to contract and sell the products to industry, whoever they wish to choose as an open business. Let them get out there and be a bat carrier for what they have to do. The problem is that they don't know how to do that. They have never had to market anything. They have always been approached. I remember countless proposals to both those organizations of Wright Patterson Air Force Base and Rome, New York.

Well, they should be out there on the street talking to whoever they feel where the marketplace is under a good plan and sell their services. They will be purchased.

Up in Livermore in our area the guys in their laboratory are complaining they can't find anybody interested in their technology. And when you ask them what have you done to find it, they say nothing. Well, it's got to change. Get out there and market it.

We propose that they should be assisted and taught how to market and how to contract their efforts.

And along the level playing field, and I will finish with this overall recommendation. I wish that we could get the help of DoD and we recommend the help of DoD to relieve and examine and relieve and ease -- and I don't say remove. I am careful not to say remove -- the proprietary restrictions to the commercialization of sponsored R&D work.

We are still doing our work today under the same rules that we did them when the Soviet threat was at its height. We have got to give companies help. That means redo their contracts or let them bargain for it on a business basis, to not have to face the same old restrictions, but let them face the restrictions that are already tougher in a commercial marketplace.

In that area maybe for dual use we should prepare a very short effective list of what DoD considers to be critical technologies to national security. We'd love to see that in industry and say hey, guys, these are critical. If you're going to touch any one of these, come to us, but all the others now are free. It's a give and take.

DoD has never had an opportunity -- I can't say that they haven't had the desire. I don't know the inner workings. They have never had an opportunity to define what we would call the short list.

I think that has used up my time.

MR. HANLEY: Thank you.

CHAIRMAN BERTEAU: I think your written material is very good. There is a couple of things that I would like to explore with you. I think in the interest of getting on with our next witness, what I will do is get back with you separately. We have got your address several times. So, we will get back to you.

DR. SELLO: Thank you for allowing me to run over as well.

CHAIRMAN BERTEAU: Thank you.

MR. HANLEY: Our next witness is Mr. Tom Flavin, who is a Councilmember of the City of Burbank.

MR. FLAVIN: Thank you very much Mr. Chairman and members of the Commission. My name is Tom Flavin. I am the former Mayor of the City of Burbank and current councilmember. I am also president of a consulting firm called Business Government Partnership which, among other things, specializes in joint business government efforts in the technology transfer area.

My purpose in testifying here today is to the best of my capabilities to give you some tangible understanding of how the issue of defense downsizing and the potential for defense conversion impacts us at the local level. And why is the local perspective so important? Simply because at the local level that's where the people impacts, good and bad, are first felt.

Before addressing the issue defense conversion, I am going to touch

specifically on the impacts of defense downsizing because I think it's important. Frankly, its been my general impression that certainly among my contemporaries of elected officials, both in the State of California, I don't really think that there is a general -- a real understanding of -- a true understanding of the impacts of defense downsizing.

CHAIRMAN BERTEAU: At the state level you are saying?

MR. FLAVIN: I can't say for elected officials in other states, but I can say that pretty categorically for elected officials in California.

In March of this year the L.A. County Aerospace Task Force, of which I was an organizing member, released its report on economic consequences in L.A. County. And you probably have already heard of those impacts -- they said by 1995 as many as 420,000 jobs could be lost to the local economy here in L.A. County, by the year 2001 about $85 billion in personal income could be lost; the reduction in retail sales is projected to be about $24 billion; finally, a drop off in local county tax revenues is projected to be about $2.27 billion.

These are staggering projections for those of us involved in delivering local services to deal with. I'm sure that there are some who probably feel they are overstated. I am here today to tell you even if they are overstated by 50 percent or more, the negative economic and social impacts on L.A. County and the State of California are major.

I can attest to that directly as one who has had to deal with these consequences at the local level for the last couple of years in Burbank having to do with the departure of Lockheed as they consolidated their manufacturing in Georgia. I had been Mayor of the City of Burbank for three days when Lockheed made their announcement in May of 1990 that it was their intention because of defense downsizing to consolidate their operations in Georgia.

I just wanted to point out for the record some of the impacts on the City of Burbank over the past couple of years since. Whether we like it or not, at least in California, we have found ourselves on the cutting edge of issues with losses of 10,000 highly-skilled, good-paying jobs from the local economy. Secondly, we have 300 acres or nearly five percent of the total usable land area of the city that needs to be recycled for other productive economic uses.

Third, we have a big unknown, which I have heard addressed here in terms of the cost of cleaning up the potential toxic contamination on those 300 acres, and that is creating a real dilemma in terms of getting on with that process.

Number four, we have an economy obviously that has been in recession for over two years, leaving few potential users for any site in California. As a result, no financing is available.

Number five, we have a job retraining program, while it is doing its best, is wholly inadequate.

Six, and this is the part that is most difficult for us involved in delivering public services, we have had revenue shortfalls in the city's general fund which supports police, fire and other essential services which have doubled each of the last three years: $1.3 million in '90/'91, $3.3 million in '92/'93. We went into this year with a $6.8 million deficit. That's before the state takes action on their budget.

I could go on and on. I think these are some of the economic

consequences, which I think is important to reflect on, because I think in this whole issue there needs to be, from my prospective, a stronger sense of urgency attached with getting on with the issue of getting people back to work.

Now, the -- I digress from my notes here. Some will say that defense downsizing isn't the only reason for the economic problems of California. I agree. We have a national recession. We do have a multitude of disincentives which have built up over the years as a result of federal, state and local laws which have created a disincentive for manufacturers. We have a very strong effort on the part of other states in here to take business out of California. But I do believe that defense downsizing has been the single biggest impact. Certainly has been in Burbank.

To illustrate this, to try to quantify it, in the last three years the City of Burbank has lost about 13,000 jobs. 10,000 of those jobs or about 77 percent come from Lockheed. From our standpoint, that represents the single most significant variable in terms of our economic problems.

But in Burbank, we in Burbank with the city council, we have taken a very aggressive attitude and approach to dealing with this issue and we tend to view it as an economic restructuring. There is no way in the world we were going to convince Lockheed to stay in Burbank. It was a major business decision which had factors certainly beyond our control. We took the approach of needing to view it as economic restructuring and trying to get on with the job of doing it in the best possible way.

I left an article, I don't know if it was included with any of these materials which I sent to you, which I authored in 1990 which outlines this restructuring process. I firmly believe this is a restructuring process that not only Burbank is going through but a big part of Southern California and maybe even California in general.

But we can have all the well-intentioned local policies in place to facilitate this economic restructuring at the local level. We simply cannot do it on our own. Given this era of global economic competition that we are now in, we need, in my judgment, to have a concerted national policy of technology transfer in a working public-private partnership mechanism which is going to help create new high technology industries for our communities and new high-skilled employment opportunities for our people. And I believe all of the ingredients are really there.

I recently did some consulting with L.A. County Transportation Commission as a result of the Japanese railcar decision in January of this year, specifically focusing on meeting with the local aerospace companies to determine their level of interest in railcar production specifically, but more generally new surface transportation products. Let me say, there is a great deal of interest. There is some real opportunities from a technology transfer standpoint and from a new business development standpoint.

I think what is missing in the equation is a mechanism and the appropriate level of funding to help facilitate this happening.

Interesting, because in these discussions there were some that had been around the aircraft aerospace industry for many years. They talked about in the early days of the space program when the aircraft companies came together with other experts as a part of the aerospace corporation. The whole purpose of this organization was to identify

the types of technologies that were going to be required to get into space.

This group played a large role in the R&D effort getting this country the technology it needed to get into space and at the same time allowing the private sector to take some of this new technology research, refine it and develop their own business based around a particular market ultimately filtered down to where the jobs are, which has been discussed earlier, and that's the small- and medium-sized manufacturers that are part of their vendor network.

I don't know if this particular model could be applied to 21st Century technologies and the problems we face now, but I think it's an effort that we are going to have to replicate if, in fact, we are going to be successful in doing it.

The interesting thing is there is a number of local efforts underway. It was mentioned CALStart, the advanced transportation technologies industry which I am happy to say in located in Burbank in Lockheed facilities. I think this a real interesting public-private partnership focused on the middle level, the component parts, bringing together a partnership, bringing together large and small companies, including Lockheed, major utilities, state and local government, regional transportation and environmental organization.

I think these type of partnerships forming at the local level focused on new technologies need the support and policy commitment at the national level if they are to be successful in competing in this global competition. Obviously this is a topic one could go on and on about.

But what I have attempted to do here is try as best as I could as a local official, whether I wanted to or not, found myself involved in this for nearly the past three years to try to give the local perspective. And I will conclude by offering five recommendations. Some of them I have already heard.

First, I think it's important that federal, state and local officials must get a stronger sense of urgency about addressing economic impacts of defense downsizing. I can't emphasize that enough. I just frankly don't see it, and it needs to happen.

Second, a national policy commitment to technology transfer from defense to 21st Century technologies must be made, including an appropriate public-private R&D mechanism and significant financial support for the effort.

Third, the cleanup of contaminated soil resulting from defense-related operations in local communities needs to be addressed as a national issue so these sites can be recycled in a timely manner for productive use. That's a big, big concern.

Fourth, a stronger linkage between new technology efforts and existing job-training programs and educational priorities needs to be established to insure that people are being trained for 21st Century jobs.

And fifth, I agree with Dr. Closson, I think that the job creation opportunity is primarily based in small- to medium-sized companies, and I think that we need to be particularly sensitive to them.

I think I stayed within my timeframe. I thank you for the opportunity to address you. I encourage you to read the article that I left for you.

CHAIRMAN BERTEAU: Mr. Flavin, you had sent us a copy of that article. I was able to read it on the plane on the way out here.

I note from a rapid transit point of view, I have been visiting Los Angeles and the Los Angeles area for the last 25 years, and the need for rapid transit becomes clearer and clearer every time I get here. I can almost fly out from Washington and back as fast as I could drive in from somewhere and back.

You made a point about Lockheed and potential for environmental cleanup that may or may not be known. You are concerned that such a possibility would limit the reuse. You also pointed out that the CALStart is, in fact, locating itself at of the former Lockheed facilities in Burbank. Did that concern inhibit their decision to locate there?

MR. FLAVIN: No. Lockheed is basically still on title as property owner. What they essentially did is give CALStart a very favorable two-year lease. I think it's actually a lease at no cost. But the real issue, and we have dealt with major projects on the Lockheed property, and I don't purport to speak for Lockheed. But I know as a private property owner, they have agreed with the fact that they have the responsibility of cleaning up the site.

As they have done their testing, I believe that a very legitimate concern has been raised about what the long-term cost is going to be of doing that. Which from our perspective as a community in trying to get five percent of the land area from the city back into productive use on the tax rolls, if there are major costs which result in major delays, it's going to hurt the community and the surrounding area.

CHAIRMAN BERTEAU: Any other questions?

Thank you sir. We appreciate it.

MR. FLAVIN: Thank you very much.

MR. HANLEY: Thank you very much, Mr. Flavin.

Our next witness is Mr. William Averill, who is the president of the American Electronics Association -- representing the American Electronics Association. Sorry.

CHAIRMAN BERTEAU: Mr. Averill, welcome. We look forward to hearing from you this afternoon. Of course your Association is obviously keenly in the middle of all this impact as well as the question of what do you do to better your commercial side.

MR. AVERILL: Exactly. Well, I wanted to explain that I am not the president of the American Electronics Association. I have my own company. I am just representing them.

I'll start with my prepared speech.

In the heyday of the defense buildup that began at the end of the Carter administration and accelerated through the first Reagan administration, investment in defense electronics companies was widely viewed as a superior play for participating in that buildup.

From the onset of the Cold War, the United States has relied on superior technology to offset the superior numbers and U.S. electronics technology represented a very considerable superiority relative to Soviet electronic technology. Consequently, the electronic contents of weapon systems developed and fielded during the buildup was substantially higher than prior generation systems and tended to show no signs of slackening. For defense electronics companies all this meant a premium valuation.

Through 1985, the peak of the year of buildup, price/earning multiples for publicly-held defense electronic companies was consistently above 15, somewhat above the multiples for those years for all publicly held companies and nearly twice the multiples for aerospace companies.

Today, things are very different. Defense spending turned down after 1985, even before the collapse of the Soviet empire and the Soviet Union itself, and in the aftermath of that collapse, the downturn shows every sign of accelerating. DoD spending for electronics and communications equipment and R&D held up briefly after the turndown but it too headed down, and at a faster pace than DoD spending as a whole. In 1985, the value of DoD contracts awarded for electronics and communication equipment and R&D was nearly 15 percent of all the awards, approximately $182.7 billion.

By 1991 this percentage was down to 10 percent of a total value of approximately $171 billion. This result is ominous if predictable.

The 1985 valuation premium for defense electronic companies has eroded completely; indeed, the price/earning multiples for such companies now match the multiples for aerospace companies, which in turn is substantially less than half the multiples for publicly-held companies generally.

Decline in fortunes of the defense electronic companies is not simply a problem for its shareholders and employees of these companies. To begin with, DoD's spending for electronic communications equipment and R&D led to more than superior performance for U.S. weapon systems. DoD and other funding for computers and computer software played and continue to play a major role in the development of computer hardware and programming for commercial applications.

The same is true for other electronic and communications technology. Lower DoD spending will necessarily slow down and even halt some spinoffs. Secondly, the one constant in the transformed world which we find ourselves living in today is that our superior technology provides the best and cheapest way for the United States to maintain its superpower status. That, in turn, means that the maintenance of a vibrant U.S. defense electronics industry is vital to our national security.

Reasonable people will no doubt differ on this extent of the self-sufficiency required to protect our national security but it seems clear that at the least we must maintain within our shores the mastery of core technologies of the electronic industry. This requires maintaining the R&D and engineering capacity to improve and go beyond these technologies.

In addition, the history of the consumer electronics sector of the United States electronics industry indicates that the maintenance of such domestic manufacturing capacity is required to insure the needs of R&D engineering capacity. The experience with resolving manufacturing problems provide the knowledge base that is the prerequisite to successful R&D and engineering efforts.

Finally, in some of our key technologies, it will not be enough to maintain R&D and engineering capacities within our shores. In some cases, for example, the case of technology possessed by Fairchild Semiconductor, the capacity will also have to be owned by Americans.

Maintenance of a U.S. defense industry will require continued support from

the DoD and other federal government sources. We cannot count on equity markets to finance vibrancy. Current price/earning multiples make this route unattractive to investors and companies alike. Neither can reliance be placed on debt markets. The technology of the American electronics industry is complicated and its business is high risk. Banks are unwilling to make an effort to understand this business and in any event are deterred by the risk.

Finally, we cannot expect the vibrancy to be maintained within the internal resources of the defense electronic industry itself. The industry is dominated by medium-sized, highly-focused companies that do not possess the net worth or the diversification to finance the required effort. The most direct way to maintain a vibrant U.S. defense electronics industry is for the DoD to commit in advance to buy systems and components produced by the industry.

In some instances, such commitments will have to be given if we are to preserve the technology incorporated in the systems and the components within our shores because the systems and components are militarily unique and only a minimum purchase commitment, even if not strictly required to maintain national security, will maintain the technology. Submarines, armored tracked vehicles and fighter aircraft provide examples of systems of this type of industries and there are some examples in the electronics industry. In these instances, a DoD minimum purchase commitment probably implies the abandonment of competitive dual-source strategy adopted by some elements of the department in the 1980's. We cannot have both a vibrant defense industrial base and rigorous competition in a time of declining defense budgets. And it seems clear which of these goals will have to go.

Providing a minimum DoD purchase commitment and abandoning competition for militarily unique systems and components implies some increases in the prices of such systems and components. That is the necessary cost of maintaining our national security. We can hold the increases in check, however, if we change the way the DoD does business with its contractors. The DoD has to make its planning process more visible and participatory.

The more industry knows of what the department plans the lower the risks associated with the industry's plans, the lower the prices will be. Greater uses of multi-year contracting. Reduce the regulatory burden upon companies doing business with the department--most important, the detailed and repetitive pricing and system audits and the intrusive inspections of manufacturing facilities--so that the industry can reduce the overhead required to manage this burden.

At the same time, the adversarial quality and prosecutorial zeal that in recent years has accompanied the enforcement of regulations should be eliminated.

DoD spending on advance commitments for militarily unique systems and components is not the only way to maintain a vibrant U.S. defense electronics industry. We also can change the rules of the game. The rules governing the sale abroad of U.S.-produced military equipment and products incorporating a military technology provide one of the most fruitful areas for change, a change that can almost immediately have results.

Until recently the DoD has recouped from its contractors the nonrecurring costs incurred to develop technology when products incorporating the technology were

sold to customers other than U.S. government. The principle effect of this rule has been to make the DoD contractors less competitive relative to foreign competitors who are not subject to such recoupments.

DoD has recently suspended recoupment as applied to products incorporating technology that is developed in the future except when the products are major defense equipment which are the subject of foreign military sales.

An act of Congress is required to suspend recoupment for foreign military sales of major defense equipment. Congress should pass the required legislation but give a small but important boost to DoD contractors. Furthermore, DoD should revise its suspension of recoupment to apply equally to products incorporating already developed technology. If suspension is a good idea for future technology it's even a better one for current technology.

DoD should relax somewhat its vigilance regarding the export of products incorporating military technology although we must be careful not to embolden our potential adversaries by making high-tech weapons technology too readily available, the fact is that the department frequently restricts the export of technology that is readily available from our economic competitors. This weakens our national security by weakening the industrial base.

The DoD should increase its oversight of offsets conferred by U.S. sellers in connection with the sale abroad of military equipment and products incorporating military technology.

In their understandable urgency of closing the sale, U.S. sellers have sometimes agreed to terms that damaged the U.S. industrial base by giving foreign manufacturers what amounts to preference over domestic manufacturing.

A more difficult change in the rules of the game is posed by the attempt to enlist the R&D and engineering that maintains and advances commercial electronics technology in the maintenance and advancement of defense electronics technology. That idea is to promote convergence in defense and commercial technologies, and ultimately in defense and commercial systems and components, thereby conferring on defense R&D and engineering the benefits of larger spending on commercial R&D and engineering. Technology incorporating this coverage is referred to as dual use technology. There are a number of ways of fostering the use of dual use technology.

The most important way is for the DoD to reassess systematically the need for military specifications that exclude commercial systems and components from consideration in military applications. The Department regularly talks about the need for such reassessments, but the will seems to be lacking.

Approaching the problem from the other direction, the DoD should also abandon its long insistence on owning exclusive rights on technical data developed with government funding. The suspension of recoupment removes one obstacle to the use of such technology for commercial purposes, but the contractors are unlikely to progress far in this direction until they possess appropriate and clear ownership rights.

The last two DoD Authorization Bills have expanded the permissible uses of contract or IR&D funded by the Department to include activities promoting the development of critical technologies as well as dual-use technologies, and also permitting

the IR&D funds to be used for development of environmental technologies.

We should go even further in this direction and permit IR&D funds to be used for the development of infrastructure technologies. Federal funding of the national highway systems was initially justified on the basis of its contribution to the national security and the development of a system of electronic highways and other infrastructure improvements can be similarly justified.

If dual-use technology is really to take hold, however, two fundamental changes in the way defense systems and components are manufactured and in the corporate culture will have to take place. First, the Department is going to have to loosen the rigid and inefficient processes that it imposes in the name of quality control on virtually all manufacturing of defense systems and components and permit the convergence of defense quality controls with the best commercial manufacturing practices.

DoD adoption of ISO-9000, Quality Management and Quality Assurance Standards, to replace the MILQ-9858A and MILI-45208A should go a long way in this direction.

Just as important, however, if defense electronics companies are to benefit from this convergence in defense and commercial technology and manufacturing, they shall have to go into the market in the commercial arena. Successful commercial marketing requires a change in corporate culture away from singled-minded attention to performance and cost-plus pricing that characterize the defense market. The difficulties in making such changes are certainly no less than those standing in the way of DoD's adoption of a more realistic quality control regime.

Finally, the vibrancy of the U.S. defense electronics industry will be advanced by moving forward with some of these, if not all of the host of programs that have been adopted or proposed to enhance the product and process technology of the U.S. defense industry generally and U.S. industry as a whole. Some of the most important and promising programs are: DARPA's dual-use technology partnerships and DoD Manufacturing Technology and Manufacturing Extension programs. The increased funding by DoD of Small Business Innovation Research grants along the lines set forth in the DoD authorization bill that recently passed the House of Representatives.

The Manufacturing Technology Center, State Technology Extension and Advanced Technology Programs of the Department of Commerce's National Institute of Standards and Technology. DoD funding of critical technologies, in particular including for SEMATECH and multi-chip module technology. We have attached to this statement other position papers that further elaborate the points that we have made.

CHAIRMAN BERTEAU: Mr. Averill, I think you have certainly given a very comprehensive tour and list of recommendations. I am glad you left us a copy of that because I started to try to write them all down as you were going, but you quickly left me in the dust.

Let me ask you sort of a general question. Am I interpreting correctly -- let me back up and rephrase that question. Some have suggested to us that the future defense industrial base, particularly in areas such as communications and electronics, that the technology will be driven more by developments in the commercial sector and in the international global market than they will be by defense unique applications.

Some of your recommendations seem to, in fact or at least my interpretation of them, seem to move us from, rather than towards, an innovative industrial base, where the kinds of recommendations you make for the defense industrial base, rather than making our companies more globally competitive, would in fact insulate them more from global competition.

Am I interpreting correctly when I draw that conclusion from your recommendations?

MR. AVERILL: No, I don't believe so, sir. What we have tried to say in this paper is that we need to be more competitive. We need to have a better handle on what the DoD wants and be able to use commercial technology with it.

CHAIRMAN BERTEAU: If you are asking DoD to commit to purchases in advance without regard to cost or quality or timeliness or technology, aren't you in fact undermining that very competitive nature?

MR. AVERILL: Well, I think that nobody would propose to ask them to commit to those in advance without those caveats. What we are trying to do is get a picture presented to defense that the Electronic Association is really fostering the dual-use technology and lessening of some of the controls that have been handicaps.

CHAIRMAN BERTEAU: You also said that we can't have at the same time a vibrant industrial base while retaining the vigorous competition that we have in the last decade. Why is it that competition and a vibrant industrial base aren't mutually compatible?

MR. AVERILL: I think they were in the past. The problem is just not enough dollars. Cost of getting the contracts are such and there are so few contracts, that when one contractor doesn't get it they are out of business.

CHAIRMAN BERTEAU: It will be a self-eliminating event basically.

MR. AVERILL: Probably will be. That's part of the downsizing unfortunately.

CHAIRMAN BERTEAU: We will certainly look at your material.

Any other questions?

COMMISSIONER DAHLMAN: I will look forward to reading your testimony. You have some very interesting suggestions.

CHAIRMAN BERTEAU: I also note that you mentioned ISO-9000 as a replacement for 9858-A. I was going to ask Dr. Sello whether that adoption would in fact address his concerns with ISO-9000. Perhaps we will have an opportunity to discuss that at in next break.

Thank you, Mr. Averill.

MR. HANLEY: Thank you, Mr. Averill.

Our next witness is Miss Sharon Hudnell, who is president of Response Management.

Once again, for those of you who have arrive recently, there will be a transcript of these proceedings available on request. The transcript is also available in large print and in braille.

We would urge any of you who do have written down what you want to say simply to submit the written form and summarize it verbally. That gives you a lot

more time to interact with the commission than if you simply read what you have to say. That burns up the clock. If you just give us what you have written down, that will go in the record. We guarantee it.

CHAIRMAN BERTEAU: It will be read. I guarantee that.

Ms. Hudnell? We look forward to hearing from you.

MS. HUDNELL: Thank you. I appreciate the opportunity to be here this afternoon. My testimony covers a lot of the points that have already been addressed. It is very exciting to hear that. In terms of validation I think we all arrived at making these points independently. So, they must be true.

My company works with high technology enterprises and diversification planning and technology transfer, which I believe is key to strengthening the economic health of government contract dependant communities.

Accelerating the transfer of technology to the commercial sector is critical to offset the loss to communities of defense directed contracts. I think we all recognize that. This year about $25 billion in federally funded research and development is taking place at over 700 federal R&D laboratories and centers. Over 100,000 scientists and engineers, or one out of every six in the United States work at these sites that address virtually every area of science and technology that are encompassed by our defense industry.

To borrow a phrase from the poet Allen Ginsburg, "I have seen some of the best minds of my generation locked up inside the military industrial complex."

Unleashing this brainpower will boost America's innovation and productivity and help us gain better direction of our future without question. Closer entrepreneurial relationships with industry and sharing of benefits as well as restrictions are important to future funding and insurance of quality research.

I am proposing in essence, to get to the crux of my message, that the Department of Defense adopt as part of its strategic mission a focus on technology transfer the way NASA has done with its Industry Application Centers, its National Technology Transfer Centers.

It has to become not just an interim or transitional commitment. It has to become a way of life for the future in the next decade and in the century. I think the DoD has an interest in this from the procurement side, because what I have experienced as an advisor and consultant on defense dependent companies is the effects of any kind of traumatic change that's being forced on a system.

In San Diego, I see many companies who are in a state of shook, denial and anger. Some of the ones who are moving beyond this stage of denial are getting into a mindset that we are going to be among the survivors. We are going to cut costs, lay off people, knuckle down and we are going to survive this. The shakedown is going to eliminate are competitors. We are going to be tough and win.

I think that isn't a totally realistic mindset. I think it might work for the few, but it's going to be the kiss of death for the many if that's the tactic that's pursued. At the same time I am not Pollyanna about technology transfer. My interest in it arises from success stories I have seen in nondefense industry. I see, for example, safety, risk assessment, and hazards analysis software move from aerospace through the nuclear utility

industry, now into the chemical processing and oil and refinery industries.

This is the path followed in many ways by the environmental technologies.

Tech transfer is not a quick fix. It's not something that can cure or help companies facing eminent layoffs, nor is it a path that can be pursued without considerable executive passion and the willingness to take informed risks and make near-term sacrifices for long-term gains. I'd say a minimum realistic time frame for tech transfer is no less than two years and as many as five years. A very small percentage of companies are going to try this route and an even lower percentage are going to succeed at it.

It's not for the fainthearted. At the same time I think there are a lot of pioneers out there who took action several years ago with the passage of Gramm-Rudman. They are experiencing some successes in the "sunrise" industries such as energy and environment, health education, transportation, advanced materials development for commercial products, manufacturing process improvements, information technologies, robotics, et cetera.

I guess to get quickly to the core of my message, I think that there are three steps, three areas again that the Department of Defense Conversion Council and the government can focus on to help companies through this transformational era. They can be summed up as better communication, capital and market-driven quality leadership.

First let's talk about communication and outreach for joint R&D and commercial applications. The Department of Defense laboratories and the Department of Energy laboratories, which are right behind in terms of downsizing, they must send out the unequivocal message into each government dependent community that the armed forces of the 1990's are being shaped into a leaner and more technologically-skilled base force, as stated by the Secretary of the Navy earlier this year, and that restructuring reflects a new role for the United States as a military superpower.

The downward trend in the size and number of government procurement contracts is not tied to recession but, in fact, accompanies a strategic move toward more investment with the private sector in R&D and less in the weapons stockpile. This may seem like something everybody should know, that I am beating a horse, but believe me there are many out there in the state of denial that I talked about who just don't want to believe it.

More aggressive communication and outreach is needed today to literally educate -actually advertise to- industries about the wealth of government-patented technologies that can be licensed for commercial applications. Ignorance right now is not bliss. It's the kiss of death. I urge that the Department of Defense support their laboratories in community outreach by setting up Industrial Partnership Centers. I know this has been started. This is not a new idea, but it has to be community-based. It can't be located across the country to be effective to companies in Long Beach or San Diego.

Coming from San Diego, there are companies and managers down there who would sooner hop a plane to Washington than get in their car and drive to Los Angeles. Sad to say. But it has to be logistically within the backyard and within the neighborhood of the laboratories in the affected companies.

I would recommend more investment in those sort of outposts for

communication. I would like them to be aggressive.

And in all due respect, I think that this event today might have been better publicized. The only place that I learned about it was the Federal Register. That really isn't your best read local newspaper.

The second issue again is the issue of capital. That has been covered here today. We are in a nationwide credit crisis, according to the financial press, which isn't likely to subside for several years. It's not just defense contractors having a hard time getting loans. There are manufacturers and retail centers out there who can't get credit now. They are not even tied to the defense industry.

Through the U.S. Department of Commerce, Americans have invested millions of tax dollars or ten percent of the total of 10-billion ECU or European Currency Unit budget for defense conversion projects throughout Eastern Europe through the European Bank of Reconstruction and Development, which is open to American companies for investment. And they are providing long-term low interest loans and grants.

Concurrent with our country's funding of defense conversion in Europe, the Department of Commerce will provide $5.6 million to help local defense firms convert to non-military production as a way to address the riots, I think, as part of the task force.

According to the Los Angeles Times, "About $4 million of the fund will be used to establish a revolving loan fund for small businesses that want to diversify into non-military ventures. The remaining money would go to two locally based technology centers," assumedly near Los Angeles.

And I have already made the point that San Diego does not consider itself an extension of the L.A. Region. A Defense Conversion Center in San Diego county allied to NRAD and the Naval Command, Control, and Ocean Surveillance Center and other R&D centers is needed to serve firms in our city to be effective. It's just the way it is.

The DoD could also offer a domestic funding structure to help offset the risk for small and mid-sized contractors to undertake conversion.

One suggestion would be to set up a Small Business Innovative Research program specifically for defense conversion. This type of SBIR could extend funds to cover Phase III transfer and pre-market commercialization of technology designed and developed originally for military applications, and investment in facility expansion and labor skills.

Right now phase-in funding is up to outside sources, as many people may not know it is not covered under SBIR, and we are in a credit crunch.

Pouring millions of dollars into loosely defined "displaced worker retraining programs" is like a bandaid over a hemorrhage unless accompanied by a commitment to foster a commercial base in the region that will provide not just "jobs", but economic stability and meaningful careers. The DoD can best help the taxpayers get a return on conversion training funds if it applies them to strengthening enterprises and academic organizations who are in tune with the economic and multicultural mix of their communities -- it has to be community-based -- and can demonstrate managerial and technical competence.

Wherever there is a lot of dollars there are a lot of carpetbaggers and that's something we see in terms of support and consultants to the defense industry. I think there is a risk there unless they are prequalified.

"Retraining America's work force" in today's world means sending many mid-level managers back to college for advanced engineering and science degrees and turning blue collar workers into world-class master craftsmen.

Companies who want to be in the future pool of preferred contractors also must be willing to invest some seed money of their own and profit into raising the quality of our work force and in gaining greater efficiencies in their own operations. Further, they must be willing to share both the resources and rewards of innovation with independent brain trusts, such as federal laboratories and the best-managed research universities. This "sacrifice" could mean smaller return on investments spread over a longer timeframe than our country's economy is used to seeing.

The final point, and I'll make it quick, and it reiterates interest in such things, is ISO-9000. I commend the Secretary of the Navy for recognizing the value of the standard which, as many companies that I have dealt with in the Midwest, manufacturing firms, are calling it the standard that changed the world. I would make conversion a formal part of the Department of Defense's thrust toward total quality leadership set and enforce improved quality standards for encouraging and managing tech transfer industry contacts.

This means we have got a mindset to change, not only on the contractor's side but also within the agencies and laboratories. The experiences I have had to date in contacting Department of Defense and DoE lab tech transfer reps has been very positive. They have been very responsive. When it gets to the level of contacting the actual technical person or point of contract, I run up against a wall and in many cases resistance. They have been conditioned not to speak or to be too open with industry.

Often there is no incentive there. There may be royalties in commercializing some of their own patents. But I think there is real resistance and denial that this is essential to the future economic strength of their own laboratories and public acceptance of investment in this kind of R&D.

I would tie defense conversion projects to performance standards and command goals, command meaning the actual federal laboratories, so that it becomes a measurable accountable process. The government has established a sound basis for tech transfer through such resources at the National Technical Information Service, Federal Laboratory Consortium, National Technology Initiative for Cooperative R&D and through the success of NASA in bringing the benefits of government-funded research to the commercial marketplace.

It is now up to the Department of Defense and other federal agencies to instill a high sense of quality service in government personnel to respond to industry inquiries. This means expediting the speed and enthusiasm with which phone calls are returned by the laboratories' technical points of the contact, accelerating the speed with which CRADAS, or Cooperative R&D Agreements can be negotiated. Right now typically it takes between 3 and 12 months to finalize, which is a light-year in terms of commercial product development and marketing lead time which moves more like the

speed of light now.

The Department of Defense also can provide incentives to preferred contractors who can meet competitive commercial military standards, we have already heard that addressed this afternoon, because they actually add value by having met these commercial global standards, they will bring innovation back to the government. They have wealth to share.

The government can give preference to companies who can attract the best performers and reward the creativity and loyalty of their staff by sharing profits and decision making and allowing more employee ownership.

The companies, I will mention them not to solicit endorsement, that I have worked with such as Science Applications International are beautifully suited to survive and surmount the cutbacks in defense because their employees own a piece of the company. They are structured through decentralized entrepreneurial mode. This is the kind of defense contractor example that should be highlighted as opposed to the General Dynamics one, which is to cut back and pursue growth through international or full throttle in international arms sales.

Vendors who can achieve superior results for less cost through ongoing quality improvement processes as driven by commercial markets are exactly the type of contractors who are best qualified to serve the Department of Defense and to survive in the upcoming 90's.

Again, I would sum up by looking at the need for the Department of Energy to exercise its leadership role in NATO by more aggressively seeking out and supporting international compatibilities rather than differences for international R&D and contract work with our allies. An excellent precedent for this was the decision by the office of the Assistant Secretary of Defense to adopt the ISO-9000 standard as part of Mil-Q or instead of Mil-Q.

Mandating contractor certification to ISO-9000 not only places part of the burden of government waste reduction on the private sector that benefits from defense contracts, it also prepares these suppliers to better compete in a global marketplace of European and Asian suppliers who can meet the most stringent quality and performance standards.

Another area for international cooperation and positive technology sharing would be to work with Europe more closely to establish a global standard for electromagnetic compatibility. Such alliances build a technical foundation for world peace and avoidance for Fortress Europe, Fortress America trade blocks. And these of course lead to military confrontations, I think, in the long run.

The basis for America's increased global competitiveness and for fostering more innovation among government contractors requires the ability to transfer knowledge to commercial applications and back again. As such, cooperative R&D and tech transfer must become a well publicized strategic priority of the department of defense and it contractors.

Thank you.

CHAIRMAN BERTEAU: I feel like we are in an Olympic race here with the clock moving along, turning the pages and getting to the end, and everybody running.

You have done a good job of laying out a number of recommendations in the R&D and tech transfer area. I think we will look at your material. I think you skipped past a couple of parts. I would like to go back and look at those in some detail.

In terms of dealing with the labs, when you talk about trying to talk to the technical people themselves and you run into a stone wall I think is the word that you used, do you see any difference between the DoD labs, which are federal civilian employees and career civil servants, and the DoE labs, which are basically contracted personnel? Is the reaction the same, independent of that or do you see a difference between the two in that regard?

MS. HUDNELL: It depends on the individual. It really isn't a standardized resource right now. It varies from Lawrence Livermore to Los Alamos. I would say the best response I have received to date in terms of information and a more commercial quality-driven approach to tech transfer is through NASA and I believe it's because they got started about a decade or so ahead of everyone else.

Department of Energy has more structure. I would like to see more quality standardization among the laboratories so that the private sector knows what to expect. They are going to be very easily discouraged if they don't have their phone calls returned, if they run into sort of a psychological impediment because it takes a lot of courage. It takes a special kind of leader in the company to pursue tech transfer. It's not something that they undertake lightly because it's a brave new world and a lot of risks and no one likes to fail.

CHAIRMAN BERTEAU: Any other questions or comments?

I think the whole area of technology transfer is certainly very fruitful area for our own study and we certainly expect to have some recommendations in that area. Thank you very much.

MS. HUDNELL: Thank you very much.

MR. HANLEY: Thank you, Miss Hudnell.

The next witness is Miss Boruta who is from the San Diego Economic Conversion Council.

CHAIRMAN BERTEAU: Miss Boruta, welcome. We never, in coming to Long Beach, never intended that our vision would not include San Diego. So, we are delighted to have you on the agenda.

MS. BORUTA: Thank you. We are going to have a series of those of us from San Diego here.

I am glad to be here. I am executive director of the San Diego Economic Conversion Council, which is a nonprofit community organization founded in 1985 to foster conversion in San Diego County. We are happy to have this opportunity to present our concerns. We take this issue very seriously in San Diego County.

According to our Chamber of Commerce, our county is called the largest military complex in the free world. One fifth of the population is directly dependent on military spending. It is estimated that another 20 to 40 percent may be indirectly dependent.

In 1990 our community began planning for this transition. I am going to let Councilman Bob Filner who will be speaking after me, tell you what the City of San

Diego's Economic Conversion Program is all about.

Really I want to make two key points today. They are first, that we need to invest in America, because our future depends on it, and second, that we need to involve people in planning and implementing this transition because our democracy depends on it. I would like to share our definition of economic conversions so that you can get an idea of the range of actions that must be taken by the various players to make this a successful transition.

I think you can see some of us already who have been here from San Diego represent different areas and different expertise that we bring to this but we are all working together to make this transition successful.

We define conversion as the orderly redirection of resources from military to socially useful civilian activities. There are two key words there. The first is orderly. That means that we know what is coming and we can plan for it. The federal government can facilitate this process by providing advanced notification of military reductions to communities and companies.

The other key concept is socially useful. And that means we should redirect our resources to meet the urgent needs facing our nation and our communities. I think a number of people have talked about that today, calling it a need-based technology strategy or a demand-side conversion. We have also heard reference to the CALStart Project which I also believe is an example of the kind of redirecting that we are talking about. Unfortunately, it seems to be the only example we keep bringing up. So, hopefully we can find some more.

We say that action must happen at three levels. At the company level, companies that are going to be vulnerable to military reductions need to look for commercial alternatives. Taxpayers who have supported military production during the Cold War have a right to expect this kind of corporate responsibility. Workers must also be involved in this process. Companies who have been able to diversify have said that employee participation was an essential part of the company's ability to become more productive.

Employee participation is also a key element of a high performance workplace. Sharon Hudnell, who spoke earlier and with whom we work closely, suggested a variety of ways the federal government can help companies. We would urge you to implement these and other ideas that would encourage responsible corporate behavior.

At the community level we need to diversify military-dependent communities like San Diego. Retention of existing companies and jobs through conversion to commercial work is one strategy of diversifying the community. But when companies choose not to convert, the community must work to create new jobs to replace those that are lost.

Each community is different and has different and unique resources and needs. Federal financial assistance to the communities is essential in helping communities diversify. I think we heard the mayor of Burbank talk about the revenue shortfalls that all our communities are facing. This is very serious and must be recognized at the federal level.

To be most useful, this kind of federal assistance should give communities control over where to invest the money in order to create the jobs that are going to meet the most urgent needs. That brings me to the third level of action, which is at the federal level: we need to shift federal spending priorities. That means not only reducing the military spending, which we are seeing happening, but we also need to increase federal investment in our domestic needs.

This must not be dismissed as a political issue. This is an essential part of our long-term economic health. And the federal government has a role to play to achieve a consensus on federal public investments. I think this is a very big challenge for our country right now. There is a question of whether military savings should all go towards the deficit or should some of it invested in our public needs. I think that we really need to achieve some kind of consensus on that. That will be the challenge facing us.

I am providing the commission with a copy of a report called, "Reinvest in California." Basically this report postulates what would happen in California if the military budget was cut by 50 percent and the savings were reinvested in our domestic needs. Without reinvestment, California will continue to lose jobs as military spending is reduced.

With military reinvestment, we can help rebuild our urban areas, which is a major concern right now here in Los Angeles. We can educate our youth at the state level. Our educational system is being cut day-to-day. And we can develop our infrastructure to be ecologically sustainable. I think that that's where San Diego and California -- I guess my local focus is coming up -- but California can really be a leader in terms of environmental sustainability.

In recent years we have added a fourth level of action to our definition of conversion. That's the international level. I have been fortunate to be able to attend conferences on conversion in Moscow and Vienna and Berlin. You know, the Cold War is over. I think that it is very appropriate for us to do what we can to maintain that peace.

Assisting Eastern Europe and the former Soviet Union to convert is a smart investment, and we must do the same in our own country. We must also collaborate with the international community to address global needs, including environmental protection.

Just a couple of months ago, the U.N. Secretary General called on the nations of the world to start redirecting some of their resources towards meeting the environmental need.

We must also look at eliminating poverty that fuels violent conflict. This is part of the issues that are coming up with the free trade agreement. We must also curtail international arms sales that ultimately threaten our national and international security.

Finally, we say that economic conversion is a participatory process that involves workers, management, elected officials and the community. This collaborative effort is not only an excellent way to solve problems by bringing multiple points of view to the problem solving process. It's also a way to stimulate the democratic process by empowering people to take control of the conditions affecting their lives.

And that's why it is so important that you inform people that you are coming to town, that you get this information out into the media, so that people know that change is happening, that we need to be part of this transition and that people are looking

into what to do.

In conclusion, the transition we face is a challenge, and particularly here in California. Our success depends on the active involvement of many people, as I think some of us have represented from San Diego. You can facilitate our work by making a strong commitment to turning to this challenge into an opportunity to rebuild America.

Thank you.

CHAIRMAN BERTEAU: Miss Boruta, I appreciate your insights there. And I look forward to looking at the report, in particular, as well as the other papers that you have there.

The question of worker involvement, as I think you used the example, you said that in those companies that were already successfully diversifying away from defense and into commercial work that the worker involvement was an essential part of that. One of the things that we are actively looking for is examples of places where that has taken place. If you have some examples that you could provide to us either today or subsequently, we would appreciate that.

As I mentioned earlier, I don't recall whether you were here or not, it is important to see places where people have had trouble. You can learn from failures. But what you mostly learn from failures is what not to do. We are also looking very much for what works and what needs to be done right. And that's a very important part of that. So, any comments or any examples that you have that would be available to us, we would certainly appreciate that.

Any other questions or comments?

COMMISSIONER MAY: Just a comment on international arms sales. If I understood you right, you were recommending that we reduce international arms sales. Would you agree that if we did do that it would at least in the short run exacerbate the defense drawdown and the challenges that this drawdown presents?

MS. BORUTA: Well, that's why I say it is so important to invest some money in the domestic needs. I don't see that international arms sales can really help anything. While it may be bringing in some money, it's also taking money from countries that may not have the money to spend, especially third world countries. But that's why I think it's so important to invest in our domestic needs.

So if we need to invest some money to help companies look for alternative commercial replacement work, then I think it's worth it.

CHAIRMAN BERTEAU: You would see that as offsetting the additional impact of those reduced jobs and dollars?

MS. BORUTA: (Nods head affirmatively.)

I think one of the examples, we have seen -- you talked earlier about that we are trying to cut some defense activities and that the communities weren't letting them do it.

CHAIRMAN BERTEAU: You do get a very interesting dynamic there. You made the point about advanced notice. My experience is the more advanced notice you give people, the more they organize themselves to fight the action rather than to take advantage of that advanced notice to plan for it. I'm not dismissing the idea of good advanced notice. I think the better you can plan, the better you can execute. But there

are some incentives in the opposite direction, at least history tells us there are incentives in the opposite direction.

MS. BORUTA: The example of the submarines, we were going to stop that program. Now we are going to build one or two more, I understand. I would wonder, if we are building those submarines because we want to keep those workers employed, why don't we just pay to keep the workers employed there. Don't have them build any submarines so we at least save the money on the materials. And have them attend 40 hours a week alternative use planning sessions to start looking at what else that facility could build.

It would still be keeping the workers employed, which is what we want to do. And we would be actually saving some money because we wouldn't be spending the money on materials. We end up down the road with a plan for converting the facility. That's another alternative.

CHAIRMAN BERTEAU: Thank you.

Mr. Hanley, if I might, it has been --

MR. HANLEY: It has been a couple of hours.

CHAIRMAN BERTEAU: Is Mr. Filner is here and if he would indulge us to take a short break before we start him, my capacity has about reached its limit. Two hours is about it.

MR. HANLEY: Why don't we take a short break.

(Recess taken from 4:10 to 4:35.)

CHAIRMAN BERTEAU: Mr. Filner, welcome.

MR. FILNER: Thank you for the opportunity.

CHAIRMAN BERTEAU: I have often wondered whether your real aim is to get people to move out so that you can get a little more room down there.

MR. FILNER: My name is Bob Filner. I am a city councilman in San Diego, previously deputy mayor of the city. Also currently the Democratic nominee for Congress in the newly created 50th district, which is considered to be a safe seat. So any courtesies afforded me here I will return when my committee calls you to Congress sometime in the future.

I notice all the impressive credentials of all of you. I just want to make sure you know I have a Ph.D. in the history of science and technology from Cornell University--like the chair, served as Congressional fellow, this one from the American Political Science Association. I have had the opportunity to work for Senator Humphrey in his second time around as senator.

I just wanted to acquaint you briefly with how a community that is dependent upon the defense industry, San Diego as you have heard described, is trying to struggle on a local level and to come to grips with the inevitability of the defense cutbacks and what successes we have had but what help we need, I think, from the federal government.

We have, I guess, the good fortune not to be one of those cities that has had the base closure crisis. We have, in fact, had no base closures. They tend to get consolidated in San Diego when there are base closures. So, we have actually had an increase in personnel. Although, that luxury, I assume, will not be with us for long.

But we have a chance to be a community that is pro-active, that plans for the future, that hopefully would minimize the disruption and the pain that comes. And we, in fact, are looking on it as an opportunity and not just as a crisis. I have distributed to you both before and also today the economic conversion program that in fact, our city passed last year. It is a broad-based approach to economic conversion.

At my request, the San Diego City Council three years ago formed an Economic Conversion Committee. I chaired that and put together an Economic Conversion Advisory Committee consisting of all the major defense firms in San Diego, organized labor, community groups, conversion groups, peace oriented groups, military, academic people, a real cross-section of the community, many of whom had never talked to each other before in the same room. It was a very interesting process as the CEOs in major companies took part in this committee and talked to people, and people had a chance to talk to them in a way they hadn't done before. It was an amazing amount of consensus where you would not have seen that nor had predicted that in advance. And after a year of that kind of process and -- nobody missed a meeting for a year, in fact, it was such an interesting approach -- we put together an economic conversion program, which is in front of you--copies for people who might be interested in it--in an attempt again to be proactive with what we saw as an inevitability. It is a program that looks at job retraining, of course, looks at trying to assess the impacts of what is going on in San Diego but then looks at how we can provide incentives for conversion, how we can come to grips with the problem if there is no conversion possible, and looks also at a legislative advocacy program at the state and federal levels to help us further.

I don't need to go into that program. You have heard many recommendations. I heard some of the testimony earlier--Mr. Closson's testimony, the council member from Burbank I particularly feel associated with. And we have, I see, as someone else remarked, independently many communities have come to the same conclusion. We have had some successes. We have only been in operation, that program, for a year. It has been funded, in part, by a state Department of Commerce grant.

I think our next testimony comes from that department who has seen some of the possibilities there. The Office of Economic Adjustment has given us a grant because they see us as one of the few communities trying to be proactive. We have hired, in fact, out of that grant, an executive director. In fact, someone who had been laid off in the defense cutback.

We have, as I said, have had some successes, especially with some smaller firms that had previously been dependent on the defense budget. We are able as a local land use agency to provide incentives that will allow location or relocation in a quick manner, that can provide some things like a quickening of permit processes, waiving of certain fees.

I also have the only two enterprise zones that are in Southern California in my council district. I am able to use the incentives provided by that state enterprise zone in a very meaningful fashion. So, we put together packages and we work with the community college system and the state Department of Commerce and obviously the (inaudible) job retraining efforts and we put together a coalition of people who are using all their resources to bear.

Obviously we can't keep up as a municipality, it seems, with the problem. The cutbacks recently announced by General Dynamics, buyout of General Dynamics, at least partially, by Hughes and their apparent decision to withdraw from San Diego are things that, no matter what we can plan for, those forces outdo us.

So, we need some help. We are trying to be proactive. We have some kinds of help that I think very obvious. Legislatively: we have to put American manufacturing firms on equal footing with the foreign competition. We have in San Diego National Steel and Ship Building Company, the only ship building firm left on the West Coast. The last commercial ship in this country was built by them in 1986. That's the easiest kind of conversion possible if they could build commercial ships instead of military ships. There is no retraining. There is no plant disassembly or conversion. But they can't compete on equal playing field because of the subsidizing of foreign ship builders.

There is national legislation to deal with that. But that's the kind of conversion help that could really aid San Diego. Many firms, the larger firms tell horror stories of trying to convert and being unsuccessful because the mere capital requirements for R&D into new areas were just not there. They just could not move in an adequate direction financially. We have Rohr Corporation, which is the biggest horror story, when they tried to convert to building transit trolley cars and just failed miserably. They look at that as an absence of having sufficient R&D funds and capital to pull them over for a long enough time to help them do that conversion.

I think we could provide; and with state and national governments working together, to use our public works contracts in ways that give incentives for those companies trying to convert. We, for example, in San Diego are about to embark on our biggest public works project in our history, a sewage upgrade which will cost several billion dollars. And there is interesting opportunities there because it is a wide-ranging kind of activities that with proper incentives we could use to help our local companies convert.

We on the city council think that in this transition period that we are embarking on, the federal government ought to take an approach that we call dollar-for-dollar. We have passed a dollar-for-dollar resolution which says that the federal government ought to, as it takes away military spending in a community, give that community dollar-for-dollar the funds that were in fact taken away to help the conversion process.

If the truth be told, I'd settle for 50 cents on the dollar, but the idea is to take a transitional approach toward the withdrawal of defense dollars.

I would just like to urge on your commission, which I see as a very favorable kind of development which will focus its needed attention nationally on this issue, don't let the difficulties of the task and the pain that is possible from the cutback of military spending deter us from recommending that we embark as a nation on a national conversion policy. There are problems. There are challenges. We heard substitute arms sales, in fact, for some of the things that are going on. But there are many opportunities involved in that military cutback, and with a planning and a federal commitment, I think we can, in fact realize those opportunities.

We in San Diego see what is going on as an opportunity. Conversion is a method. In my district I represent both in the city council and possibly in Congress a very low-income district, heavily working class. Almost everybody who is employed in my district is employed with the defense industry. It's not a theoretical concept conversion for my constituents. It's a matter of life and death.

I am able to call for a major cutback in military spending and still be viable politically in San Diego because of my leadership on the conversion issue. We see it as a chance to build a more diversified economy, to build a healthier economy, a broader base of prosperity and, in fact, at the same time meeting long-deferred domestic needs in infrastructure and environmental cleanup and mass transit and health care, housing and education.

So, let's look not just at base closures. Let's look at communities planning for the 21st Century, planning to diversify our economy and looking at the cutbacks as an opportunity. We need some help in planning and need some help obviously in resources.

Thank you.

CHAIRMAN BERTEAU: Thank you. You have focused clearly on the issue, I think. Let me ask you a couple of questions.

The dollar-for-dollar proposal. This is the first I have run into that. I am looking for a little illumination. Let's take, for example, the closure of the Long Beach Naval Station. You have 38 ships homeported in Long Beach. As you noted in your comments, San Diego is benefitting from that with some of those ships being transferred and homeported in San Diego now. Others of those ships are being decommissioned and taken out of the force.

For those ships being decommissioned, then the military billets and civilian payroll that goes with it coming down out of the defense budget. What you have proposed then is Long Beach would get dollar-for-dollar. Every dollar taken out would come back to Long Beach so that the defense budget wouldn't go down from those ships being decommissioned. Those that come to San Diego, presumably, would still pay for the upkeep of the ships and pay for the payroll of the people that have been moved to San Diego.

So what, in effect, you would be doing is paying twice. And the defense budget would be going up, rather than down, in an effort to save money.

Am I understanding that correctly or what is the flaw in my understanding there?

MR. FILNER: Well, clearly what we are talking about is a concept and a transitional thing and a way for people to embrace and not fear what perhaps is happening. There are problems that you can point out. And certainly communities that, in fact, do not have high degree of defense spending will see it as a problem for them, which is a more fatal flaw in the situation.

But we see it as a transitional approach. Sure there are problems. When you cut back the defense of Europe and Japan and you factor in close to $150 billion there, we don't intend to put the dollar-for-dollar in those communities. We intend to bring those dollars home to deal with the domestic security needs. Major savings in that dollar-for-dollar approach come from the cutback of the foreign efforts.

CHAIRMAN BERTEAU: That may be true. But the $150 billion includes all the PACFLT assets including all those based in San Diego. If you are going to bring that to zero, that means you bring the ships in San Diego to zero. That's where $150 billion comes from.

With respect to sewage upgrade proposal, I think you said with proper incentives, it could provide an opportunity for companies to convert. I assume that sewage upgrade is already partially financed by the federal government.

MR. FILNER: Without going into details, we are one of the few communities, major cities in the nation which, because of problems that occurred politically several years ago, did not get the financing for the upgrade that every other community did. And that's a matter of some debate in San Diego. We can spend the next two hours on that if would you like. We happen not to have a federal grant for that, which is one of my platforms when I move to Congress.

CHAIRMAN BERTEAU: What kind of incentives would you see would be useful there to help defense companies convert?

MR. FILNER: Right now it's a theoretical notion. Again, when you are dealing with a $2 billion to $3- to $4- to $5-billion set of contracts, there are parts of that contract where the skills that are necessary already exist. They just have not been devoted to this effort.

It's difficult to make that transition, obviously. And any kind of bidding process would have to be dealt with. We have all kinds of legal requirements on bids, et cetera, and experience. But with the right kind of incentives and concern for this issue, I think we could deal with it.

CHAIRMAN BERTEAU: Would you give those defense companies a price break in competing?

MR. FILNER: That's a possibility.

CHAIRMAN BERTEAU: And then the federal government would finance the difference?

MR. FILNER: That's what we again--the kind of retraining and retooling incentive that would have to be done.

CHAIRMAN BERTEAU: So, you would look for federal financing to a system in that regard?

Any other comments?

COMMISSIONER MAY: Can I just get your reaction? The Congressional Budget Office did a very exhaustive study on the defense drawdown and recommended strongly that the savings be directed towards reducing the deficit as opposed to increasing short-term spending. How would you react to that study?

MR. FILNER: Well, I think some money should be devoted to the deficit. I would rather refer to what you called short-term spending as long-term economic investment. That is, it's the investment in the future of this country that's going to produce the revenues, that's going to enhance the economy that will produce the balanced budget that we have to move to.

Let's look at it as an investment and not a short-term welfare program, as some people might look at it. We are trying to reinvest in America's education, health

care, housing, competitiveness. That's how we should see it. That's where those dollars should go to. It should not go to short-term bailout, it should go to long-term investment.

CHAIRMAN BERTEAU: Any more questions?

Thank you for your coming up here.

MR. HANLEY: Next witness is Mr. Michael Murchison who is deputy to Deane Dana of the Los Angeles County Board of Supervisors.

CHAIRMAN BERTEAU: Welcome. We move back up the road to Los Angeles now.

MR. MURCHISON: Good afternoon, gentlemen. I am here for Long Beach Supervisor Deane Dana. Mr. Dana was unable to make it today. He has asked me to read his testimony. Let me do say that Deane is concerned about the Southern California region, specifically McDonnell Douglas, Long Beach Naval Shipyard and the El Segundo AFB. There are a lot of jobs in those three markets and that's his biggest right now. Especially with the cutbacks going on.

Mr. Chairman and distinguished members, I appreciate the courtesy you are extending to Los Angeles County in giving me the privilege to present this testimony.

Once again, I am reading on behalf of Deane Dana, Chairman of the L.A. County Board of Supervisors.

Traditionally, ours has always been an area of great expectations. The county has a population larger than 43 states excluding California. Its income is exceeded by only three states -- California, New York and Texas.

Yet ours is a troubled area with an unemployment level reaching near 10 percent and the numerous problems related to unemployment. One of the primary reasons for a rate substantially higher than the rest of the nation is the downsizing in the defense industry. From 1989 to 1991 up to 126,000 jobs were lost either directly or incorrectly due to defense downsizing. From 1992 to the year 2001, another 184,000 jobs will be lost. It might have been tempting to do as some suggested, namely let the free market system make the necessary adjustments. But the downsizing was a political decision, not a market decision, and government at all levels should feel some responsibility for counteractive measures.

To that end, on May 22nd, 1990, the L.A. County Board of Supervisors requested the Economic Development Corporation of Los Angeles County, the EDC, to form the Aerospace Task Force to recommend an economic strategy for the county to mitigate problems created by aerospace downsizing. Subsequently, the Board of Supervisors authorized the Community Development Commission of Los Angeles County, CDC, to apply for a grant from the Economic Development Administration of the U.S. Department of Commerce to support the formulation of the strategy of the task force. The task force attracted some 200 members from virtually all walks of life. The economic roundtable was selected by the task force to undertake the research and analysis required for development of the strategy.

On March 17, 1992, that strategy was presented to the Board of Supervisors and the Economic Development Administration. The strategy called for a combined local, state and federal response. It compared the undertaking to relief efforts after a natural disaster.

The research revealed the following information:

L.A. County leads all the counties in the U.S. as a recipient of defense funds by a wide margin. In fiscal year 1990, the Department of Defense reported that 1,284 L.A. firms received 4,184 defense contracts worth $8.881 billion.

A fall in defense expenditures within L.A. County to a level of $4.9 billion in 1995 is projected. Such a defense expenditure reduction would have the following additional impacts beyond the job loss upon the county between to the years 1992 through the year 2001:

- An increase of $362.8 million in unemployment insurance costs and $147.4 million in increased public assistance cost;
- Cumulative losses of $86.4 billion in personal income and $23.8 billion in retail trade;
- The construction of 122,000 fewer houses and $6.3 billion less in commercial construction.
- Cumulative losses of $2.27 billion in public sector revenues.

If defense expenditures in the county decline to a level of $3.5 billion resulting in projected direct and indirect employment loss of 420,000 by 1995, costs to the community will be much greater. In general, every $8 in lost defense revenue will cause a $28 loss for the county's economy.

The proposed closure of the L.A. Air Force Base in El Segundo would only worsen the situation. The operation of that base pumps $1 billion into the local economy and provides 17,000 jobs. In addition, the base has $3.5 billion in contracts in Los Angeles County.

That is a mere snapshot of the devastation with which we are contending. But perhaps the impact can be more forcefully demonstrated by the words of just one person, a businessman worried about his company, his employees. Allow me to read to you a few paragraphs from a letter dated July 15, 1992, by William C. Grunau. He is the president of Daico Industries, Inc., a company reduced from 210 employees to 116 because of defense reductions.

"Food stamps, unemployment and the like may help an unemployed aerospace worker temporarily, but they do not prevent me from continuing to have layoffs as a result of a market in a free fall decline. The assistance I was hoping to find was something that would help me redirect the company towards commercial business.

"Daico is a 25-year-old company that has always specialized in RF/microwave components. More specifically, our company produces high performance, high reliability components that tend to be needed exclusively in military radar, countermeasures and communications systems. While we do sell some devices to commercial applications such as FAA radar, commercial communications, etc., this market has not proven large enough to absorb all the displaced military suppliers. Consequently, competition is fierce, prices are tumbling, and our backlog and profitability continues to erode.

"Our production facility and our design abilities are very specialized, out of necessity, to meet the DoD's requirements. These special capabilities that have served our company so well over the past 25 years are now anchors around our necks. On the one

hand, we must maintain these special capabilities to continue to get what little DoD business is left. On the other hand, this tends to prevent us from moving into commercial products.

"The assistance I am hoping to find is help in redirecting our company so that we can continue to provide jobs and contribute to the local economy rather than become a burden."

Stories similar to this are all too commonplace in Los Angeles County. Thus when the Board of Supervisors received the Aerospace Task Force Strategy, the board promptly acted, approving in April a series of actions which includes the following:

- Direct the CDC to submit an application on behalf of the county to Economic Development Administration, EDA, for $9.75 million in implementation funding.

- Direct the CDC to develop a County Business Loan Fund, a revolving loan fund minimum focusing on loans to businesses creating jobs for dislocated aerospace workers and establishing businesses in communities impacted by aerospace downsizing.

- Direct the CDC to keep the board updated on the development and effectiveness of the West Altadena Technology Incubator, a proposed business incubator to be located in the West Altadena Redevelopment Project area.

- Support the development of affordable housing and a temporary housing voucher program to keep the Air Force Base in El Segundo.

- Direct the Chief Administrative Office, the CAO, to report on the task force's suggested offset policy.

- Support efforts to expedite the state's passthrough of job training funds, enable those funds to be used more flexibly, mandate job training programs to meet the workers' needs, increase the level of funds, and ask the County Private Industry Council to examine longer term training programs as well as other training programs around the country.

- Continue to support workers' comp. reform which protects the rights of workers and rewards for legitimate claims, yet recognizes and reduces costs for businesses of unwarranted claims. Support the Air Quality Management District's "New Directions" and "Marketable Permits." Endorse technology transfer and development programs such as the showcase electric vehicle program and CALStart.

- Direct the EDC to recommend categories of candidates for Los Angeles County Aerospace High Technology Council.

- Direct the EDC to establish a Los Angeles Technology Resource Center to provide consulting, training, and seed capital to firms trying to make transitions from aerospace into other industries.

- Direct the treasurer and tax collector and CAO to report back to the Board on the feasibility of establishing a California venture capital fund, aimed at lending money to transfer technology from aerospace and defense uses to commercial applications within California (i.e., the electric car).

Since the Board directive, the CDC was invited by the Deputy Secretary of Commerce, Rockwell A. Schnabel, to submit an application to the EDA totaling $5.575 million. The CDC, which will be the grant administrator, will commit $1,858,333 as a

match to the EDA's $5,955,000.

The High Technology Council, using $675,000 in EDA funds, will be a collaboration of the public and private sectors to mitigate the impact of defense downsizing. That partnership will include labor, industry and business representatives, presidents of the University of California at Los Angeles, the University of Southern California, and the California Institute of Technology, Los Angeles County Private Industry Councils, the State Legislature, the California Congressional Delegation through its California Institute for Federal Policy and the five supervisorial offices of Los Angeles County.

With $900,000 in EDA funds, the Los Angeles Technology Resource Center will provide consulting, training and seed capital to small and medium-sized businesses. Seed capital will fund pilot projects upon in-depth evaluation and analysis of proposals. The technology resource center may also create a venture capital entity to serve the county's Aerospace High Technology Center.

The County Business Loan Fund, which will be administered by the CDC's Business Finance Center, is a revolving fund to make available long term, low down payment, reasonably priced financing for new and existing businesses. Initially the program is designed to create or retain jobs for dislocated aerospace workers or to help businesses in communities hardest hit by aerospace downsizing.

The County Business Loan Program will create a large investment capital pool through two-to-one leveraging. Every dollar of loan program money will be matched by two dollars of private funds. The $4 million county business loan fund will create a $12 million investment pool to initially address aerospace industry restructuring.

Over the course of 20 years, it is likely the loan fund will be loaned and repaid four times, with a total impact of $48 million.

I think it is apparent that county government is doing what is can in its limited capacity to mitigate the impact of downsizing. Yet the pain continues. More needs to be done at the federal level. And so I am recommending the following actions--and this is my last page:

- Create a more rational and well thoughtout planning process for transition, with people like William C. Grunau and his employees uppermost in our thoughts;
- Retain the Los Angeles Air Force Base;
- Delay DoD manpower reductions until the recession ends;
- Urge the federal government to contract aerospace defense firms for specific nonmilitary production and research projects that will benefit the nation's well being and assist the industry diversification process;
- Encourage significant and sustained funding of federal programs for technology transfer and use;
- Place the Manufacturing Technology Center in Los Angeles County. Request the California Congressional Delegation to ensure any cuts in federal military spending previously directed for L.A. County are retained dollar-for-dollar for Los Angeles County;
- Commit additional federal funding for state and local economic development and retraining;

- Tear down the firewalls preventing the flow of federal funds to desperately needed domestic programs.

Thank you.

I would like to make a comment before you want to ask me any questions. Since Deane did not tell me this was a question and answer session.

I'm the Long Beach Deputy. Specifically I have lived in Long Beach all my life. My concerns are the Long Beach Naval Shipyard and McDonnell Douglas. McDonnell Douglas has been a major player in the community since I have been born and long before that. The naval shipyard--because of the Hunter Amendment being introduced back in D.C., is now being carried, I believe, by the U.S. Navy--is a big concern for us because it means we might lose 4,100 jobs here at the Long Beach Naval Shipyard.

They are talking about short-time repair work, and Long Beach is 98 miles from San Diego. Currently federal government says you have to be within 75-mile radius. That is a big concern for the City of Long Beach. I know that Mayor Kell and city council members along with Supervisor Deane Dana would like to see the naval shipyard stay here in Long Beach, along with that short-time repair work, barring the councilmember from San Diego's comments.

The other concern is McDonnell Douglas. As you know, they are looking at trying to figure out ways to keep employment down, keep unemployment down, as a concern for not only Long Beach constituents but the surrounding areas. That means Torrance, El Segundo, Compton, other cities that have employees like Long Beach that work at McDonnell Douglas or work in the Naval shipyard.

So, I will tell you that the City of Long Beach is behind the Long Beach Naval Shipyard and McDonnell Douglas whole-heartedly.

CHAIRMAN BERTEAU: Thank you, Mr. Murchison.

We had met earlier with representatives of the CDC and heard a considerable amount of detail on the L.A. Technology Resource Center and the other proposals that grew out of the Aerospace Task Force. I believe they reported that of the EDA applications, three had been approved and the funding is in hand; three more they expect approval. So I think there is some expectation on that.

A couple of times of you mentioned and it has been mentioned earlier today about out of that report the $2.27 billion revenue loss for the county with a 10-year period from 1992 to 2001.

Let me ask you for reference, what exactly is the size of the annual county budget so I can put that into a context? I believe somebody told me it was --

MR. MURCHISON: Twenty.

CHAIRMAN BERTEAU: The annual budget of the county?

MR. MURCHISON: We are going through budget hearings right now. I can come back to you with an exact figure on that.

CHAIRMAN BERTEAU: I appreciate that. Also you mentioned training program flexibility and the need for more flexibility in retraining programs. I would ask that you look into this because you may not have come prepared for this, but I would appreciate if you would look into whether or not the inhibitions or the barriers there for flexibility is something that is imposed by the state or, whether in fact, the federal

government imposes that on the state program as well. The funding comes from the federal government, but the state does have its own flexibilities within that.

So, to the extent which we can do something about the federal end of that, I appreciate hearing that from you. To the extent to which it is a state problem, we need to know that as well, not that we won't recommend things. But the State of California is probably not looking forward to our recommendations.

You mentioned a couple of proposals that dovetailed with some of the earlier ones about delaying reductions and don't close bases, et cetera. You also mentioned a number of places where, in fact, the federal government should provide more funds out of the defense budget for variety of things, planning process, technology transfer, replacing revenue lost, et cetera.

If, in fact, we delay reducing the budget, where do those -- and we offset every dollar that comes from any of those reductions, where would the funds for those additional programs have to come from?

MR. MURCHISON: That I don't know. All I can tell you is, along with the city councilman from San Diego, our concern in Long Beach is jobs and that's a long term process. In terms of giving you further answers along this line, I can take it back and find out how Deane wants to address this.

CHAIRMAN BERTEAU: I appreciate it.

Any other questions? Thank you, sir.

MR. MURCHISON: Thank you.

MR. HANLEY: Thank you. Next slot is a shared slot between Miss Martha Lopez, the Deputy Director of the California Employment Development Department. This slot is shared by Brian McMahon, who is the Deputy Director of the California Department of Commence.

CHAIRMAN BERTEAU: Miss Lopez and Mr. McMahon, thank you. Welcome. Everybody has been talking about what can be done above the local level. I am looking forward to what you folks have to observe.

MS. LOPEZ: Mr. Chairman and members of the commission, my name is Martha Lopez. I am deputy director for employment and training programs with the California Employment Development Department. I am very pleased to have the opportunity to speak with you today.

The testimony that we have submitted outlines the programs that are administered by EDD (Employment Development Division) and the uses that we are making currently with Defense Conversion Act, Defense Conversion Adjustments funds and also Title III funds under the federal Job Training Partnership Act.

The Employment Development Department administers the Job Service Program, including special services for veterans and disabled veterans. We also administer the Unemployment Insurance program, and we are the governor's designee for administration of the Job Training Partnership Act programs in California. That also includes all the defense conversion activities for the state as they are related to job training, both for aerospace companies that are downsizing and military base closures.

As I indicated, the testimony that I have submitted in writing outlines our programs and the uses that we are already making with the funding that we have available

to us. So, I would just like to touch on a few points that we think are most important. That is, that we believe that any additional funding or programs made available for defense conversion should build on existing programs that have proven track records rather than creating new structures for distributing funds or setting up programs with the states.

Defense Conversion Adjustment funds are allocated to states through the Department of Labor using basically the Job Training Partnership Act system. We support this method of allocating funds. It enables us to coordinate new programs with existing employment and training programs, insures coordination and reduces duplication at the local level.

We also believe that there is a legitimate role for the Department of Labor in oversight, providing technical assistance to the states, insuring fiscal accountability. We are also very interested in any recommendations that the Department of Labor has to assist us in improving our programs.

One of the areas that we would like to see changed in the system is, rather than having all the Defense Conversion Assistance Funds made available to states on a discretionary grant basis, we would prefer to see that funds are allocated to states based on the proportion of job losses that they are experiencing in the military base closure area as well as defense industry downsizing.

This would enable states to do better planning, not only at the state level, but with the local entities that we plan with. It would also, I believe, prevent some of the competition for funds that exist between companies, between states, that sort of thing, if the money were allocated directly to states up front.

And this is not to minimize the oversight role of the Department of Labor that we work with. We would still want to go through that.

Also, I would like to see more funds made available for demonstration programs. Recently, there was $5 million out of the $150 million set aside for defense conversion activities that was specifically designated for demonstration projects. The timeframe for applying for those was very, very limited. California submitted two proposals which are currently under consideration.

We would like to see additional funds and additional window periods made available for these special demonstration programs. These are to do additional different types of things that are allowable under the standard.

Some of the limitations that were talked about earlier, for example, is to allow training. We would like to see training, at least a certain amount of training be allowed for individuals who are going to stay with the same company. The way the rules are interpreted now, an individual has to go to a new company in order for us to provide retraining for them.

Allowing more demonstration projects and individuals to be upgraded and remain with their current company in a new operation, we believe, would encourage the economic conversion aspects of the program. We have a wonderful system in place for providing job training. But as many of the individuals who have been testifying here today have indicated, without jobs for people to go to, the job training in itself is a futile and frustrating effort for everyone concerned.

Two final points--we are definitely opposed to any restrictions that have currently been proposed and discussed on how Rapid Response activities would be delivered. Rapid Response is that service which we deliver in conjunction with local service delivery areas to the company within 48 hours of the announcement of a mass lay-off. Proposals that have been offered would require all of that service to be offered out of Sacramento, out of the state Dislocated Worker Unit that is part of the EDD.

While we work with locals in delivering Rapid Response services, we feel it is much more effective for a lot of those services to be offered directly at the local level.

I just came from a meeting this morning with some local aerospace individuals who were very complimentary of the fact when a major closure was announced here that EDD and the local service delivery area were on site within two days and had a special dislocated worker center set up within three weeks.

It's that being able to have flexibility and delivering the rapid response that enables us to do that, so we would not want to have that restricted and say that everything has to come out of Sacramento. California is too big to do that, and we have too many closures. We would have to have hundreds of people in Sacramento rather than the current network that we feel is more effective.

Lastly, we would prefer that -- or we are opposed really to limiting eligibility for dislocated services under current proposals that we have been hearing about. For example, we understand that there is a proposal under consideration that would limit eligibility for retraining to individuals who have worked for a minimum of five years with the company or at the base scheduled for closure, or that individuals would have to have a certain amount of defense contracts before the individuals who are laid off would be eligible for dislocated worker services.

With the way that individuals move around amongst companies, we really feel that this would be a disservice if we limited the eligibility for services in that way. There would be literally thousands of workers in California who would not qualify.

Thank you.

CHAIRMAN BERTEAU: Thank you very much.

Mr. McMahon, do you have anything that you would want to add?

MR. McMAHON: Yes, I do. I am here to on behalf of Julie Wright, Director of the Department of Commerce. I would like to thank the commission for an opportunity to appear as well.

Commerce is the state's primary economic development agency. And as such, we are profoundly concerned with the job loss that is occurring in the defense-related industries in the state. I had two pages quantifying the nature of that job loss, but I will dispense with that data since I think you have heard that a number of times today. We have submitted written testimony that describes that condition.

A few points that I would like to reiterate is that Commerce believes that there should be active involvement on the part of the federal government in the issue of defense conversion. We feel that there are three primary reasons why that should be the case.

The first would be that scaling back defense spending has clearly

demonstrated this cost and job loss, and that this impact should be phased, especially in an economy that is recovering from a recession.

Secondly, we believe that manufacturing capacity needs to be retained so that this could be transformed quickly into a production condition if the need should arise.

Third and most important, we believe that the talent that the defense industry has nurtured is a national asset which must be retained and encouraged to develop new commercial products and technology that can foster new industries for both California and the nation into the 21st Century.

The Department of Commerce is involved in a number of specific programs dealing with defense conversion. I have listed two prominent programs in the written testimony and we can make a far more detailed delineation of those programs available if the Commission should desire.

I would like to point out one new program that we are very proud of. That's the fact that California has recently been designated by the National Institute of Standards and Technology for a Manufacturing Technology Center. This brings $13 million in funding from this to the state. It is matched on a one-to-one basis. The center will be located at El Camino Community College here in Los Angeles.

What we are especially pleased with on that project is that it represents a pretty dynamic partnership between state government, academia, and importantly, the private sector.

I would like to specifically touch on some of the proposals that we feel are critical. We would like to center those proposals in three primary areas. First, I would say that we very whole-heartedly endorse the testimony on the part of the Employment Development Department today about the need for Defense Conversion Adjustment funding as well as the need to enhance the availability of dollars under the demonstration element of that particular program.

The second component of a federal program, we believe, should be targeted specifically to industrial conversion and the retention of our defense industries. We have a number of primary categories under that general subject that we think are important. The promotion of dual-use technology research as well as other initiatives leading to commercialization of defense technologies as being critically important.

We believe that increased funding of federal aerospace and other science initiatives such as those recommended by the federal Coordinating Council on Science and Technology should occur. We believe that the federal government should support technology extension and transfer programs. We believe that assistance should be made available to foster spin-offs, start-ups and market diversification for smaller suppliers within the aerospace and defense-related industries.

We believe that assistance should be provided to help generate an environmentally-oriented industry that could, among other things, provide aerospace technology to the cleanup of closed military facilities. We also believe that assistance should also be targeted to communities.

In addition to the devastating impacts that you have heard today as a result of decreases in defense spending, 11 military facilities have been targeted for closure within the state. And that's left many of our communities reeling, so to speak.

We believe that direct assistance in the order of that currently available through EDA should continue to be made available for economic adjustment planning, both as a result of military facility closure as well as downsizing in the defense budget.

We also believe that a commitment should be made to achieve the reuse of military facilities on as expedited a basis as possible, since reuse of those facilities in a productive mode is critical to the communities who have suffered the losses of military employment there. We also believe that support should be directed towards incubators, community-based loan programs and other community-based efforts at diversifying their economies away from defense reliance.

Commerce believes also that the delivery of federal diversification conversion funds should occur on an allocation basis. Factors such as those touched on by Martha might be augmented by recognition of the level of defense contracting that exists within a particular state.

We also believe that when the federal government is considering allocating funds at the state or local level that it should recognize that while there has been an initial savings brought on at the federal level as a result of the peace dividend, that the communities and states are the ones that are suffering from an economic standpoint and programs that may require something close to a one-to-one match on federal dollars, in many cases, would be very difficult for the communities or the state, in this case, to be able to shoulder.

I would like to reiterate that the Department of Commerce commends the activities of this Commission. We would like you to know that we stand ready to assist the Commission in any of its efforts to deliver a program of economic or technical assistance to the communities.

CHAIRMAN BERTEAU: I must confess, given the newstories that I have been reading about California state budget I wasn't sure whether you folks would even be able to show up today or not.

Let me clarify a couple of points with you and make sure that I understood correctly and perhaps, if we have some written testimony, I can focus on that.

I believe that if I understood you correctly that you were recommending that we actually slow down the pace of the defense drawdown, given the recession and the economy. Did I understand that correctly? Is that a recommendation that you made?

MR. McMAHON: We believe that it should be phased with consideration given to the economic and social consequences.

CHAIRMAN BERTEAU: Does that mean slower than it's going right now, or faster?

MR. McMAHON: Certainly no faster. We would like the process, as it moves ahead, to carefully consider the economic impacts that are occurring.

CHAIRMAN BERTEAU: If we are not going to go faster but you want faster base closures or faster reuse of the base closures, doesn't that imply that you have to close the base sooner and draw down the forces that are working there at a more rapid rate than is being done now?

MR. McMAHON: My comment in regard to a phased approach was more on the order of reductions in defense contracting than in terms of military facility closure.

We understand the parameters that federal government works with in that area. Our point that we were trying to make, is that we believe that once a facility has been targeted, a schedule developed, that it's important to adhere to that schedule so that reuse can occur.

CHAIRMAN BERTEAU: But you think procurement funds for contracts should not come down as fast as they are coming down?

MR. McMAHON: That's the point, yes.

CHAIRMAN BERTEAU: To the extent then that the funds that are in the budget are there on the order to buy the things that the existing defense forces need, you would consider it appropriate to actually buy something we don't need in order to keep the dollars from coming down that fast?

MR. McMAHON: No, I don't believe I am saying that.

CHAIRMAN BERTEAU: I am trying to understand what it is we would spend that we don't need to spend in order to finance the defense forces.

MR. McMAHON: I wouldn't want to comment in an area that perhaps I am not qualified to speak on, in terms of the rate of reductions in defense spending. The point we were trying to make from our governmental standpoint is the fact that it should be a carefully considered process that realizes that sudden and very dramatic reductions in defense contract can have a very sudden and dramatic devastating impact at the local level.

CHAIRMAN BERTEAU: I understand that. Of course, you have some other recommendations of ways to support that.

Miss Lopez, one question for you. We had a couple of comments earlier about flexibility in training programs and in funds available for that sort of thing. You recommended that we make more funds available for demonstration projects. Is the restriction on those, do you know, is that a statutory problem like, for example, the question of staying with the same company or is that something that the executive branch of the federal government could change those rules?

In other words, you are trying to do things through demonstration projects that may make sense beyond demonstration projects as permanent flexibility. Are you familiar with, and perhaps what I really need to do is ask you to give us some more information about your proposals and whether or not those proposals are generated because of statutory restrictions that are imposed upon the State of California, or whether they are generated by regulatory restrictions which the executive branch has some control over?

MS. LOPEZ: I think it may be a combination of the two.

CHAIRMAN BERTEAU: If I could ask you to look at that. And if you add to that look, we had discussed the Los Angeles Technology Resource Center a number of times today. There was some indication that perhaps training done under the rubric of that resource center would not be eligible for federal training dollars because, in fact, you are training entrepreneurs how to become businessmen and women and start their own businesses.

If you would comment as well, when you look back at that, over what the restrictions are in that regard and whether or not you have any recommendations there.

MS. LOPEZ: We would be very happy to do that.

COMMISSIONER HIGGINS: I have a question. I appreciate your comments about the DCA funds. I sense that there are some things that I need to look into with the Department of Labor, also, to clarify some of those issues that may come up for the Commission and for Labor. And if you don't mind, I would like to pass on your comments and perhaps even your testimony and share it.

MS. LOPEZ: Yes.

COMMISSIONER HIGGINS: And start a dialogue with Bob Jones on that.

This is another good opportunity for me to make a plug for the Secretary of Labor representative here, the regional representative, Sam Wallace came down from San Francisco today and sat in on the whole hearing today. Although he cannot help having to stay in San Francisco because that's where his regional office is, he indicated to me that he is very concerned about what is happening down here.

If you or anyone else sitting in the audience today is also concerned and thinks that there is something that you would like to get to the secretary or to the Department of Labor and you have had some problems doing it or you have had some concerns locally, I am sure Sam Wallace would be very interested to receive your information.

CHAIRMAN BERTEAU: Any other questions?

COMMISSIONER DAHLMAN: Yeah. Miss Lopez, there is a section in your testimony about the need to take some of the restrictions away from the training programs and turn it into job creations. Is this the demonstration program you are talking about?

MS. LOPEZ: Yes. Normally the dislocated worker funds under the Job Training Partnership Act as well as the Defense Conversion Adjustment Program are to retrain people for new jobs with new companies. What we would like to do is see if we would be able to get retraining to, perhaps not a hundred percent, but to allow a greater flexibility so that people could be retrained with new jobs perhaps with their existing company.

CHAIRMAN BERTEAU: And we do look forward to some additional input from you.

COMMISSIONER MAY: I have a question.

You mentioned successful programs and we ought to continue to use successful programs. Could you give us four or five successful programs and perhaps comment on why they are successful?

MS. LOPEZ: I think basically what I am talking about here is the existing structure that we have through the Job Training Partnership Act program and the National Job Service, which is an existing program that is already funded with tax dollars to provide job training and job placement programs.

What we would like to see and continue to encourage is that if new programs are developed for clean air, timber, other types of workers who are displaced, that those--that funding for those workers be channeled through the existing programs rather than setting up a new program over here with different rules, different eligibility, different funding streams. To be able to use the existing program insures coordination and planning at the local level.

COMMISSIONER MAY: Would you consider DCA to be a separate program in that context?

MS. LOPEZ: The fact that the money is being channeled through the Department of Labor and being administered largely under the same terms and conditions as the Dislocated Worker Program of the Job Training Partnership Act, to that extent, we support that very much.

COMMISSIONER MAY: From your standpoint, it is essentially the same program?

MS. LOPEZ: We see it virtually very similar. And the Department of Labor, for example, has advised us both verbally and in the regulations that they put out that if a company applies for Defense Conversion Act funds and for some reason they don't qualify for those funds, then that grant application will automatically be considered under another category. So, that is the beauty of that type of a program. If you don't qualify here, okay, we will consider you here. I think that's very positive.

COMMISSIONER MAY: Is that program properly funded?

MS. LOPEZ: We would certainly like to see additional funding under the Defense Conversion Act.

COMMISSIONER MAY: My understanding only $20 million of the $150 million has been applied for by states, including California.

MS. LOPEZ: Part of that, I think, is a company's understanding that they can apply for it directly. And also, us working with the service delivery areas and getting them focused on this program. The recent civil unrest in Los Angeles has derailed some of the efforts that we had. We are considering a major proposal with the L.A. County Private Industry Council. We're in the process of reviewing that. We are also working with another multi-state aerospace company that will be submitting a proposal directly to the Department of Labor. But we are working with them.

In addition to the five grants that we have applied for, three of which have been funded, we are working on a number of other grants. We have received to date about $6.5 million of the 150. We have applications in for a significant additional amount.

COMMISSIONER MAY: Thank you very much.

CHAIRMAN BERTEAU: Thank you, both of you. I appreciate your coming down here and meeting with us today.

MR. HANLEY: Thank you.

Everybody has been very good about trying to stay within the 10-minute boundary. Only a couple of times have we gone over and then only a minute or two. We are now about 20 minutes behind schedule. Anything we could do to help catch up would be great.

The next witness is Valente Alarcon, who is an private citizen, owner of Eternal Euterpe Entertainment.

I apologize if we are a little late for you.

MR. ALARCON: I do not have literature. I do have this item that I would like to give to you.

Mine is more of a personal perspective. It is my position in society as an

integral part of the community on the individual level to make this perspective known to you. So, I come forth to tell you this.

My name, Valente Alarcon, I am a private citizen. I am a sole proprietor of a business, plus I consider myself the product, a direct result of defense industry success. Since I have been raised in this society and benefitted not only indirectly by the evident growth of the area in the past three decades, but also directly, as a child of parents who worked for the government all of their lives.

One of my parents has been aiding the family household by the paycheck she receives from the Department of Defense in her capacity working with procurement and contracting between the government and private companies and sometimes universities. There is something to be said about our society that, in many cases, within middle class, it is necessary to have two incomes to make enough money to manage to live a reasonably comfortable life. But now two jobs would be hard to attain. People are lucky to have one job. Yes, the Cold War has definitely benefitted our society not only by the feeling of national security, but also for the employment it generates.

Now with all the cutbacks, the defense industry is looking to protect that sample of the population that worked through its contracting with private business. This is very thoughtful of you. But I would like to touch upon more of the surface of this event, this process by which I see a transition can be made to the benefit of us all.

The natural part of my growth, my education and conditioning has taught me to view the circumstances, the consideration by which events occur. This event, the ending of the Cold War has brought with it the positive view that there will be more money directed from the defense industry, the peace dividend that is, to use on more beneficial projects, aside from the war machine.

But, there is also aspect of my education that has shown me that governments find war, especially when economy gets bad, so as to improve conditions.

In ancient times, land and booty would have been sufficient motive to start a conflict. But today, it's associated with the very life blood of our supposed peaceful society. Are we here in America saying now that, we are going to mold proverbial plowheads with the melted down weapons of war? Are we today going to melt down those considerations in our society that rely so heavily on purported defense spending which makes an exportable national product that is extremely profitable?

But there is more to this period than just the ending of the Cold War. If our government has finally shown itself as a champion of world politics, it is indeed special. But if the society making up the government is breaking apart, what is to be gained?

Not that I think our society is at the brink of national despair, though there are some indications in nationwide political infrastructure that is in a deficit, heated problems between classes and the government authority, social behavior that needs to be legislated by the judicial system, bipartisan gridlock in our capitals and transportation gridlock on our roads, costly government regulations, private industry exploitation and little money for education.

Well, we have our challenges, don't we? And don't think back to the good old days when the economy was booming for any comfort. Since there were indications

then too, like ever-worsening pollution, the raping of Earth's resources, both human and natural, corruption resulting in scandals in the political and private sector such as fraud concerning the Department of Defense procurement, the savings and loans industry collapse, the embezzlement of pension funds, and the fall of major insurance companies, the junk bond scandal along with big business leveraged buy-outs.

And talk about buy-outs and collapses--has anyone looked at the banking system recently?

Yes, there were repercussions in the good old good days too. We have the social scars to prove it. But at that time, the money was enough to be a substitution to get us to postpone its realization.

With all this in mind, I'll have you know I am not a pessimist. I do not feel myself obligated to look only at the turmoil all around me limited to economic impact. And yet I am certainly not an optimist, because I don't have the lack of depth or understanding nor do I have the naive impression told to followers by their leaders. Yes, I am not much of a follower at all. But I will tell you what I am. I am a meliorist -- a person who believe that things can get better and that society gets better by human effort.

Meliorism is a belief the world tends to improve and man and woman can further this improvement. We need this type of mentality as we make this transition from the pseudo-war, the Cold War, to a level of appreciable peace.

Let me give you an example. Those of you who live in Los Angeles will understand this best. That with all the headway made in pollution reduction, we still have a serious problem with smog. The problem shows itself both physically and psychologically with the visual gloom of smog, especially when you see that the numbers of cars on the roads means that much more exhaust and pollution.

What can be done? How can we improve this environmental situation? Like the popular television game show, you answer the question with, what is reactor? What is acid rain? What is battery? What is cloverleaf? After understanding what these items are, perhaps a conclusion can be made to invent a reactor which extracts the pollution contained in the environment to use as some type of acid solution to maintain a battery that can be located at the source of the pollution, the cloverleaves of the freeways throughout California and the country.

This is meliorism at its best. Some would contend that it's just shallow optimism, idealistic, but not real.

I put it to you, the defense industry constituents, the government research establishment, is this a viable operation? Can we develop the facilities and faculties to address the situational need to improve our society? You people know. You are completely aware of another aspect of a peace dividend. The knowledge and research the government has under tabs as reported in the Los Angeles Times Sunday, July 1992 and also mentioned quite often throughout this day.

Yes, there is an abundant amount of research completed in the name of defense spending and this information should be made available to people like me, a small businessman, a taxpayer and a meliorist who wants to improve the world in which he lives. Only by means like this can we turn our economy around, turn our society around. It has to start by turning our personal considerations around and viewing it from all angles

and then turning to focus our research and resources on those aspects that improve our present day life.

It is essential at this time to give individuals the utmost consideration. Release the abundant amount of working knowledge in the research labs and allow society's own populous to improve the place in which it lives.

Job creation is a necessity. Yes, leave it to a meliorist.

CHAIRMAN BERTEAU: Thank you. Could you turn your name tag. I got your first name, but I couldn't get your last name.

MR. ALARCON: Alarcon.

CHAIRMAN BERTEAU: Let me make a couple comments, and then I will ask if any my fellow commissioners have any as well.

You have hit on a very important point. The true peace dividend may well not be the budget dollars that get shifted from one category to another but, in fact, the freeing-up of human resources and creative talent that has been dedicated to pursuing Cold War for the last 45 years and to redirecting that talent to other opportunities in the future that probably need to be addressed even more so now. That's a very important point to keep in mind as we go through here.

Meliorist is a new term for me. I had not thought of it. I may well be one as well. I think it's important to keep a level of optimism and looking forward as we go through this.

In a sense, we have achieved the objective we have worked for for 45 years. When we got there we discovered that maybe it wasn't as dynamic and exciting an objective as we hoped it would be. And the suffering and consequences of that are all pervasive in many ways. But it is important to keep in mind that the point of all this was to get a world that was improving and try to establish a true and lasting peace.

I thank you for bringing us back to that sort of very basic focus here.

Any other comments?

MR. ALARCON: Thank you very much.

MR. HANLEY: Thank you, sir.

Our next witness is Mr. Arthur Leahy of the Southern California Rapid Transit District.

CHAIRMAN BERTEAU: Thank you, Mr. Leahy. This should allow me to regain control any time the schedule gets out of control.

MR. LEAHY: What I have given you are some samples of some composite material which is very strong but very light. For a comparison purposes, a piece of railroad track, steel. You can see that there is a big difference in the two.

CHAIRMAN BERTEAU: My engineering skills are not real strong so I am going to rely more on your testimony than what I can perceive from these items here.

MR. LEAHY: My name is Art Leahy. I am the Assistant General Manager for operations at the Southern California Rapid Transit District (SCRTD). It is a pleasure to appear before you today to discuss a project that we believe will not only be a breakthrough for the transit industry but the aerospace industry as well.

That project is the Advanced Technology Transit Bus or ATTB.

Today you have heard a lot about problems here in California. At this

point I would like to discuss a possible solution for some of those problems.

The transit industry is required to be the first to respond to federal, state and local clean air act requirements. Additionally, the district has been faced with new challenges to meet the standards established by the recently legislated Americans With Disabilities Act. As such, the trucking industry, and to some extent the Department of Defense, will learn from our efforts.

The SCRTD provides a variety of transit operations to over 409 million patrons per year. Our service area covers 1,442 square miles in the Southern California region through 16 operating divisions and a state-of-the-art central maintenance facility.

SCRTD currently operates electrified rail vehicles, as well as conventionally-fueled buses and one of the nation's largest fleet of alternatively-fueled buses.

We are considered leaders in heavy-duty, clean-air applied research. Our work indicates that greater technological advancements will be necessary to satisfy the ever-increasing requirements of legislated mandates as they become more stringent.

The RTD is a member of the I-Time Task Force sponsored by the U.S. Department of Transportation, DOT, and Ontario Ministry of Transportation. The objective of the task force is to improve maintenance efficiency through the introduction of innovative technologies.

The preliminary findings of the I-Time Task Force indicate the need for a lighter weight, non-diesel powered, low-floor transit bus that could be built using proven aerospace technologies. Composites, possibly carbon fiber materials, and or aluminum unibody structures have been identified as possible alternatives to reduce weight. The district is interested in a low-floor bus configuration because of its improved ability to accommodate the needs of the disabled population, while eliminating the relatively high cost and low reliability associated with current technology wheelchair lifts.

The ATTB program will be performed in three phases, each of which will have its own specific goal. This will permit us to minimize risk, cash flow and overall expenditures until specific milestones are achieved. Program oversight will be provided by district staff. All conceptual design work, design validation and engineering work will be performed by vendors under contract to the district.

Phase One is the development of a conceptual design of a modern age bus, applying state-of-the-art technologies to the key components of a transit bus. It will consist of the preliminary engineering required to validate design goals and gather necessary information so that the vehicle design can be optimized from a systems integration point of view.

This will mean contacting potential suppliers from both the traditional bus as well as the aerospace industries to take advantage of the latest available American technology. This will enable the district to examine the relationship between all aspects of the vehicle design from both a weight and technology standpoint.

Phase Two is the development of a validated bus design and manufacturing plan to the point where a scale model can be constructed and selected full-scale components can be fabricated. It will focus on a detailed design leading to the manufacturing of key components as well as a manufacturing plan. This will permit

actual prototype work on certain key structural components for the purposes of validating design and cost estimates. The detailed design and pre-production work will lead to a full-scale mockup and a complete business plan for manufacturing.

Phase Three consists of a detailed design and manufacturing plan for the selected bus configuration. It incorporates the actual construction of four to six vehicles while at the same time finalizing pre-production manufacturing designs and tooling. One prototype will be completed to test design parameters. Four prototype buses will then be fabricated for on-the-road testing. We would then build and test the vehicles in actual revenue service.

An on-going objective of the program will be to communicate the technology developed under this program to the transit industry. I would note that any proprietary technology will remain the property of the contractor. A detailed technology transfer plan will be developed at the beginning of phase one and updated during phases two and three. All work performed on the program from definition of transit user requirements to the development of production plans will be documented. It is expected the district's contractor will be required to publish quarterly technical reports, end-of-phase technical reports and an end-of-program report.

In addition to these reports, contractors will be required to hold briefings, demonstrations at scheduled bimonthly intervals to share the progress of its development effort with the transit industry and to obtain valuable feedback for continuing improvements. The combination of reports, briefings, demonstrations, videotapes and RTRB, Rapid Transit Review Board, evaluations will ensure the effective transfer of technology development on the ATTB program to the transit industry.

The ATTB budget is projected to require a funding level of $27.7 million over an anticipated 47-month period. The district is requesting funds totaling $5 million in Section 26-(B) grant funds from the Federal Transportation Administration (FTA) to implement Phase One of the program at this time. An evaluation of the program's feasibility will be performed at the close of Phase One. Comments will be solicited from the FTA, the district and the RTRB before the next phase of the program is initiated.

If a decision is reached to proceed with the project, a grant amendment will be forwarded to the FTA to revise the scope of work and to include funds for Phase Two of the program. Like Phase Two, a mutual decision between the FTA, the district and RTRB will be reached prior to proceeding with Phase Three. Currently this project enjoys the highest research priority at the FTA.

As proposed, this project will bring current technologies into the development of a new generation transit bus, which will integrate low emission propulsion, a low floor design and low maintenance materials and systems. This will be a vehicle that bus riders will want to use. The technology enhancements can then be applied toward school buses and rail cars as well.

Additionally, this project will significantly contribute to revitalizing the area's economy, as well as providing a technology which will help Southern California achieve its air quality goals.

The district plans to develop a national transit consortium to participate in the procurement of Advanced Technology Buses. The procurement will be opened to all

potential bidders.

I would close by noting that this project was recognized by the House Armed Services Committee and was listed as one of the projects which should be funded under the Defense Reinvestment Program. We would urge the Senate to endorse a similar approach.

That concludes my comments.

CHAIRMAN BERTEAU: Mr. Leahy, thank you very much. Your written testimony is somewhat more lengthy than that. You did a good job of summarizing it. I think there is a lot of good information here.

Let me make one other comment and ask you a question or two.

Your phase design project clearly intends to look very much at the production process as part of the design process and I think that's an admirable trait that will lead to avoiding some of the problems.

I used to be a bus driver for a number of years. I can tell you, it isn't just wheelchair buses that have maintenance problems and low reliability. I think you can go a long way towards making sure that you address those reliability problems towards those than concurrent design and production problems that you have outlined here.

Is it your intention to -- who exactly would perform Phase One of the work here? Is that something that you would compete or do you have companies already interested in doing that? Or would you set up your own shop to do that?

MR. LEAHY: At this time we are preparing documents to go out to bid to request responses from whoever would be interested in conducting that work.

CHAIRMAN BERTEAU: Your 47-month period, does that include the review and evaluation time in between each of the phases?

MR. LEAHY: Yes. That is from the start of the program to conclusion to the six buses that I described a moment ago.

CHAIRMAN BERTEAU: Not only would you have some six buses at the end of the four year period, but you would actually have some production tooling and capability of taking orders and beginning work on delivering them?

MR. LEAHY: That's correct. I would note, however, that it is not necessarily the case that the firm which was involved in the initial project would be the manufacturer. The critical thing here would be that the technology could be transferred to some other manufacturer if that be the case.

CHAIRMAN BERTEAU: Would the technology be available to any and all, or would you expect that the process and technology would be patented by whoever wins your contract?

MR. LEAHY: We would expect that any technology or processes which were developed as a part of this project would be available to the transit industry and to manufactures of transit buses.

CHAIRMAN BERTEAU: That's a very intriguing proposal. I appreciate it.

Any other questions?

COMMISSIONER MAY: Do you have any ideas how many jobs might be created? I guess it is kind of an open-ended proposition, depending on where it goes with

buses.

MR. LEAHY: The national bus industry has about 50,000 buses, perhaps 1,500-2,000 buses per year manufactured. It's a relatively small industry. However, the results of this would be applicable not just to buses, but potentially railcars, school buses, perhaps other vehicles.

COMMISSIONER MAY: But the people who are manufacturing those vehicles today would use this technology. It wouldn't necessarily create jobs?

MR. LEAHY: Difficult to say how the industry would shake out. What we would be looking forward to is -- in such a vehicle there are a lot of components as well as the manufacture of the final vehicle. In fact, in the transit bus industry, the bulk of the work is actually done, is actually components which were assembled at bus manufacturing plants.

We don't have an estimate at this time how much jobs might be created. There is a lot or flexibility in how that might be approached.

CHAIRMAN BERTEAU: I would note that the largest bus manufacturing company in America is located at a former closed defense base in another state.

Your question is interesting and perhaps relevant to them. But I think it is obviously too soon to tell what would come out of that.

MR. LEAHY: The bus manufacturers do estimate that about 70 percent of the cost of the bus is not in the assembly. It is in components which are manufactured elsewhere.

CHAIRMAN BERTEAU: Any other questions or comments?

Thank you very much, sir.

MR. HANLEY: Mr. Chairman, in fact, we have seven more witnesses. I recommend we take one of them. That will be three sets of six.

CHAIRMAN BERTEAU: Three sets of six is more than seven.

MR. HANLEY: We will have done three sets of six. We are only about 10 minutes behind here.

The next witness is Mr. Robert J. Bremmer of Lockheed Corporation.

CHAIRMAN BERTEAU: Mr. Bremmer, welcome, sir.

MR. BREMMER: Thank you. I have a statement that I would like to leave behind. And then if there are any questions.

Good afternoon. My name is Bob Bremmer and I am the Associate Director of Business Analysis with the Lockheed Corporation. I am a member of the corporate development group which has the responsibility of supporting the development of corporate strategy, conducting market research, identifying new lines of business and assessing potential acquisitions.

I am pleased to have the opportunity to make some remarks before this commission.

Lockheed is a $10 billion company that is predominantly in the defense aerospace market, although we have always had some commercial components. Currently about 30 percent of our sales are from customers other than the DoD. Our long-term goal is to increase this to 40 percent, and this will be done by expanding our commercial activities and not decreasing the level of military activities.

We currently have a sizeable business with NASA and are extending our involvement with federal agencies other than the DoD. We have a major division that makes plotters, digitizers and displays for commercial customers. We have long been involved in airport development and management. We are also pursuing a number of new initiatives in the commercial arena. One of these is commercial aircraft modification and maintenance. We have been doing this for a few years in South Carolina. We have opened new facilities in Tucson, Arizona and San Bernadino, California.

The San Bernadino facility is the old Norton Air Force Base. We have contracts to perform maintenance on Boeing 747s there. We also have contracts to perform data processing for a number of local and state governments. We process parking tickets for the City of Los Angeles and collect child support payments for the State of California. We have an alliance with Motorola to develop a global telephone communications system, an alliance with AT&T to pursue smart highway systems.

We recently received a major contract to perform remote mail bar code reading for the postal service.

Out of some $100 billion in potential opportunities that we see for future competitions in the next few years, about one-third of them are in the commercial area. We recognize that large scale conversion will be difficult. The success rate of defense companies diversifying into commercial markets is very poor. The defense market, although declining, is still huge.

Lockheed is committed to its core businesses, and we feel that we will fare well in the future defense environment. We are venturing into some commercial areas in what we call skill-based diversification, but only in areas that made good business sense. We have many stakeholders in the company, but the principal one is still to add shareholder value.

The public sometimes wonders why it is difficult for defense firms to convert readily into commercial ventures. Most military systems are high-value, highly engineered systems with a high degree of redundancy. Low volume production rate is the norm. The accounting system and procurement practices required by DoD are much different than that of commercial customers. The focus is on technical issues rather than marketing issues.

The culture and the mindset of the people in the industry are different. They are used to dealing with one customer, not many. There will have to be some changes in these things to some degree.

Some aerospace companies are recruiting senior executives from the commercial world to help them in their diversification. Some companies are forming separate standalone facilities for their commercial ventures. In addition, some welcome changes have been made in defense acquisition and procurement policies, although more can be done.

All aerospace companies are now taking action to accommodate the defense decline. A few have decided to focus on their military core businesses. Most are pursuing new commercial markets relating to the technology markets that are at least somewhat related to what they have been doing. Examples are commercial space, data processing, transportation systems and environmental cleanup. Almost all are targeting

these areas, so there is a lot of competition.

The downturn in military work will be more rapid than commercial jobs can be created for their displaced workers. And those that do get jobs will probably be at lower pay levels. The current recession makes finding jobs all the more difficult.

It is ironic that these workers are a victim of their own success. They've won the Cold War, and now they are out of work. Government help is warranted and can take many forms. Some initiatives exist within Congress now to help workers.

We believe, however, that top-down directing by the government may not be the best approach. The government could centrally identify national economic priorities, for example, transportation, infrastructure, competitiveness, and let businesses and local communities plan how best to fill these needs.

Perhaps something analogous to the G.I. Bill could be developed that would help laid-off workers attend school and get retrained in something they are interested in and that the marketplace needs.

Joint partnerships between government and private industry can be helpful. Lockheed, for example, is involved in one called CALStart, which is a nonprofit consortium of over 40 public private entities formed to create an advanced transportation industry in California. It is evaluating several exciting transportation projects, including electric car development.

Lockheed has donated a building in Burbank that was empty as a result of the shutdown of our operations there.

This is a good way to see how we can contribute and understand the technology and market before we enter into it in a major way. We see more and more examples where government at all levels is helping the conversion process, and we believe that more such ventures would help business, the nation and the workers.

Thank you for your time. I would be pleased today answer any questions or provide additional information in what we're doing in this area.

CHAIRMAN BERTEAU: Thank you, Mr. Bremmer.

You mentioned in your comments about the difference in terms of doing business with the Defense Department versus selling to the commercial market. You also mentioned that Lockheed is increasing its business with other government agencies, NASA, non-defense federal agencies. I think you mentioned the City of Los Angeles and the State of California.

Has it been your company's experience that, in fact, those government entities tend more towards the problems that you have associated with defense or is it more like selling to a commercial market in terms of dealing with other state, local or other federal government agencies?

MR. BREMMER: There are some similarities and some differences. I guess the major similarity is that you are still kind of dealing with one customer, it might be the local government rather than the federal government. But just the practices and the new range of competitors that you have in that market, it does kind of make it different than when you are dealing with the DoD.

CHAIRMAN BERTEAU: So it is still harder to deal with DoD even than with NASA or the Federal Aviation Administration or the State of California?

MR. BREMMER: Yes.

CHAIRMAN BERTEAU: You mentioned in terms of training programs, G.I. Bill, that sort of thing let people train in things they are interested in and for jobs where the market demand is there. How would those people know in fact what demands or what jobs the market will bear when they enter those retraining programs?

MR. BREMMER: Well, I think that would become known. I think if the government were to establish and clearly identify national priorities and maybe some various incentives than there would be new jobs created in these in these areas. And that, in turn, the colleges would then develop courses in them and the workers could be drawn to them.

CHAIRMAN BERTEAU: Is it fair to say that you think the federal government should create that demand by defining what they going to spend money on?

MR. BREMMER: Yes, I think they should.

COMMISSIONER DAHLMAN: We have repeatedly, in the discussions before this commission, heard people say that large corporations in the aerospace industry have all kinds of little, potentially profitable, spin-off technologies lying around that the companies have not found valuable to exploit for themselves but which might be suitable for giving to engineers who work for the company, and when they exit can set up their own small companies, use the spin-off technology, get some small companies and start growing.

MR. BREMMER: Can you speak a little closer to the microphone?

COMMISSIONER DAHLMAN: I don't know how much of what I said you got. Did you catch any of it? Try again on that.

We have heard in testimony before this commission, repeatedly, that large aerospace companies have potential spin-off technologies available which they have not found profitable to develop for themselves. And that a lot of these spin-off technologies, not necessarily defense related, but coming out of defense-related activities could be suitable for engineers working for the company to take with them out of the company, with a little bit of seed money to start up commercial ventures in the spin-off technologies and get small companies to grow.

Does your company have a lot of spin-off technologies unutilized lying around that would be suitable for such?

MR. BREMMER: Yes, we have had a number of spin-off technologies. We have actually formed some major companies. One for example, was Dialog, which was started at our Missiles and Space Company, as a separate division was created within Lockheed, and it did become the largest computer database and then we subsequently sold that.

Another example is a company that was called CADAM, which is computer-aided design and manufacturing. We had established that out of the Burbank operation. That was spun off into a separate division. Subsequently it was sold to IBM, I believe.

COMMISSIONER DAHLMAN: Those are things that actually happened. What I was asking about, are there things lying around in your company unutilized now that you could give to some of engineers who are leaving the company?

CHAIRMAN BERTEAU: The idea that we have heard today is that, in fact, there are engineers that will be laid off from large aerospace firms such as Lockheed, who in fact have an idea that they think can be viable commercially. And we have heard proposals to set up programs, which it's been proposed the federal government help finance, to help those engineers turn those ideas into jobs selling to the commercial market.

The question is, are there engineering ideas floating around within Lockheed that are not being exploited because that structure isn't there to help those people turn those ideas into commercial products?

MR. BREMMER: I would say probably, in some cases, there are. There are a number of ventures that have commercial applications that we have looked at from time to time. You know, it could be wind energy, roofing, a different number of things. And sometimes they can materialize, other times it can't. Sometimes it may not materialize within our company just because of the structure but it may be possible that those people could develop it elsewhere.

CHAIRMAN BERTEAU: So it is fair to say that the corporate structure of Lockheed might not provide the same opportunities for turning those ideas into something that individuals getting out of their own would have an opportunity to do?

MR. BREMMER: There are many commercial ventures that we have developed. And, you know, in some cases it may not materialize, you know. In some cases, a different environment, it might work for them.

CHAIRMAN BERTEAU: Okay. I think there was another question down the way.

COMMISSIONER LAVIN: That was the same.

COMMISSIONER MAY: I wanted to ask a question.

One of your vice presidents recently was quoted in one of the defense publications as arguing for an industrial policy. Is that Lockheed's position that the nation needs an industrial policy? I heard you say we don't need government top down direction. Perhaps he is just speaking for himself or was he speaking for the corporation?

MR. BREMMER: Well, as principally from my viewpoint, I wouldn't say it is an official Lockheed position.

COMMISSIONER MAY: Does Lockheed have an industrial policy position? Does the company believe that the federal government should have an industrial policy?

MR. BREMMER: Well, yes. We have a number of times appeared before Congressional committees and expressed our thoughts on that. I can provide information on that to this commission afterwards.

CHAIRMAN BERTEAU: Okay. We appreciate that.

Any other questions or comments?

Thank you, Mr. Bremmer.

MR. HANLEY: We will reconvene at about 20 minutes after 6:00.

(Recess taken.)

MR. HANLEY: The next witness is Mr. Don Nakamoto of the International Association of Machinists.

CHAIRMAN BERTEAU: Mr. Nakamoto, welcome, sir. We are delighted to have you here. I think the perspective of the unions and the union workers is one that we are looking forward to hearing from you today. It has been one that we have particularly tried to make sure that we get in as we go around the country and we have our site visits and our hearings. So, welcome.

MR. NAKAMOTO: I would like to thank you and the Commission for allowing me to speak today. I have a statement that I am going to read. And I am sure you will probably have some questions after that point.

My name is Don Nakamoto. I am with the Machinists' Union, representing the hourly employees at the Lockheed Corporation in Southern California. Our location has been one of the most devastated in the country.

Since May of 1990, Lockheed has gone from 12,300 in May of 1990 to 4,500 in Southern California. And this has been based on the expiration of contracts, defense cuts and transfer of defense programs to other locations.

Two years ago, in the midst of this devastation, our union leadership decided to explore job creation alternatives rather than focusing on reversing any defense cuts, which we felt was a futile effort. The alternative we developed was defense conversion. And more specifically, to create a regional coalition to develop alternative industries to defense.

That coalition, I am sure you have heard in earlier testimony today, is called CALStart. It's a non-profit consortium. It represents probably one of the most advanced economic conversion projects in the country today. It's comprised of dozens of public utilities around the state, corporations, government officials and unions in California. The intent of the coalition is to utilize its combined resources to create new industries, such as advanced transportation, that can absorb laid-off defense workers and revitalize the state's economy.

One of the initial focuses of CALStart, as I am sure you have also heard today, is the development of an electric vehicle parts manufacturing industry in California. One of the reasons we got so strongly behind this particular area was the fact that there is a California Mandate for Clean Air that was passed in September of 1990. That's going to require that two percent of all vehicles sold in the state in the year 1998 have to be zero emissions. That rate rises to 10 percent by the year 2003, which roughly translates into about 220,000 vehicles that have to be sold in the state in that particular year.

Two eastern states have now adopted similar mandates and seven other eastern states are looking into similar legislation. Many countries around the world are now looking to electric vehicle transportation to mitigate some of their environmental problems.

In general, the outlook for electric vehicle utilization looks pretty good.

Based on electric vehicle market demand, CALStart projects the creation of 150,000 worldwide jobs by the year 2000. California hopes to capture at least 50,000 of those jobs through the creation of the vehicle parts industry. Within the next few months, hundreds of workers, former defense workers in some cases, will begin developing some of these electric car prototypes. The CALStart Consortium, which is right now comprised of about 17 different local companies, will work together to create one showcase vehicle

prototype which would be displayed at auto shows around the world. Already most of the major auto manufacturers around the world are looking to CALStart to possibly supply parts sometime around the period of the mid-1990's to meet the anticipated demand in the electric vehicle industry.

We have enjoyed some pretty good success up to this point. But I would like to talk about some of the obstacles that we have encountered that I think maybe that should be addressed by this commission.

Though this industry or this potential industry holds some great promise and will be developing a product that obviously could be in great future demand, there aren't any areas in the federal budget which can really support the development of a new program such as this or a new industry such as this.

Yet when we speak of defense conversion, this is exactly the type of industry I think that should be embraced and supported. The advanced transportation industry has the capability to employ many defense workers. And more importantly, it has the ability to utilize the skills and the resources that were acquired in the defense industry.

There are areas in the federal budget that can assist with things like buying equipment or machinery or retraining defense workers, but there is nothing to assist in the probably most critical area in an incipient industry such as this, and that's the subsidy or support of defense worker salary and benefits as these industries are developing. Officials within Calstart are saying that hundreds of additional laid off defense workers can be re-employed almost immediately.

Yet there is insufficient funding for salaries. The union and its expert consultants, we scrutinized just about every federal department -- Department of Labor, Commerce, Defense, Transportation -- and we couldn't find any provisions in any of those departments that would provide any type of subsidy of defense worker salaries.

Most of the U.S. companies that are looking to diversify into these areas really don't have, I believe, the risk capital to get in in a major way, or are too small. And since we are a nonprofit consortium, we have no access to private venture capital.

Plenty of money exists in the federal budget for retraining workers. If they wish to go into the education field, they can get retraining to become a teacher. But in California we are laying off teachers. If they wish to go into the health care field, there is plenty of opportunity to acquire money to get retraining to become somebody in the health care field. But unfortunately in California we are laying off health care workers and cutting hospital budgets.

Our union was recently involved in a program, an exhaustive eight-week program, to retrain workers for hazardous material handling. That's considered one of the more promising future U.S. industries. Unfortunately, after an exhaustive eight-week training program, three-fourths of the workers that finished the program didn't have any jobs available because of the recession. All those jobs disappeared. And they went through the entire training program.

Yet with an emerging industry such as the electric car that holds tremendous future growth prospects and astronomical employment potential, there is little money to put these people back to work. The set of circumstances represents a frustrating

malfunction in our system of redeploying labor resources in our country, I believe.

In the past, we have always been able to transition workers from a depressed sector into a prosperous sector. That system has always served us well in the past. But unfortunately, because of the economic times we find ourselves in and because of the unprecedented level of defense cuts that we find ourselves in, workers can no longer be assured if we get the retraining that the jobs are going to be there once the retraining is done.

I think the emphasis has to be changed from retraining to actual job creation. Some mechanism must be developed to assist emerging industries in this country. Otherwise every other industry that tries to get off the ground, whether it be high definition television or advanced medical instruments, environmental remediation, will be faced with the same problems that we are encountered with CALStart.

I think one final irony of the situation is that our workers have the skills to advance into new fields like transportation and wouldn't require a lot of retraining. Companies, I believe, have the technology where they can compete globally. The only missing element is the early funding support to help these industries and jobs get off the ground.

And I think until we resolve that problem, we are going to see the Germans and Japanese enter or develop new industries while we retrain and retrain and retrain for jobs that may never exist.

Thank you. I will be happy to answer any questions.

CHAIRMAN BERTEAU: Thank you, Mr. Nakamoto. In fact, I think you were so clear that you answered every question I had in my mind as we went along there. You took care of all those.

Any questions?

COMMISSIONER DAHLMAN: Yeah, I have a question.

I saw an article on solar-powered vehicles in some magazine recently which suggested that since the electricity that would power these vehicles will be produced mainly by fossil fuels, either coal or oil, if you produce electric cars, the net effect might be to reduce the emissions where the cars are driving, but you will simply export the emissions to wherever the electricity is being produced.

So, unless you go to some clean fuels, which I guess would have to be solar power or nuclear power, you are not doing much for the total emissions in the nation or on mother earth. So, the question then becomes why should we subsidize an industry -- the effect of which would only be to move the pollution from one place to another. Is that what we ought to do? Do you have any thoughts on this?

MR. NAKAMOTO: Our utility companies have dedicated millions of dollars into this whole program and I think that is one of the areas that they are studying is to see that exactly what you talked about doesn't occur. They are aware of the mandates that they are going to have to meet in California. And the utility companies are one of the people that are going to be required to meet those things. So, there has to be some system developed by that timeline to be able to deal with that.

COMMISSIONER DAHLMAN: One thing the utility companies can do is simply move across the state border to Nevada or across the national border to Mexico,

send the electricity up here and be in compliance with the standards in California and the national standards, but we haven't done much to reduce overall pollution.

The question still remains, is that something which we should subsidize with federal dollars?

CHAIRMAN BERTEAU: I think it's important to note, of course, that what CALStart is trying to do is actually comply with existing federal law in terms of the zero pollution automobile figures that have to be sold in California. I suspect that aspect of it may not have been fully debated at the time that the law was passed and may require some more looking into.

You stated that CALStart said that hundreds of employees could be employed immediately if money was there. How would we, if we were going to try to measure the output of that subsidy, what would we focus on?

Let's say the government says, okay, we will give you the money to pay the salary and benefits of 300 workers to get started on it. What would we look for as -- how would we measure the value of that money and tell whether it was well spent or not?

MR. NAKAMOTO: I think that would have to be left in the hands of the individual vendors that are going to be competing in the industry. The vendor that we have been working with is called the Merigon Company. They are part of CALStart. They have been able to identify up to 200 jobs that they can immediately employ. Right now we are looking at only 35. That's limited because of the lack of money to subsidize.

CHAIRMAN BERTEAU: Does that affect the schedule of building the prototype vehicle? In other words, if we had 200 people instead of 35, would we get prototypes sooner? Would we get the cars out the end of the line?

MR. NAKAMOTO: I think we would. There is one ultimate deadline that we have to deal with and that's a certification process in the automobile industry of automotive vendors. So, a lot of retraining has to be done. Right now it's anticipated that retraining would take a period of about 18 months. So, if we did have more employees and more money, I think that could be done more quickly and much better.

CHAIRMAN BERTEAU: We have some more material here on CALStart. So, we will go through that as well.

Any other questions?

Mr. Nakamoto, we really appreciate your being here. I thank you for your input. Actually, as I say that, I think of another question.

Maybe you have answered this. We have talked with a number of major defense firms, both here and in other states, about the programs that they have for their workers that are being laid off. You have touched on one, which is providing an opportunity for new business to come in, such as what Lockheed has done with its facilities at Burbank.

Are there any other recommendations that you would have in terms of what the companies ought to be doing to help the workers who are being laid off?

MR. NAKAMOTO: Lockheed has assisted in some ways. They have tried to assist some of the workers financially. Whether it has been done a degree that is satisfactory, I'm not really sure.

CHAIRMAN BERTEAU: You may have been here earlier today. We had

a proposal that, in fact, the companies ought to set aside some facilities and support, pay the workers for 120 days, et cetera, while they develop a new idea for a new commercial product or something like that.

Are you aware of anybody who is doing anything like that?

MR. NAKAMOTO: No. But I believe that possibility exists. About two years ago a group of Lockheed engineers approached our union and had an idea -- they had their own consulting firm and had ideas about developing certain technologies in advanced transportation. Unfortunately they were all transferred to Georgia to work on the Advanced Tactical Fighter. So, that whole thing just disappeared.

But they indicated that there were many engineers that had a lot of ideas that could be applied to the commercial area but didn't have the opportunity to do so.

CHAIRMAN BERTEAU: Well, it looks like we are giving a lot of engineers the opportunity to think about those kind of things now.

Thank you very much.

MR. NAKAMOTO: Thank you.

MR. HANLEY: Thank you, Mr. Nakamoto.

Our next witness is Mr. Merle Albright of Systems Management Services International.

CHAIRMAN BERTEAU: Mr. Albright, you have been waiting patiently out there for quite some time. And I appreciate your patience. Welcome. We look forward to hearing from you.

MR. ALBRIGHT: I did want to give you something. I thought they were going to give it to you ahead of time.

CHAIRMAN BERTEAU: Not sure when we would have read it this afternoon.

MR. ALBRIGHT: No. Maybe not.

It's Merle. It's Albright with one "L", and these are the -- these give you some background. I didn't have a chance to prepare testimony.

CHAIRMAN BERTEAU: We are still on the record.

MR. ALBRIGHT: I have a few props, you know. I was going to be a teacher at one time. Instead I got into aerospace. Wasn't that a big mistake?

CHAIRMAN BERTEAU: We heard earlier that they are laying off teachers as well.

MR. ALBRIGHT: Can you hear me? I have some compadres back there. One from the University of Southern California. Actually, I would have invited them up here. I think mine will take five to eight minutes. I would like to have a minute feedback from several of you on some of my suggestions. And especially a letter I would like to kick off a little bit here.

Just before the State of the Union address by Bush, I got a call from the program office of Mr. Ron Kaufman, White House. I don't know whether you people know him or not. And I had talked to them before, since I am a member of the Aerospace Task Force. And probably the minority of a hundred of us didn't see the results of what we wanted on the Aerospace Task Force. But one thing I suggested was a piece dividend, P-I-E-C-E, dividend in this letter. And I will leave it as a matter of

record.

What it suggests is that the aerospace defense contractors have set aside funds that say, "help your subcontractors." Are we getting to a different venue here? You know, we talk about the majors and we talk about what we going to do on a big policy. Those subcontractors out there are the key. The guy that makes the valve for Lockheed over here for the stealth fighter can make a valve for a medical laboratory. We know it.

We are in the business of diversification. I just want to kick off with that. This is going to be a matter of record. It never got in the State of the Union. I was really feeling bad about that. Because this is the second call I have ever had from the White House. My relatives wonder how I get these calls. And then I never get any publicity. I don't get contracts.

I would like to tell you in my five minutes -- I will also watch my time -- that I just want to give you a recap of my resume, because the general over there and I at least have some traces that go back a little ways. And diversification is what my resume is about. I'm not going to read it all. I will also leave that.

But I started years ago on the DEWS Line. Anybody ever heard of the DEWS Line? One finger? Okay. I worked on that. I worked on the Navajo Program. Anybody ever heard of that? No. That's one of the first missile programs. But in that very building in Downey, and I will get back to that later, because I have been a.k.a. known as Rip Van Winkle. I will talk about Downey being a techni-culture.

In Downey we had an atomic reactor. I sat 50 feet from it. And we didn't have an environmental group come in and watch me, you know. We had the electronics industry that became Autonetics. We had Rocketdyne Propulsion Systems. We had all these things happening in Downey. I punched P-38 wings there as a kid. I have seen that whole Downey techni-culture exist.

I'm not panicking. I don't think the aerospace guys are panicking. What we are saying is give us a chance and what are the mechanisms.

And I wish I could have stood up this morning and interrupted the testimony. Dr. Schlesinger says, "I don't know anybody that's going in the companies and doing this." In 1976, this is an "Expediting the Diversification of the Department of Defense Contractors." I was the director of economic development. Okay? I will get to that in my resume in a minute. We did it. We have a computer model on it.

That letter addresses the fact that we wanted to set up a manual to help the subcontractors, the major subcontractors diversify. It's down at the working level. I will recap at the end. I can give you tons and tons of stories about technology transfer.

I was on the group -- well, I was on the Apollo Program. We set up the integrated data exchange program. John Glenn came out to Washington -- Seattle. He said, we want your information from those aerospace programs on NASA. So, we set up the integrated data exchange program. I brought 22 -- get this--I'm not an engineer -- 22 designs to the Apollo Program, because I had engineers that worked for me.

So, we set up the Technology Transfer Society in 1976. You will see we worked for three years, got Congressman Brown in there. I can't believe that. But I will tell you it was so.

I would just like to recap my resume again, showing the diversification of one person. I was the planning chief and operations manager of the Titan missile at Cape Canaveral. I did other staff assignments on the Apollo Vice President's Program. I was the executive advisor on the Manned Orbital Laboratory Program. I was corporate officer and consultant. I was the Director, Assistant Director of Economic Development for Los Angeles County when we had this program.

I think my friends and I can tell you the models are here. We are hoping a hearing like this will say, hey, get that grant out, as I have talked to the Office of Economic Adjustment. We need to have a team out here to work with the subcontractors, to work with the cities, not just come in and have a hearing. We need to sit down with you as I did.

We had forty federal agencies here. We got eighteen contracts. This diversification was just one contract. Forty businesses were matched in this diversification. There were like 20 others. We said, hey, you guys do this kind of work. Now we are going to expose you to the computer data banks--build something--either your product in a new market--build a new product with your capabilities--or get out of L.A. You know, you got three choices.

You can do that on a military base. I can go into on military base, as I did out in San Bernadino, Mare Island. I said, hey, there are capabilities in Mare Island. You have a man who is a radiologist; you have ultrasound specialists. They can go over and work in a medical group. But why not set up a business for them? There is a difference. Just training them isn't enough.

The other thing I have done recently, I have been on an advisory board to various corporations. And Mr. Warrick will tell you, we work with 700 businesses -- small businesses. Sometimes you go to the computer data bank and you get them a new item. Sometimes you just write a business plan for them. But you've got to start with the function that says hey, we can help you. These guys in aerospace need to know their technology, their management, not just engineering, can be used out there.

The latest thing I have done, of course, is being in marketing groups. I think that's the hard part. I am trying right now just to see my letters there. I'm trying to say that there is something to be marketed, and that is this technology. What it is, the new look is your artificial intelligence, your expert system. Data banks can match skills, capabilities, hardware and people, but someone has got to pay for that software program. You will see in the letter. I don't want to go through it right now. That's what we are talking about.

What does that software program look like? How can we get it funded? And you can't do it through a local government. We have to do it with the Pentagon. Mr. Dom and I have talked to you before about this.

Okay. To finish the resume. I am currently in my nonprofit business conducting small samples of what technology is about. I'm just going to cite a few of them.

Did I do five minutes there?

CHAIRMAN BERTEAU: You are starting to bump, yes.

MR. ALBRIGHT: Okay. I have to apologize for this. I do write. And I

write as Rip Van Winkle. So, I say things. That way I can sort of say, hey, 20 years ago we are trying to -- I'll take '76. I think we need a wet NASA. Okay? I got a problem with that.

If you look real close, this is a Navy pen here. We need that kind of vision in this country. We need to say, hey, Navy you want some R&D? Have a commercial group do it. Sorry, the Commerce took that away when we were talking about it and got into NOAA.

We need to have an R&D tax shelter back. I lost a lot of money, you know, $150,000 on our own. But $2.3 million because they took R&D tax shelters away. We were working with professors at USC on metallurgical things. Why we let that happen, you know, I don't know. But those are things I would like you to look back on.

San Bernadino, you know, I went out there. I have been making proposals to San Bernadino on television. They have the best audio-visual television group in the United States. They are Department of Defense wide. It seems to me that technology--if those people don't move from that base--somebody could grab them and put them into an organization. They could use those talents.

San Bernadino has been waiting for us to give them this diversification. I think it's time for somebody like this group to say, diversification and conversion. Don't get rid of everything.

In fact, in San Bernadino I said leave the airstrips as golf courses. If you want to come back, so, you wipe out the golf courses. At least use some logic in what you are doing. Don't just turn it over.

I would liked to talk about some things that happened here. I'm afraid you will draw some conclusions.

I think there is a Long Beach man here, but he is not here. I was talking, you know, I said, "one of these cities wants to get rid of these dirty, little, grimy, small businesses. They are glad to see them go." And do you know what the Long Beach guy says? "Give me the list of the names of those people from that city." And it just so happens that Flavin wasn't in charge at the time, but it was Burbank.

When you are talking to the complainer, all he says is, "we are glad to see those dirty, little, grimy businesses go." That's where the life of Southern California is.

I would like to say two or three things in conclusion. I did an agriculture search once.

You know, you go through my resume and say, boy, this guy didn't have a job very long. Well, I'm 65, you know, and some of them I had with the county.

But I was out doing a data search with the guy at New Mexico. He says, hey, we know this humic acid sucks things up into the plants and makes them grow faster. I sort of thumbed my nose at him. I don't believe all that stuff. I got to go to the data sources. So, I went through USC, went through the computer data bank--180 data sources. One pops out--helps clean up atomic waste. Here is an agricultural item that can possibly be used in atomic waste. You will be hearing about it one of these days.

There are small groups that understand that. So, give us a chance. "Give us a mechanism" is what we are asking for out here in Southern California or other places.

I think -- there is one other thing you could do. We need forums. Like the international technology transfer colloquiums or something. We need the society you had represented here. We need the government to come in and say, hey, this is legitimate technology. Let it go. Out of 235,000 classified items, you only need 35,000. You can track those. Have these colloquiums where you get the private sector in.

That's my last statement. Then I would like just a suggestion from the general over there. You have many people, I know, that are on these bases and have many talents. We welcome the opportunity of going in and working with them. I know you will open the door. My point is I don't believe this stuff about you can't get in; I know the general would. So, maybe I will call you some time and ask you if you will help us, okay?

Would you like to respond to that?

COMMISSIONER MAY: Well, I'm not sure exactly what you mean about coming on the bases.

MR. ALBRIGHT: Well, I will take San Bernadino as an example. The audiovisual people there are internationally capable. We would like to go talk to them and see what their capabilities are and see if they can start a business before they leave. I don't know. Maybe they are already gone.

Is that possible?

COMMISSIONER MAY: I don't see why not. But I would certainly explore it with you at an appropriate time.

MR. ALBRIGHT: Thank you.

COMMISSIONER MAY: Is that at Norton?

MR. ALBRIGHT: No. San Bernadino.

COMMISSIONER MAY: Okay. That's Norton, yeah.

MR. ALBRIGHT: I am sorry. Norton Air Force Base.

Mr. Dahlman, you said you would come back out. We hope you will. University of Southern California and us, the Aerospace Task Force members, were kind of disappointed because a lot of the aerospace reports didn't get into there. You know, what they were going to do in the diversification.

CHAIRMAN BERTEAU: I appreciate that. I think in fact you have established a good contact across the board here with us. I am trying to look back over my notes to see if there is anything that I need to make sure that I get clarified for the record. You did have a letter that you thought that you --

MR. ALBRIGHT: I am going to give it to him; is that right?

CHAIRMAN BERTEAU: That would be fine.

Mr. Albright. We appreciate it. I think that kind of enthusiasm and optimism is not only warranted but very welcome by the time we have been sitting here through all this.

MR. ALBRIGHT: You will be knocking on the door for a contract.

CHAIRMAN BERTEAU: Thank you very much.

MR. HANLEY: Our next witness is Dr. Blase Bonpone. Is that right, sir? From the Office of the Americas.

CHAIRMAN BERTEAU: Dr. Bonpone, welcome. I have noticed you also

very patiently sitting out there. I appreciate your patience.

DR. BONPANE: Thanks.

Mr. Hanley, the way you pronounced my name is correct. It has been Anglisized. But the way you pronounced it is correct. It means good bread.

I am the director of the Office of the Americas here in Los Angeles. And I am just extremely happy that this commission is happening, that there is a conversion commission.

I would like to look at the problem, first of all culturally. And that is to identify a culture of militarism that we have lived in as a planet. Militarism is not native to the United States. It's part of a long history. And converting out of militarism to a culture of peace is what we are about. That's what I think of when I hear of this commission taking place.

We have to realize how profoundly militarism has impacted on our economics and politics. I think it was General Eisenhower who reminded us of the extreme danger of the military industrial complex in our country in saying that our people want peace so badly that they are going to insist on it, regardless of what the government wants. It really doesn't make any difference what they want.

So, the question of identifying a culture of militarism is terribly important, both in our economics, in our politics and in our education. We however can and must do this, because we know as we look at the religious prospectives of the Judeo, Christian, Islamic background, the word peace, shalom, et cetera, is always there. Happy are you peacemakers. You shall be called the children of God.

So, culturally we have work to do. Identifying the culture of militarism is something that many people who have spent their lives in the military have tried to do. I meet former military people every day -- I'm one myself, I'm a former Marine -- who have dedicated their lives to peace. You find them in Washington.

You find them understanding that there is quite a consensus that the wars that have transpired since World War II have been basically unnecessary. They were not necessary wars. There is very little defense for the fact of the war looking at it by hindsight.

We see at the same time a movement to save the planet. We realize that the greatest single danger to the planet is militarism. The planet cannot co-exist with the war-making potential that we have at this time.

This is the only planet that has water--other planets have steam--some have ice. We don't know of any with water. This is the water planet. It thereby maintains life. We don't know that this planet can continue to exist. The starvation in Somalia tonight is directly related to the militarism in our culture.

So, we have to identify that.

We look at this time and we see the awakening of a movement of women throughout the world. This is extremely important, because it pertains to understanding the culture of militarism. The women's movement has identified patriarchy and hierarchy as two of the key problems in our society.

And I think they have done so correctly. Because the military model is a model of following orders. It is not a model of dialogue. It is a model of doing what one

is told. That is not a good model for education. That is not a good model for business. It is not a good model for us to live in.

So, what we have to do is while we are converting from the defense posture, we have to also convert from the culture of militarism itself, which has marked us in a quasi-religious way. Militarism for many of us, I could speak as a Marine, becomes a religion. It becomes a thinking that God is on our side, that our side is the will of God. Or, if you want, in the Christian tradition, our foreign policy is God's foreign policy. I can't think of anything more blasphemous or more harmful.

So, to identify the culture of militarism, we have to identify the quasi-religious conditions that lead to the sustenance of a military industrial complex. Now, I think we can change it. Why? Because if we go from the history, from the culture to history, we take a look at our own history, much of what we have to do has already been done.

Look at this. When World War II ended, nine million military men and women re-entered the work force. They represented 14 percent of the total labor force. In the 1945 to 1946 period the nation committed itself to the transfer of 30 percent of the gross national product from military to civilian production. Unemployment during that period never rose more than three percent.

Three percent unemployment, nine million new people in the work force. You say, well, we had a lot of work to do after World War II. We have more work to do in 1992 than we had to do in 1946. Much more work remains to be done today. Our infrastructure is defunct. Our dams are not functional. Our bridges have to be rebuilt. Our entire sewer system is outdated as we look at New York City and Los Angeles.

This tells us that we have two sectors to deal with. We have a private sector and a public sector. We also have a long history of public sector employment.

After the terrible experience with Calvin Coolidge and President Hoover, President Roosevelt came into a bankrupt United States of America, 30 to 40 percent unemployment. He was desperate about what to do. And he came up with some ideas that at once the Supreme Court of the United States declared to be unconstitutional. Within a few years, because the desperation was so great, that same Supreme Court declared what was previously declared to be unconstitutional as constitutional.

What kinds of programs are we talking about? The Civilian Conservation Corps, this is public sector employment. This led to the planting of hundreds of million of trees and to the strengthening of the youth of the United States and to earning an income that was acceptable, so much so that they could send money home to mom or to their wife.

It was a very successful program. These programs were not failed. Neither were they make-work programs. The history of this area will tell you that. If you look in the San Pedro High School right here, you will see hard work done by the program that followed the CCC, which was the WPA. The WPA was not simply a work program. The WPA was a cultural program, an art program, a drama program and a work program. The paintings in San Pedro High School are still there from the days of the WPA.

I am saying that we can transfer into public sector employment, not exclusively. But when we see clearly in this burned-out city that we had a condition from

1965, when Watts burned, until 1992, when a much larger sector of the city burned, of 50 percent of minority youth unemployed. I work with them. We can't say they don't want to work. They want jobs. They do not have jobs.

Now, if jobs are made available, if we can do it in the private sector, it's a wonderful thing if we can. We can't. We therefore have to look at our history of public sector employment. We have to look at the success of the CCC. Conservation is more needed in 1992 than it was in 1935. We have to look at the success of the WPA. And we have to say that's where we can go.

Also we have to look at the success of the educational programs. The University of California has doubled its tuition in the past two years. I just spoke to a woman who was 70 years of age who told me that she got her doctorate through the WPA education program. She taught as a professor her whole life at UCLA as a result of that. Said, "if it weren't for the WPA education program, I wouldn't be here."

Yes, we can convert. It is entirely possible. It is entirely feasible to do this.

Here is an article from the Los Angeles Times. The cleanup alone from the nuclear industry, the nuclear energy industry, the nuclear industry as a whole, the cleanup alone conservatively is $750 billion. Up to $1.7 trillion to destroy the dangerous substances. That is work. Those are jobs.

There is a fallacy that we have here in Los Angeles. People are saying, well, what do you want, clean air or jobs? What a silly question. We want both. And the two are not contradictory. You have clean air, and you have jobs. And you have jobs to make clean air. And that is entirely possible, any presumption to the contrary really doesn't have a basis.

So, we have here something that we can achieve, that we can do. But we also have to look at the taxation situation in order to do it. I think it is terribly important.

Aside from being director of the Office of the Americas, I am also a candidate for Congress. I hope to see you in Washington very soon.

We do have a taxation problem. The United States historically had progressive taxation. We do not have progressive taxation at all in 1962 [sic]. Progressive taxation is gone. Now, if we look at progressive taxation and see what it did for the redistribution of the wealth and jobs, we can translate the dollar figures from the new deal figures to 1992. Someone earning $20,000 per year in 1992, with a progressive tax system somewhat modeled on Roosevelt, would pay little or no tax. A CEO earning $50 million a year would pay 90 percent. This is history, this is what was done.

This is what brought the United States back to life again in the "New Deal" period. So, we aren't looking at these programs as something and saying you can't do it, it hasn't been done. We are talking about things that have been done, that are part and parcel of the necessity of converting this nation.

At this time, also, we are living in a moment when the United Nations has a role that has never been more extensive. It's at the highest point. And we have to support that role, not look upon it as a threat. Not look upon it as something that is somehow competitive with us.

Just as Mr. Nixon may be remembered for opening up China, in spite of his

strong anti-communism, we may see that this period, as we look at it from the future, we will say that Mr. Bush helped to open up the U.N. to its full capacity. Maybe not even willingly, but unwillingly.

So, we must support the United Nations to solve problems such as the problem today of Yugoslavia. We don't simply look to a U.S. war to solve these things. Probably the greatest error we can make is to presume that we are the police person of the world. We are not. We cannot be. It does not work. Every effort to be so has been an absolute failure.

We have to look at history instead of romanticizing history and realize that this moment of conversion is not only economic and not only political, it is a profoundly spiritual moment. Why? The 30 wars that are going on at this time in the world are the lowest form of politics. They are ethnic wars. They are based on who your mother was. They are based on what your color is. They are based on whether you are an Orthodox Christian or a Christian under Rome.

They are absolutely unacceptable, because they are not based on human rights. They are not based on humanity. We have to look at these wars as unacceptable, as counterproductive, as having absolutely no meaning in terms of saving the one race on this planet, which is the human race. That's what I think that we have to focus our attention on.

I'm extremely happy that you are doing what you are doing. What are the practical aspects? We have looked at the cultural, the historical and the practical aspects --

MR. HANLEY: Mr. Bonepane, we are just down to the sort of nub of the 15 minutes.

DR. BONPANE: How much time do I have?

MR. HANLEY: About a minute, sir.

DR. BONPANE: Okay. I will fold in this minute.

On the practical level, all of the things we are speaking about tonight are doable. We have these large firms that are ready to convert.

We know that we do not have a public transit system in the United States in 1992. Our rail system was better in 1932 than it is in 1992. Now, the aerospace and other large industries are very much capable of converting to making a transit system that is not an embarrassment as we look at the rest of the world. What a disgrace.

There are people that believed in private sector transportation so strongly that in this city they destroyed Pacific Electric. It was a criminal conspiracy, acknowledged as such by the rubber companies, by the petroleum companies. And we don't want that to happen again.

I am happy you are here. I want to thank you for being here. I think that what you are attempting to do is doable. It will make for a much better future for the United States and for the globe.

So, thank you.

CHAIRMAN BERTEAU: Dr. Bonpane, thank you very much. I will Anglisize your name, despite my own French background.

I think your presentation puts sort of a broader and more unique context to

many of the proposals that we have heard today. I appreciate that very much.

Any other comments or questions?

COMMISSIONER HIGGINS: I think I appreciate your comments very much. And I think it's -- I took some notes. I appreciate them. But as a Marine myself and as a woman and as someone who has provided some very intimate and very deep and personal support to the United Nations, I submit, you know, that you had made some pretty negative remarks about the culture of militarism. I would like to submit a few of my own from my own personal experience.

DR. BONPANE: Sure.

COMMISSIONER HIGGINS: Respect for authority, responsibility, a sense of responsibility for self and for others, integrity and honesty.

DR. BONPANE: Those things are fine. I have no argument with that. I have an argument with aberrations. When, for example, with all the child abuse going on today some child is abused because he was taught to obey his elders without any question and he wasn't taught, wait a minute, if those elders get out of line, you don't take anything from them.

You see what I am saying? Sure, respect for authority. But in the formation of the child, the child must be ready not to follow all orders and to realize that there are people out there that may be older than he or she is, but must not be obeyed under any circumstances because their intentions are negative.

You see what I am saying? In other words, it isn't a question of absolutes. It's a question of saying, we have had a long formation that may tend to be absolute.

God help us, when I was 19, I don't think I questioned anything as I trained in the platoon leaders' class at Quantico. I mean, there was absolutely nothing to question. And I did not question anything. And I would be dangerous, God help anybody, if they pointed me at this audience or anything else.

So, that has been an evolution of thinking that has gone on in many military people, in many former admirals and former generals that you find in Washington today heading up peace organizations, saying that we can do it.

So, it isn't something I want to make a contentious relationship with something that meant a great deal to me to train at Quantico. But it isn't that. It's in just broadening the prospective and taking a global view.

CHAIRMAN BERTEAU: Thank you sir. Thank you very much.

I can tell you are a former Marine. When you are ex-Navy you say ex-Navy. But only Marines say former Marines.

MR. HANLEY: We have our penultimate witness here, unless someone else shows up, Mr. M. L. Warrick, who goes by the name of Bud, of Warrick and Associates.

CHAIRMAN BERTEAU: Mr. Warrick, welcome.

MR. HANLEY: Mr. Warrick has some handouts for us here.

CHAIRMAN BERTEAU: All right. At this stage of the game, sir, we appreciate all the help we can get. It's about 10:00 p.m. East Coast time. And some of us are still operating on that clock.

MR. WARRICK: I appreciate that. I'm going to make my comments as

brief as possible here. My presentation was written earlier. The materials you have are the substance of what is important to get across to you. As I have listened to other testimony, I keep shortening up what I really think that I should say.

I think if I have a message that I want to try to put across, it is that there was a program on defense conversion to defense subcontractors, which I designed with a few other people in the mid-70's based on our experiences the last time we had a major cut back in 1970. This is not the first time we have had this problem. I am sure that Atilla had a hard time figuring out what to do with the Huns and the arrow makers and whatnot.

The program that was funded, I believe, the money came from the Defense Department through EDA and eventually ended up at the County of Los Angeles. And for about a year, just short of a year, we worked with defense subcontractors in Los Angeles County. And we are somewhere between 30 and 70 percent successful in identifying a conversion opportunity for these small subcontractors. Now, a small subcontractor is someone in the range of 100 to 200 employees. And they are the real job generators that deserve the attention.

This program -- which was successful -- there is a final report on it. I would be glad to see it if anyone could get their hands on one of these reports. It is available through National Technical Information Service, and it deserves to happen again. If it had not worked, it wouldn't deserve to happen again. But it did work -- it would work better today. It has been a three-and-a-half year process to try to make it happen again, and for some reason we have still do not have a program for the defense subcontractor.

I have good reason to believe that the County of Los Angeles will eventually implement the program under what you are hearing as the Technology Resource Center along with some other things that they are planning to do. Hopefully that will happen. It's unfortunate that this will happen only here.

To my knowledge, there was never any other program funded by the Defense Department for defense conversion in this manner. Basically what we did is we took the position if you give a man a fish, you feed him for a day, but if you teach him how to fish, you feed him for life. And what we did is we taught them how to convert. We showed them what was wrong with their companies and why it would be difficult for them to convert. And we paired them up with other companies.

We propose to bring together a lot of other resources, which you will see in these papers that I have presented, because it is really a concerted effort between the universities, between the libraries, between the business development centers, anyone who presently provides services to small business needs to know these procedures which are unique to conversion.

Now, I think we may have broken the ice here in Los Angeles County, but I'm not sure yet. It hasn't happened yet. It's been a long process. And that doesn't solve the problem in the rest of the country. I think that old report deserves to be dusted off and taken a look at and take the advice of a little gray hair that it's not time to invent a new program.

In no place does it say that it's necessary for the feds to fund anything other

than an educational system.

Now, I would like to take just one minute to tell you what my background is. I lost a defense business in 1970 due to cutbacks in defense spending. There was not much market for a physicist left over from the defense business. And so it became even more difficult--I was going to say because I lost a business too. That's another strike.

I went to work for the County of Orange, the Orange County Chamber of Commerce. That was the Merchants' and Manufacturers' Association and designed a program for them whereby we started 40 new businesses for unemployed aerospace engineers in 1971.

In 1972 I went to work for the City of Los Angeles as technology transfer advisor to the City of Los Angeles operating out of the mayor's office. In 1972-73, I went to work on Governor Reagan's staff as a technology transfer person for the State of California working in the job creation programs.

Based on those experiences, seeing how federal programs worked and what the real problems were and whatnot, the ideas for this kind of a program came about. And it wasn't until -- we made the proposals in 1974. But it wasn't until 1976 that the money finally came down to be able to do this kind of an effort.

Since that time I have been a member of the Technology Utilization Task Force. I have been a member of the board of advisors at the University of California Technology Executive Roundtable. I have been a member of the Active Corps of Executives with the Small Business Administration. I have been a commissioner sitting just as you are today, with the State of California business development in the Office of Business and Transportation--long history.

And again, my proposal today is that this old program with some new modifications to it needs to be dusted off and looked at seriously, not just for L.A. but for other places as well.

Thank you for the time.

CHAIRMAN BERTEAU: Thank you, Mr. Warrick.

I am eagerly looking forward to taking a peek at your documents there and making sure that we get them. If, in fact, they are available through NTIS, we will certainly get them. We need some kind of reference.

MR. WARRICK: I am happy to be at your disposal.

CHAIRMAN BERTEAU: And we will certainly take advantage of that. I think you may be the diamond that we have been waiting for that will make the long day worthwhile. I certainly think we do not need to go back and recreate history without having studied it a little bit first. That's one of our efforts.

MR. WARRICK: Thank you very much.

CHAIRMAN BERTEAU: Any questions or comments?

Thank you, sir. If you will make sure that our guys get at least a chance to right down those names of those reports so that we can pursue those.

I am also grateful. I want to make sure that I can use this. Mr. Warrick, one final question, sir. You gave us a list of examples of successful conversions efforts.

MR. WARRICK: Those are the companies that we worked with in 1976. And I have no idea what has happened to them.

CHAIRMAN BERTEAU: Do have any problem if we investigate some of those and see what we can come up with?

MR. WARRICK: You can see what they used to do and what we suggested they do. You will find more data in the report. That's taken directly out of the county report.

CHAIRMAN BERTEAU: Great. Thank you very much.

MR. HANLEY: Thank you, Mr. Warrick.

And our final witness for today is Mr. Robert Stark, who is director of the Far West Regional Technology Transfer Center associated with NASA.

CHAIRMAN BERTEAU: Mr. Stark.

MR. STARK: I will be very brief.

The Far West Regional Technology Transfer Center is one of six centers. It is a new program. Began in January. It's a follow-up from the old NASA Industrial Applications Center program that has been in existence, well since shortly after NASA was formed.

In 1958, when NASA was formed, there was a mandate that said that there would be every effort made to see that the high technology was transferred into the commercial marketplace. Their answer to that was to set up an Office of Commercial Programs. And shortly thereafter they set up a series of Industrial Applications Centers.

There has been an Industrial Applications Center at the University of Southern California since 1967. There were 10 Industrial Applications Centers. And last year the program went out to competitive bid. There was a reorganization. There are now six centers that are geographically structured so that they will align themselves with the Federal Lab Consortium.

The emphasis in the early program was on database searches. It was more of a technology assistance program than a technology transfer program. The emphasis now is certainly not on NASA. It's on support to all the federal labs. It has moved much further up the technology transfer ladder.

And now our mandate is to act as broker to try to see that the federal resources get disseminated into the private marketplace. And that may involve a wide variety of new roles for us, from finding venture capitalists to aligning inventions, patents and so forth.

Our job is to go out and find the hurdles and the niches where we think we can make a difference. Don't bother people when they are doing things okay. And if there is something that you think you can do to try to help the process out, try to do it.

I'm sure that you know the figures. The standard figures are 700, approximately, federal laboratories depending on where you cut off the size. There is about $70 billion spent in federal research, about half of that in the federal labs. That $70 billion is about half of all the R&D in the United States and is equal to that spent in Japan.

So, basically, our job is to try to make those resources available to private enterprise. Our current efforts, the emphasis is also on the word regional. That is we are not a California center. We are a regional center. Our job is to be a catalyst and a focal point for the entire Far West region, and they through us are given full access to the

government resources. And in that sense, we act as a personal liaison between companies in the Far West and the entire federal structure.

I mention this because tech transfer is the buzz word. Technology transfer and development is receiving additional funding, although not nearly enough. I have spoken at three of the National Technology Initiatives. And the importance that is said that is brought to bear in technology transfer is in no way related to the money that's spent on it, even in NASA, which is a fairly -- has been in the market and does emphasize this partially because they have to.

In other words, the Department of Transportation can build roads. Department of Defense can defend. NASA goes to the Moon. If somebody says, so what? We tend to go to benefits, spin-off's and those type of things. So, we have been in the job for some time. We see a lot of programs that are now being funded. But there does not seem to be a coherent technology transfer and development infrastructure that is developing. NIST does their thing. Commerce does their thing. NASA does their's--the states especially.

And it's ironical that a state like California that ranks so high in so many things ranks at the very bottom in state policy, as far as it relates to technology transfer. Maybe that's because we were lucky. The big technology transfer states are all in the rust belt, the autos and the CIT's and so forth.

But our job is to work with the states, to pull the states together. And what I am trying to do is to make sure that there is a proper assessment made of programs that are out there and that the infrastructure is out there. And what we can do is try to get it all moving in the right direction so it is coherent.

I will mention just a couple of programs in closing. I do not know if you are familiar with the TAAC program, that's the Trade Adjustment Assistance Centers. This is the Department of Commerce program whereby these centers look at companies that have been harmed by imports.

They visit the company. They take in the data. They then decide whether they meet the criteria for assistance. Also if that assistance were provided, is it viable that they would be a successful company? They then request money, which the company itself matches. And they implement a program using consultants or whether it is a modernization program or whatever.

It seems clear in this stage of word processors you could take out the words "company hurt by imports" and put in "company hurt by defense cutbacks," and you'd have a program that is in essence working now that could provide a model for providing funds to companies where it would be in the best interest of all, both the company and society.

The other programs, the SBIR program, we are heavily involved in support of that. There are moves to fund that at a higher level. Of course I strongly recommend that.

The Mentor-Protege Program, with slight modifications, could provide help to some of these small companies that are hurt by defense or to possible startup companies that could be formed that would allow the big over $100 million contractors if they contracted to these people to get extra benefits.

A lot of times a multiplier against what they can count, against their six percent or eight percent for NASA.

I don't know if it's funny, sad or whatever. Earlier today you mentioned Mr. Granau from DAICO. And it just so happens that I talked to him last week. We are working with him. It was interesting, because he contacted his Congressman and was sent food stamps.

This gentleman has a company. It is a high-tech company. He is not hurting yet. He sees it coming. His sales went from like $14 million to $11 million. And he is cutting back. He sees that things aren't getting better. So, he contacted his Congressman to say, "Are there any programs that can help me?" And he got his food stamps.

A program he will be getting and we will be doing a diversification program for his products trying to find other places that he could go. But programs that would deal with companies like that where maybe you could have some assistance on a one-to-one or some share basis to help smaller companies.

Now, this company, they can afford to pay their bill. He is looking into things enough ahead of time. But there are other companies that aren't. And if you could get similar to what is done with the TAAC program, you could share funds in helping them find ways to diversify, I think it would be a benefit.

Finally, we did work with the Aerospace Task Force. Once again, they talk about a Technology Resource Center. I think we are a Technology Resource Center. The SBDC's who we use to represent us in the other states because well, basically in the far West we do not have a lot of strong technology transfer organizations, so, to work with us and represent us in the other states, we wanted an organization that's blessed by the state and has offices throughout the state, and it so happens for us that tends to be the Small Business Development Center network. That's who we work with. They form the infrastructure. We work with successful securing of a manufacturing technology data base.

But there are other organizations now that are offering manufacturing training programs and updating programs that could be implemented very easily. And as far as training, I will just close with--it's very common thing to throw money at training whenever there is a problem of these types.

I think we have to distinguish between shutting down some coal mines or steel plants in Appalachia and needing to train people to be computer literate than to automatically force money at retraining people who are already highly trained. In fact, it's probably one of the highest trained work forces in the world.

My own private view would be that the people that need to be trained are the upper level people with the mid-management companies. These are the ones that they alluded are doing all the work. After all, the TRWs just assemble things. When it comes right down to it, most of the tool and die shops make the things around here, and there are under 50 people in a plant. Their upper management needs to get away from this attitude of I am tired of dealing with. I don't want to deal with these Ph.D. aerospace types. They are too sophisticated. I want somebody who can get his hands dirty.

I think it's time where they need to be shown the benefits. And they will

only pay attention if you show it on the bottom line that there are benefits in dealing with some of these Ph.D. fancy types. And the time has come for us to have programs that can help them do that.

I think if we work and try to work together and make sure all the programs are pointed in the same direction, instead of in diverse manners and being carried out by groups that aren't communicating well. But if we pull together, we can obviously have a great impact, both in California and throughout the United States.

I think we can do the ultimate, which would be, create wealth for the Republicans and jobs for the Democrats. And I will close with that.

CHAIRMAN BERTEAU: Mr. Stark, you are a remarkable final witness. I appreciate the breadth of your presentation. I think you have mentioned a couple of things at least I myself was not at all familiar with and certainly want to look into further.

Hopefully, you have got a little material on the tech transfer center that you can leave with us. If not, you can send it to us. We would appreciate that.

One question, if you would, as tired as I am, I really need to think this through a little bit.

Some of the proposals, like the L.A. Technical Resource Center, seem to be focused as much on helping people understand how to start and run a business as it is making the technology. It sort of assumes that the people showing up for help already have some idea of what technology they intend to use and how they apply.

You mentioned the SBDC's as an alternative, if you will. Is it your judgment that, in fact, the SBDC's really do help people learn how to start and operate a new business at a high tech entrepreneurial level? Or is that a gap that the LATRC is trying to fill?

MR. STARK: The SBDC's, I see many states where their programs are strong, and they do an extremely good job.

Mr. Lyle Andersen, who is the state director in the State of Washington is also the director for the national organization at making them more aware that it's not your job to open up Hallmark card shops or doughnut shops.

Technology transfer is part of the SBDC tenet. And they are starting to do that. It's very spotty.

The thing that I object to is we are on the Aerospace Task Force and Joyce Hampers comes in and we make a presentation about what we need to make this area go. And the state Department of Commerce comes out with a request to form a new SBDC whose emphasis should be on technology transfer. Then they demand that it be in Orange County. And there is absolutely nothing you can do. If there was logic as to why it should be located in the South Bay area or in the Long Beach area, you had no inputs to that at all.

CHAIRMAN BERTEAU: One final question. The implication of what you have said is that really you are focusing on feeding a demand-pull kind of a system, if you will. You mentioned workers here are already very highly skilled. Other than teaching them entrepreneurial skills, are there any other kinds of training programs, and if so should it be limited to defense people coming out? Should tech transfer be limited to defense people being impacted from defense drawdowns?

MR. STARK: I don't think this requires special skills. The problem we have is that these people, if they are coming out of a TRW environment, they are almost like inventors. That means they are brilliant. They know a lot of things. They don't want to spend a dollar and a half. And they think the government should give everything to them free.

And it's amazing that to find technologies available in the federal labs to do what they have been doing that are available for licensing that would maybe give them a start, might only cost a few thousand dollars. But that shuts them off several times and they go look for a job somewhere else.

So, programs that could do start-up funding to help you prepare an SBIR or provide you the proper inputs so your SBIR would have a chance would be of direct benefit.

CHAIRMAN BERTEAU: I think your focus on integrating and making sure all the arrows go in the right direction is exactly appropriate.

MR. STARK: Let me mention one other thing, because you said the emphasis is on the pull. The pull is great. I have gone through trying to allow public to know that the government really is trying to get their information out there. And we passed out pamphlets at all the trade shows, try to disseminate that way. I call that artificial dissemination. I mean, they get the pamphlets, but nothing really happens.

And so, we are working with the federal labs trying to get them to push the technology out and to go the companies and say, look this lab has this developed, can you use it?

So, we are trying to work it at both ends. Just the pull end is very easy. So, everybody tends to do it. Tech transfer is a contact sport. It's difficult. And that's why it's hard to do it well.

CHAIRMAN BERTEAU: You mentioned a fellow in the state of Washington. If would you give us his name and a way to connect with him when we take our trip up there, I think we will want to look him up and have a conversation with him as well.

MR. STARK: Sure. Yes.

CHAIRMAN BERTEAU: Any other comments or questions?

COMMISSIONER MAY: There is a lot of indication that this program that you are involved in has been very successful. Can you provide us with success stories? Because we are always looking.

MR. STARK: Oh, thousands.

COMMISSIONER MAY: Please. We'd like at least a thousand.

MR. STARK: For example, NASA does put out Spin-Off, a thick magazine that's like this that has fancy pictures and things. And they have done that for several years. There are reports that have been done trying to quantify how much money has been saved by the things that they have done. And I could provide that information too.

COMMISSIONER MAY: We would like to go beyond, I think, what is put out for public dissemination and get to the hard data that we can really hone in on and find some lessons for future use rather than the slick brochures that NASA or any other

organization might put out.

MR. STARK: That is somewhat difficult because we have proprietary arrangements with the companies. And in the cases where we select one to go to be a spin-off, they are kind of made aware that they would get a nice presentation. This will help their company and it's going to be presented right. In other words, we cannot just run through our databases and give you a list of companies. But I can try to put some information together.

CHAIRMAN BERTEAU: We could also -- not for thousands of them, but certainly for a selected few examples, we could certainly make out arrangements where we can protect that proprietary information as well and yet still gather what illumination we may be able to gather from that.

Because, as I mentioned earlier, we clearly have a lot more to learn about how to do things. We clearly have a lot more to learn about how to do things right from the people who already have done it right.

MR. STARK: A lot of this you can have an entrepreneur who wants to start a company that needs some testing. And he doesn't have a wind tunnel or he doesn't have the temperature structure. And we can find that facility in some of the federal labs and arrange for him to use it through a CRADA at no cost to him.

CHAIRMAN BERTEAU: Mr. Stark, thank you very much.

COMMISSIONER LAVIN: I have a --

CHAIRMAN BERTEAU: Oh, sorry.

COMMISSIONER LAVIN: I am delighted that you came and that you are the last witness of the day. That means that there is nobody behind you and I've got about two hours worth of questions. Now I got my hand on the mike. This is my mike. I am not going to give it up. They are going to tear my cold, dead hands from the mike.

CHAIRMAN BERTEAU: Where is the plug?

COMMISSIONER LAVIN: Let me just ask, all joking aside, let me ask you a couple of quick questions.

Do you find that the people who do contract for NASA have the same problems that we have heard about in the defense industry in terms of you know, extra special heavy duty, difficult accounting, all sorts of supervisory check points coming from the Department of Defense that makes it very difficult for them to go out and contract with commercial companies?

MR. STARK: By and large, no.

COMMISSIONER LAVIN: You have different culture.

MR. STARK: There is somewhat more renegade. You are a scientist. Sometimes -- it has hurt us because we don't do CRADAs. But, equivalent of CRADA is space act. But there have been many, many times where we have sent a contractor to JPL to allow them to do something that it never got recorded anywhere. Whereas, you know, in the Department of Energy, especially this day and age, there would be a CRADA, if not two or three written. So, we have been somewhat, not quite so formal.

Then there is the other condition that -- and I don't mean this as a criticism of the Department of Defense as such, but rather a statement of the very nature. That is, your technology transfer people want to help and they have designed the very best

programs that they can, given the restrictions that they have got. But when you really break it down you are inaccessible to almost any companies except your contractors. New companies come in, and there are just extra hurdles and extra things just because of the classification. In many cases it's not classified, it's just sensitive. It doesn't quite get thrown out in the same way that it does within that.

COMMISSIONER LAVIN: Sharing arrangements in our companies?

MR. STARK: Yes. I mean, you know, the game now is come in and talk to us. You want a blue suit, we turn on the blue light. They will do any kind of arrangement you want to do, whether it's for what percent or an exclusive or a nonexclusive. All those things are open for negotiations.

COMMISSIONER LAVIN: Thank you.

MR. HANLEY: Mr. Chairman, the usual course is for you to make closing remarks. However, since I don't think there is anybody in the room who is not either a member of your staff or someone who has had a chance to testify, perhaps you would like to dispense with that, although I'm sure all of us would very much like to hear your closing remarks, if you have any.

CHAIRMAN BERTEAU: What a wise man.

I just want to thank again the City of Long Beach and the facilities we have had today and the incredible support. I think this hearing has met or exceeded any expectations that we may have had. It has been well worthwhile. Thank you.

(The hearing concluded at 7:45 p.m.)

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LONG BEACH PUBLIC HEARING
FINAL ATTENDANCE, AUGUST 6, 1992

Time	Name	Representation
1:00 PM	DAVID BERTEAU, Chairman	DCC Opening Remarks
1:10pm	Mayor Ernie Kell	City of Long Beach Welcoming Remarks
1:15pm	Mr. Ray Grabinski	City of Long Beach Councilman
1:30pm	Dr. Robert Schlesinger	San Diego State University
1:45pm	Dr. Nancy Mary	Long Beach Economic Conversion Task Force
2:00pm	Mr. Michael Picker	National Toxics Campaign Fund
2:15pm	Mr. Eugene Leonard for Mr. Floyd Sparks	Patriotic Alternative to Commercial Takeover of American Aircraft Production & Maintenance
2:30pm	Break	
2:45pm	Dr. Michael Closson	Center for Economic Conversion (CEC)
3:00pm	Dr. Harry Sello	Defense Conversion Strategies
3:15pm	Mr. Tom Flavin	Council Member, City of Burbank
3:30pm	Mr. Bill Averill	American Electronics Association
3:45pm	Ms. Sharon Hudnell	Response Management
4:00pm	Ms. Marcia Boruta	San Diego Economic Conversion Council
4:15pm	Break	
4:30pm	Mr. Bob Filner	City of San Diego Economic Conversion Committee

4:45pm	Mr. Michael Murchison for Mr. Deane Dana	Los Angeles County Board of Supervisors
5:00pm	Ms. Martha Lopez Mr. Brian McMahon for Julie Wright	CA Employment Development Department/CA Department of Commerce
5:15pm	Mr. Valente Alarcon	Eternal Euterpe Entertainment
5:30pm	Mr Arthur Leahy for Lawrence R. Davis	Southern CA Rapid Transit District
5:45pm	Mr. Robert J. Bremer	Lockheed Corporation
6:00pm	Mr. Don Nakamoto	International Association of Machinists
6:15pm	Mr. Merle Albright	Systems Management Services
6:30pm	Dr. Blase Bonpane	Office of the Americas
6:45pm	Mr. Bud Warrick	Warrick and Associates
7:00pm	Mr. Robert Stark	NASA
7:15pm	DAVID BERTEAU, Chairman	Closing Remarks

LONG BEACH PUBLIC HEARING
APPENDIX OF WRITTEN MATERIAL

Name	Written Material Presented
Mayor Ernie Kell Appendix A	✧ Suggested Remarks for Mayor Ernie Kell, August 6, 1992 ✧ Testimony, August 6, 1992, 1:10pm
Mr. Ray Grabinski Appendix B	✧ Suggested Remarks for Councilman Ray Grabinski, August 6, 1992
Dr. Robert Schlesinger Appendix C	✧ Intrapreneurial Conversion: Implementing Economic Conversion in the Defense Industry, August 6, 1992
Dr. Nancy Mary Appendix D	✧ Testimony Presented to Defense Conversion Commission by Long Beach Area Task Force on Economic Conversion ✧ Town Meeting on Economic Conversion, 27 June 1992, St Mary Medical Center: Report from Focus Groups
Mr. Michael Picker Appendix E	✧ Statement of the National Toxics Campaign Fund at the Defense Conversion Commission, August 6, 1992
Mr. Eugene Leonard for Mr. Floyd Sparks Appendix F	✧ Written Testimony of Mr Floyd Sparks, August 6, 1992
Dr. Michael Closson Appendix G	✧ Transforming the Military Economy: Testimony to the Defense Conversion Commission, August 6, 1992 ✧ State Level Legislation and Administrative Programs for Economic Conversion & Diversification, Marie R. Jones, April 1992 ✧ Coversion Organizer's Update, Volume 3, Number 1, May 1992
Dr. Harry Sello Appendix H	✧ Testimony Before the Defense Conversion Commission of the Department of Defense, August 6, 1992 ✧ Defense Conversion Strategies Biographical Summaries ✧ Defense Conversion Strategies Services Portfolio

Mr. Tom Flavin Appendix I	✧ Threatened by Downsizing? Take Burbank, for example, November, 1990
Mr. Bill Averill Appendix J	✧ The U.S. Electronics Industry and the U.S. Defense Industrial Base, August 4, 1992 ✧ Defense Industrial Base Issues ✧ Maintaining the Manufacturing Base of Defense Contractors and Building the National Infrastructure
Ms. Sharon Hudnell Appendix K	✧ Conversion Through Accelerated Technology Transfe ✧ Action Through Communication: Technology Transfer, Diversification, Economic Conversion
Ms. Marcia Boruta Appendix L	✧ Testimony of the San Diego Economic Conversion Council (SDECC) Presented by Marcia Boruta, Executive Director, to the Defense Conversion Commission, August 6, 1992 ✧ San Diego's 1991 Defense Industry, San Diego Economic Bulletin, July 1992 ✧ The Eight Key Elements of High Performance Work Systems, September 1991 ✧ Reinvest in California: Put Our Federal Tax Dollars to Work, National Priorities Project, Citizens Budget Campaign & California SANE/Freeze, June 1992
Mr. Bob Filner Appendix M	✧ Economic Conversion Program
Mr. Michael Murchison Appendix N	✧ Testimony by Deane Dana, Chairman, Los Angeles County Board of Supervisors before the Defense Conversion Commission, August 6, 1992 ✧ Motion by Supervisor Deane Dana, June 16, 1992
Ms. Martha Lopez Appendix O	✧ California Employment Development Department Testimony to the Defense Conversion Commission, August 6, 1992 ✧ Title III 40 Percent Governor's Reserve Allocated for Military Defense Layoffs, August 5, 1992 ✧ Employment Development Department, State of California, Written Comments, National Defense Authorization Act for Fiscal Year 1993, H.R. 5006 ✧ Military Base Closures and Defense Industry Layoffs,

	Briefing by the California Employment Development Department, March 12, 1992
Mr. Brian McMahon for Julie Wright Appendix P	✧ California Department of Commerce, Testimony to the Defense Conversion Commission, August 6, 1992
Mr. Valente Alarcon Appendix Q	✧ Poetry by Valente, 1992
Mr Arthur Leahy Appendix R	✧ Testimony of Arthur T. Leahy, Assistant General Manager, Operations, Southern California Rapid Transit District to the Defense Conversion Commission, U.S. Department of Defense, August 6, 1992
Mr. Robert J. Bremer Appendix S	✧ Testimony Given to Defense Conversion Commission, August 6, 1992
Mr. Don Nakamoto Appendix T	✧ Defense Conversion Commission Hearings, Thursday, August 6, 1992
Mr. Merle Albright Appendix U	✧ Resume for Merle K. Albright ✧ Piece Dividend (Aerospace/Defense Contractor Diversification) ✧ Letter from Mr Kenneth M. Matzkin, Senior Project Manager, Office of Economic Adjustment, undated ✧ Letter from Mr Kenneth M. Matzkin, Senior Project Manager, Office of Economic Adjustment, 20 June 91
Dr. Blase Bonpane	No written material provided
Mr. Bud Warrick Appendix V	✧ Resume of Qualifications ✧ Professional Portfolio ✧ Resume of Russian Activities ✧ Client Diversification Examples ✧ Diversification Options ✧ The Diversification Process ✧ Diversification Potential Checklist: 42 Questions That Can Change the Life of Your Company ✧ Defense Conversion

✧ A Strategic Outline for the State of California: Jobs Retention & Maintaining California's Manufacturing Base via Diversification, September 1991

Mr. Robert Stark
Appendix W

✧ National Technology Transfer Network

Mr. Donald Ledbetter
Appendix X

✧ Letter from Mr. Ledbetter, August 5,1992

✧ Letter from Mr. Ledbetter, August 13,1992

✧ National Society of Professional Engineers Skills Conversion Task Group Report, July 20-22,1992

✧ Environmental Engineering for Engineers

✧ National Society of Professional Engineers "Skills Conversion Program" Proposal, February 29,1992, and transmittal letter to Mr. Robert T. Jones, U.S. Department of Labor, March 11,1992

Suggested Remarks for
Mayor Ernie Kell
Defense Conversion Commission
August 6, 1992

Welcome to the City of Long Beach and thank you for the opportunity to address the Defense Conversion Commission this morning. My name is Ernie Kell and I am the Mayor of the City of Long Beach.

Let me say at the outset that I am pleased that you have chosen Long Beach as a location to conduct this hearing. By choosing Long Beach, you are validating what the entire Long Beach community knows and that is that Long Beach is being severely impacted by both the general decline in the defense industry in Southern California and by the decision of the Defense Base Closure and Realignment Commission to close the Long Beach Naval Station and its attendant facilities.

Let me assure you, the timing could not be worse. It comes at a time when this area is reeling from dramatic worker layoffs (largely created by defense and aerospace reductions) affecting some 20,857 Long Beach workers since 1990, a national and state recession of major intensity, state and local unemployment rates at 20-year highs, a state budget crisis that threatens to rob the City of precious dollars needed locally, and during a period in which the Nation's banks and other commercial lending institutions are in near cardiac arrest. As though this were not enough, the civil unrest which afflicted Los Angeles/Long Beach in April of this year has caused losses at 400 Long Beach businesses totalling over $40

million in damaged property and contents.

The Naval Station's closure will cause substantial economic hardship to Long Beach and the greater Long Beach area. The City estimates that the total annual losses will be between $750 million to $1 billion or more. This will be caused by the losses of 38 homeported ships, 16,700 ship- and shore-based Naval personnel, 1,350 civilian personnel, annual Naval and civilian payroll losses of $379 million, losses of service and supplies contracts totalling in excess of $18 million annually, and the resulting secondary economic impacts.

And the financial losses have begun. As of July, 1992, the Navy had already reduced the number of Long Beach homeported ships to 28, a full 26% decrease from the fleet level of less than one year ago.

Perhaps the greatest insult to the Long Beach community stems from the fact that the announced Naval Station closure is not truly a closure in the typical sense. The Navy plans to retain the vast majority of the Naval Station by switching the "command" of the Naval Station to the Naval Shipyard. What little property the Navy has discussed making available for surplus is either adjacent to a known Installation Restoration site--an area where the Navy knows soils contamination conditions exist--or is being offered by the Navy to other Navy users who may wish to "tenant" these properties once they become surplus. How is this a military base closing?

What truly scares me, and I know it concerns all of the members of the Long Beach City Council, is the impossible position the City finds itself in.

The City will lose all the economic benefits of the military presence in Long Beach, once all the ships and personnel are re-deployed. Then, the City further loses because the community will be unable to implement new, economically viable re-uses because the Navy retains all of the Naval Station property. This would truly be a lose-lose situation.

The City is committed to working with the Navy in positive ways to meet the Navy's goals to retain strategic property and facilities which support the functions and purpose of the Long Beach Naval Shipyard. We do believe, however, that compatible re-uses can be identified that meet these goals while still enabling the Long Beach community the opportunity to re-use some of the Naval Station property. This would allow the City to implement strategies which incorporate new and useful economic development initiatives at the Naval Station, while still maintaining compatibility with the retention of the Naval Shipyard.

Again, thank you for the opportunity to address you today.

DEFENSE CONVERSION COMMISSION
MAIN LIBRARY AUDITORIUM
THURSDAY, AUGUST 6, 1992
1:10 P.M.

WELCOME TO THE CITY OF LONG BEACH AND THANK YOU FOR THE OPPORTUNITY TO ADDRESS THE DEFENSE CONVERSION COMMISSION THIS ~~MORNING~~ AFTERNOON. MY NAME IS ERNIE KELL AND I AM THE MAYOR OF THE CITY OF LONG BEACH.

LET ME SAY AT THE OUTSET THAT I AM PLEASED THAT YOU HAVE CHOSEN LONG BEACH AS A LOCATION TO CONDUCT THIS HEARING. BY CHOOSING LONG BEACH, YOU ARE VALIDATING WHAT THE ENTIRE LONG BEACH COMMUNITY KNOWS -- AND THAT IS THAT LONG BEACH IS BEING SEVERELY IMPACTED BY BOTH THE GENERAL DECLINE IN THE DEFENSE INDUSTRY IN SOUTHERN CALIFORNIA AND BY THE DECISION OF THE DEFENSE BASE CLOSURE AND REALIGNMENT COMMISSION TO CLOSE THE LONG BEACH NAVAL STATION AND ITS ATTENDANT FACILITIES.

LET ME ASSURE YOU, THE TIMING COULD NOT BE WORSE. IT COMES AT A TIME WHEN THIS AREA IS REELING FROM DRAMATIC WORKER LAYOFFS (LARGELY CREATED BY DEFENSE AND AEROSPACE REDUCTIONS) AFFECTING SOME 20,857

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LONG BEACH WORKERS SINCE 1990, A NATIONAL AND STATE RECESSION OF MAJOR INTENSITY, STATE AND LOCAL UNEMPLOYMENT RATES AT 20-YEAR HIGHS, A STATE BUDGET CRISIS THAT THREATENS TO ROB THE CITY OF PRECIOUS DOLLARS NEEDED LOCALLY, AND DURING A PERIOD IN WHICH THE NATION'S BANKS AND OTHER COMMERCIAL LENDING INSTITUTIONS ARE IN NEAR CARDIAC ARREST. AS THOUGH THIS WERE NOT ENOUGH, THE CIVIL UNREST WHICH AFFLICTED LOS ANGELES/LONG BEACH IN APRIL OF THIS YEAR HAS CAUSED LOSSES TO 400 LONG BEACH BUSINESSES TOTALLING OVER $40 MILLION IN DAMAGED PROPERTY AND CONTENTS.

THE NAVAL STATION'S CLOSURE WILL CAUSE SUBSTANTIAL ECONOMIC HARDSHIP TO LONG BEACH AND THE GREATER LONG BEACH AREA. THE CITY ESTIMATES THAT THE TOTAL ANNUAL LOSSES WILL BE BETWEEN $750 MILLION TO $1 BILLION OR MORE. THIS WILL BE CAUSED BY THE LOSSES OF 38 HOMEPORTED SHIPS, 16,700 SHIP-AND-SHORE BASED NAVAL PERSONNEL, 1,350 CIVILIAN PERSONNEL, ANNUAL NAVAL AND CIVILIAN PAYROLL LOSSES OF $379 MILLION, LOSSES OF SERVICE AND SUPPLIED CONTRACTS TOTALLING IN EXCESS OF $18 MILLION ANNUALLY, AND THE RESULTING SECONDARY ECONOMIC IMPACTS.

AND THE FINANCIAL LOSSES HAVE BEGUN. AS OF JULY, 1992, THE NAVY HAD ALREADY REDUCED THE NUMBER OF

LONG BEACH HOMEPORTED SHIPS TO 28, A FULL 26% DECREASE FROM THE FLEET LEVEL OF LESS THAN ONE YEAR AGO.

PERHAPS THE GREATEST INSULT TO THE LONG BEACH COMMUNITY STEMS FROM THE FACT THAT THE ANNOUNCED NAVAL STATION CLOSURE IS NOT TRULY A CLOSURE IN THE TYPICAL SENSE. THE NAVY PLANS TO RETAIN THE VAST MAJORITY OF THE NAVAL STATION BY SWITCHING THE "COMMAND" OF THE NAVAL STATION TO THE NAVAL SHIPYARD. WHAT LITTLE PROPERTY THE NAVY HAS DISCUSSED MAKING AVAILABLE FOR SURPLUS IS EITHER ADJACENT TO A KNOWN INSTALLATION RESTORATION SITE -- AN AREA WHERE THE NAVY KNOWS SOIL CONTAMINATION CONDITIONS EXISTS -- OR IS BEING OFFERED BY THE NAVY TO OTHER NAVY USERS WHO MAY WISH TO "TENANT" THESE PROPERTIES ONCE THEY BECOME SURPLUS. HOW IS THIS A MILITARY BASE CLOSING?

WHAT TRULY SCARES ME, AND I KNOW IT CONCERNS ALL OF THE MEMBERS OF THE LONG BEACH CITY COUNCIL, IS THE IMPOSSIBLE POSITION THE CITY FINDS ITSELF IN.

THE CITY WILL LOSE ALL THE ECONOMIC BENEFITS OF THE MILITARY PRESENCE IN LONG BEACH, ONCE ALL THE SHIPS AND PERSONNEL ARE DEPLOYED. THEN, THE CITY FURTHER LOSES BECAUSE THE COMMUNITY WILL BE UNABLE TO

IMPLEMENT NEW, ECONOMICALLY VIABLE RE-USES BECAUSE THE NAVY RETAINS ALL OF THE NAVAL STATION PROPERTY. THIS WOULD TRULY BE A LOSE-LOSE SITUATION.

THE CITY IS COMMITTED TO WORKING WITH THE NAVY IN POSITIVE WAYS TO MEET THE NAVY'S GOALS TO RETAIN STRATEGIC PROPERTY AND FACILITIES WHICH SUPPORT THE FUNCTIONS AND PURPOSE OF THE LONG BEACH NAVAL SHIPYARD. WE DO BELIEVE, HOWEVER, THAT COMPATIBLE RE-USES CAN BE IDENTIFIED THAT MEET THESE GOALS WHILE STILL ENABLING THE LONG BEACH COMMUNITY THE OPPORTUNITY TO RE-USE SOME OF THE NAVAL STATION PROPERTY. THIS WOULD ALLOW THE CITY TO IMPLEMENT STRATEGIES WHICH INCORPORATE NEW AND USEFUL ECONOMIC DEVELOPMENT INITIATIVES AT THE NAVAL STATION, WHILE STILL MAINTAINING COMPATIBILITY WITH THE RETENTION OF THE NAVAL SHIPYARD.

THANK YOU AND GOOD DAY.

Suggested Remarks
for Councilman Ray Grabinski
Defense Conversion Commission
August 6, 1992

Good Morning. My name is Ray Grabinski and I am the Councilperson for the Seventh District here in the City of Long Beach.

I'd like to echo Mayor Kell's welcome to you and I'd also like to add how much I appreciate your coming to Long Beach to provide this community, and communities surrounding Long Beach, with the opportunity to share some of our concerns regarding the entire defense conversion issue.

I would like to direct my comments to the Long Beach Naval Shipyard which is not slated for closure, but which has been the target of repeated, failed attempts to close it.

I'd like to underscore the words failed attempts. Though the Long Beach Naval Shipyard has, almost every two years, been scrutinized, evaluated, attacked and warned it would be closed, the Shipyard has survived every challenge thus far with flying colors. Why?

- The Long Beach Naval Shipyard consistently ranks among the top shipyards in the Nation, when compared to public or private facilities.

- The Shipyard consistently performs work on time or ahead of schedule.

- The Shipyard has a workforce that is second to none. When other shipyards from around the country have complex projects or they need specialized people, they call Long Beach.

- Long Beach is a leader. Several years ago when the Secretary of the Navy challenged Long Beach to become leaner and meaner, to work more productively and efficiently, Long Beach Naval Shipyard responded. In turn, the Shipyard rapidly earned the prestigious Meritorius Unit Commendation Award from the Secretary of the Navy.

Long Beach Naval Shipyard has been, and remains, one of the most important surface ship maintenance and repair facilities in the Nation. This assessment was underscored by Rear Admiral Roger B. Horne in testimony given before the Defense Secretary's Commission on Base Realignment and Closure on August 8, 1988. Stated Rear Admiral Horne:

> "Long Beach Naval Shipyard is located strategically close to the home port of the Pacific Surface Fleet to provide fast and uninterrupted support of surface ship complex combat systems. There is no comparable skill base in the private sector on the Pacific Coast to support ships with complex combat systems."
>
> "The Long Beach facilities and drydocks are key in providing support and docking capability on the west

coast. As a fall back, the shipyard can be used to dock nuclear ships and some carriers. Currently, Long Beach is a depot overhaul point for 4400 depot level repairable items. It is the only west coast public shipyard available for emergent non-nuclear surface ship repairs because the nuclear and carrier workloads at Puget Sound and Mare Island Naval Shipyard consume their facilities. The facilities at these three west coast shipyards, as with any other naval shipyard, could not be duplicated anywhere without long-term government subsidy."

Long Beach Naval Shipyard is a large, full capacity facility which includes approximately 347 acres and consists of four industrial piers, two wharfs and three drydocks. The Shipyard is the Navy's primary surface ship repair facility on the west coast. The Shipyard has one of only two drydocks on the entire west coast physically capable and certified to dock aircraft carriers, including nuclear carriers. This vital and unique capability fulfills an important Navy requirement that there must be a minimum of two nuclear aircraft carrier drydocks on each coast to support the readiness of this primary arm of Navy's strategic power. No west coast private shipyard can handle emergent nuclear carrier work.

One of the main reasons I wanted to address you today concerns the closure of the adjacent Long Beach Naval Station and how, I believe, this will injure the ability of the Shipyard to continue

with this proven record of excellence.

- When the Base Closure Commission acted to close the Naval Station, even the casual observer could see that this would be a tremendous blow to the Shipyard's viability. Obviously, in order for a shipyard to perform its mission, it must have work. By closing the Naval Station, and re-deploying the 38 ships that were homeported here, I am very concerned about the Shipyard's ability to generate sufficient workload to justify its existence.

- True enough, Long Beach Naval Shipyard provides fleet support to San Diego--but even this function is being threatened by the parochial views of some elected officials and private ship repair interests in San Diego who don't want to see San Diego's fleet come to Long Beach for ship repair work.

And gentleman, who pays in the end? The taxpayers. The private shipyards in San Diego don't have the facilities, nor the track records, to compete with Long Beach on a level playing field. So what have they done? Legislated away their competition, which will drive costs up and reduce the Navy's ability to meet its readiness requirements. Who loses? 4,100 highly skilled ship repair people who work at the Long Beach Naval Shipyard and a whole lot of taxpayers (who I have to believe would be sickened by this if they knew the truth).

But the Base Closure Commission did something else to the Long Beach Naval Shipyard which further reduces its ability to compete.

When the Base Closure Commission decided it would "close" the Naval Station and give command of the Station to the Shipyard, you can rest assured that the operating costs for the Shipyard increased tremendously. Will the Navy offset these added costs the Shipyard must now bear to operate the Station? Gentlemen, I would think the chances are of this happening are slim and none.

What I will venture to guess is that the Shipyard will be forced to add these new costs to the costs it must charge for the little work it will get; which means the Shipyard loses cost efficiency, loses its ability to compete and maybe, in the process, loses its ticket to survival.

And you know what? It won't simply be Long Beach which suffers. The Navy will suffer and this Nation will suffer, too.

I'd also like to make this point. There are no cost savings to the taxpayers if Long Beach Naval Shipyard is closed. The Navy's own COBRA analysis said that the payback on closing Long Beach Naval Shipyard is 79 years, and the Navy's own estimated cost of closing the Shipyard is $1 billion.

I hope you will take these comments under consideration and that you will express to the Administration how insidious and

devastating defense conversion can be. It is not a pretty picture out there.

Presentation to the Defense Conversion Commission
August 6, 1992, Long Beach, California

Intrapreneurial Conversion: Implementing Economic Conversion in the Defense Industry

by
R. J. Schlesinger

Today I would like to put forward one or two ideas directed not at job retention, but at job creation in the small business area.

I am not going to talk about saving jobs, but rather about a process for creating new companies, and hence new jobs.

We all understand that the concept of Economic Conversion represents new, untried terrain for most organizations.

"RISK" is involved.

Starting new companies is also **risky** and the failure rate of small **start-ups** is very high, especially in the technical arena.

To succeed one must not only have a sound technical base, but must correctly identify the market, provide management skills, secure financing, and build a successful manufacturing operation.

All of these steps constitute the creation of an organization that we traditionally call a company.

When you accomplish all of the "N" steps necessary to create this start-up company, you end up with "N + 1" attributes.

This additional attribute is synergy.

It is essential that synergism exist if a company is to function successfully.

----> Down-sizing defense contractors (and other large corporations) inadvertently destroy synergy, and in so doing, throw away potential start-up companies. These shrinking firms destroy synergy--by paying out placement firms to come in and disassemble functioning operations and possible spin-off enterprises.

Exiting employees are taught how to write a resume, job hunt on the phone, and shine at an interview. The focus is on *finding* jobs rather than *creating* them. And by the time the breathing-space of weeks or months is over, any synergy that the original group of workers had has been piecemealed out the door.

Formerly, many of these furloughed employees worked as a team, planning, designing, and manufacturing very complex software and hardware systems.

Instead of disassembling the team, if one added the requisite entrepreneurial and business skills to the team, -- might you not have the makings of a start-up commercial company?

Here's how this intrapreneurial conversion system works:

The defense contractor would identify programs that are on the chopping block. An outside entrepreneurial management team (**EMT**) of two or three people would be invited by the defense contractor to evaluate the operation that is to be down-sized or eliminated, to meet with the employees at risk, and to brainstorm ideas with them.

If the EMT could identify a viable commercial product or service, the defense contractor would agree to keep the selected workers on the payroll for a fixed period of, say, 120 days. During that time, the EMT would oversee and bankroll the writing of a detailed business plan, and the creation of a formal corporation.

The defense contractor would assign the necessary physical and intellectual assets needed by the new corporation. In exchange both the defense contractor and the worker-team would receive equity interest in this new corporation.

Armed with a plan, people and assets, the EMT would attempt to raise capital for the fledgling venture. At the end of the 120-day period, the defense contractor would terminate the workers with no further compensation. The new company, however, including the workers, could remain intact.

Efforts to raise capital would continue for some agreed-upon period, perhaps a year or so. If the operation proved a no-go, the assets would revert to the defense contractor.

Could this intrapreneurial conversion system work? During my years in the defense industry, I found no shortage of ideas among workers for commercial-product applications of military technology. The ideas were usually rejected because they didn't fit the current "mind set." It didn't take long for employees to be conditioned to "stop that

nonsense" and get on with the proper contract job.

But times are different now. The new world order seems to have permanently eliminated a lot of old-world jobs. Receiving a pink slip concentrates the mind wonderfully. Beleaguered communities and companies, faced with the specter of declining jobs and declining profits, just can't afford to throw away good untested ideas.

Furthermore, employees who are terminated in the early stages of a down-sizing are often the round pegs in square holes: the ones who don't quite fit into the corporate structure but may be a likely source of creative (read entrepreneurial) ideas.

By opting for intrapreneurial conversion, the defense contractor gains a stake in a commercial start-up company, plus local accolades for being a good and creative corporate citizen. The workers have jobs that they invented, as well as "a piece of the action." If the new company prospers, additional commercial jobs will be generated.

Even the outplacement firm can benefit from this conversion strategy. Its human resources staff could provide assistance in developing business plans and seeking funding sources.

But where is the "Achilles heel?"

I think the toughest one will be to get top management to invite an EMT into their plant...to try the concept.

One factor is of course the NIH syndrome (Not Invented Here). Management takes the position that if they can't see an application for a particular technology or process that is about to be abandoned, how could outsiders?

Companies will also exhibit a general concern about inviting outsiders in to "look around. The security problem is more serious for defense contractors who must address project and technology security clearance declassification. However commercial companies have concerns here also.

Fortunately, if a company is down-sizing out of a product line or market area, security problems are less pressing. You don't hold your cards "close to your chest" when you are getting ready to throw in your hand.

If companies can be motivated to accept the down-sizing spin-off model as a viable concept, the problem areas just acknowledged can be addressed. By that I mean that mutually acceptable non-disclosure agreements can be created. The first order problem is to get companies to accept the spin-off concept.

I believe that the problem of motivating companies to test the down-sizing spin-off model is an area that this Commission can directly address.

I have said that an equity position in a "spin-off" company would be retained by the parent company in exchange for resources.

How does one encourage a company that is in the midst of down-sizing to invest resources in a risky start-up operation?

Remember, that we are talking about jobs and resources that will be written off by the accountants if no positive action is taken.

Decision logic suggests that if the expected pay-back from the spin-off investment is greater than the expected savings from the write-down, the spin-off company will be supported. This logical decision creates a new company, new jobs, and expands our technical manufacturing base.

This desirable outcome decision requires that an incentive IN PROPORTION TO RESOURCES APPLIED BY THE PARENT COMPANY TO A START-UP OPERATION EXISTS.

Many forms of the incentive can be considered; i.e., modified capital gains relief, re-capitalized depreciation, accelerated write-off, etc.

The parent company would enjoy this incentive for N years on profits generated by the spin-off activity. **The more resources that the parent initially invests in the spin-off, the greater the likelihood for success of the spin-off. The greater the likelihood of success, the greater the future benefits to the parent.**

Parent ownership in the spin-off should have an upper limit, say 49%, to keep things in perspective.

Since 51% of the start-up capital MUST come from an outside entrepreneurial management team (EMT), an automatic filter is in place to prevent bogus spin-offs for tax avoidance purposes. I don't think you or I would want to put our venture capital into a start-up unless we vetted it carefully.

Note that beyond the partnership ratios (51%/49%) there is no constraint on either company size nor market segment (commercial or defense) in this model. By that I

mean small, medium or large companies may employ the model.

==========

THE FINAL POINT.....

Today there is much discussion concerning whether or not America should have an industrial policy. There is logic on both sides.
Regardless of which side you are on, there is one point on which both sides agree. We Americans HAVE NOT done a good job in developing our manufacturing processes.

Americans are good at technical innovation and poor at follow through in bringing the innovative products to market. Even when products make it to the market place there is concern about the rate of introducing manufacturing process improvements in order to bring the price down.

Foreign competition frequently "reverse engineers" a product, redesigning it for improved manufacturing processes, and mass produces it at higher quality and lower price. The classic examples are VCRs, TVs, Automobiles, and now FAX machines.

Lying fallow in many large companies currently under going "down-sizing" is a good deal of R&D, paid for by you and me, **that stopped short of the manufacturing cycle!**

These investments may never see the light of the marketplace. Management has many reasons for lack of interest:

* the design is too costly,

* there is no perception of a commercial market,

* the government owns the rights to it,

* we can't mass produce it,

* general risk aversion to new ventures,

* or it just doesn't represent enough cash flow for Goliath Incorporated to care about.

Part of the peace dividend can be derived by sorting out the commercially useful technology. Identify that technology which should be explored for commercial product

development and set up small companies to carry out the effort.

Identifying a match between some obscure military device and a high volume commercially viable product is not a task that just anyone "off the street" can address. The composition of the EMTs teams is likely to be one of the major problem areas.

However I believe that if an invitation were extended to an EMT by a down-sizing defense company to meet with their employees at risk, many smart American engineers and businessmen would come forward to become involved as EMT members. They would quickly recognize that the entrepreneurial potential is considerable. I suspect the problem would be one of "choosing" rather than "searching" for candidates. I call that a high-class problem, one I will gladly solve!

It may not be "morning in America" just now, but corporate America has a chance to brighten the future...by learning to nurture synergy in the work place instead of unconsciously destroying it.

Dr. Robert J. Schlesinger is a "born-again" academic with over 25 years of technical management experience in large and small, defense and commercial companies. He is a registered engineer in California and currently a professor of information and decision systems at San Diego State University.

TESTIMONY PRESENTED TO DEFENSE CONVERSION COMMISSION
by

LONG BEACH AREA TASK FORCE ON ECONOMIC CONVERSION

August 6, 1992

Dr. Nancy L. Mary, Chairperson

Thank you for the opportunity to give input to these hearings.

WHO WE ARE

We are a non-governmental community based task force of educators, social workers, union members, and activists, which came together, in the summer of 1991, with a concern about what the effects of the targeted naval base and hospital closures would be on the Long Beach community.

Our purpose is to heighten the consciousness of the community around this concern, and to act as a catalyst for those groups responsible for the economic and human development of civilian products and services to meet the needs of our community.

TOWN MEETING ON ECONOMIC CONVERSION

On June 27, 1992 we sponsored, along with several other community groups, a Town Meeting to facilitate a community update on the base closures, and to share a vision of conversion to a peacetime economy. Following this, fifty of the participants broke into four community sector groups: Labor, Business, Human Resources, and Government, and brainstormed around the issue and some solutions. A more detailed report of the results is attached

to this testimony. Though sectors had their own unique perspectives, one consistent message came from all groups, that we share with you today: We should, as a city, join forces and involve concerned citizens and responsible planning groups in a community-wide plan for economic development, that includes economic conversion. BUT each sector also identified that there is a limit to our local resources. <u>There must be both State and Federal committment, on a much larger scale than is current, to the economic health and well being of the citizens of Long Beach and of cities all over the nation.</u>

<u>RECOMMENDATIONS OF THE TASK FORCE</u>

Though we, as a community group, have studied the issue of conversion for over a year, we are not here to provide detailed statistics on the extent to which this community is impacted by the so called "downsizing" of the military. We would refer you, instead, to two sources of information:
a) the March, 1992 L A County Aerospace Task Force Report, for impact and recommendations regarding aerospace and b) our City's Economic Development Bureau staff for impact data on aerospace job loss, as well as the closure of the Long Beach Naval Base, Hospital and housing.

However, we would point out two realities. First, a conservative estimate by the city, in late 1991, suggests that the economic impact of the closure of the Base and Hospital alone is over $700,000,000. This does not account for the cost of related contracts and services supporting the Hospital, or the

impact of the possible closing of the Naval Shipyard, which now employs over 4,000 people.

Secondly, the blows to the region's aerospace have been major. With employees numbering 45,000 two years ago, McDonnell Douglas is now down to 30,000 and the projections for layoffs continue.

What we can best offer you is a dual perspective on action needed.

FOR THE SHORT TERM WE RECOMMEND:

1. Reconsideration of two elements of the Defense Economic Adjustment Act (H.R. 101, reintroduced in to Congress in January, 1989) for our local industries: a) the establishment of mandatory "alternative use committees" in military related facilities for the development of detailed conversion plans, and b) income support, career assistance, and retraining programs for defense workers while conversion is under way.

2. Assistance, through Federal dollars, with the environmental clean-up of the Long Beach Naval Station and the conversion of the Base, Hospital and housing tracts to meet the following kinds of possible projects:

-Low income housing

-Expansion of public schools

-Industrial parks

-Manufacturing ventures which make use of renewable energy e.g. a regional recycling center

-Job training, recreation, or child care centers for our city's youth

FOR THE LONGTERM:

Our recommendation is that the Defense Department, in partnership with Congress, determine a military strategy that is realistic in today's world. Many, including General Powell, recognize that the decline of the Soviet threat has "fundamentally changed the concept of threat analysis force for planning." We, as a nation, are beginning to see that a large part of national security involves economic strength. Thus, a reduction in military expenditures is sorely needed to balance our national security through the internal rebuilding of our nation's resources. Many have suggested, including retired Rear Admiral La-Roque, that a $100 billion shift of the defense budget could accomplish this rebuilding, without jeopardizing our national defense.

This Task Force believes that the future security of our communities depends upon the extent to which we commit our resources to four efforts:

1. A reasonable strategy for the military defense of our nation and its allies, which includes a greater committment to peacekeeping capabilities of the United Nations

2. The development of our children, which are our future, through education, health care, and opportunities for leadership
3. The preservation of the environment through the development of renewable energy resources
4. The production of socially useful products through jobs which pay livable wages
5. A partnership between business, government and the citizenry at every level that integrates the above four in planning for the "security" and "economic development" of communities.

OUR MESSAGE TO THE SECRETARY OF DEFENSE:

Today it is evident that there is no potential opponent of the United States who has or will have military capabilities even remotely comparable to the now defunct Soviet Union and Warsaw Pact. Our worst enemy is over a decade of neglect of our cities' infrastructure, its children, and its natural resources, due, in part, to an overreliance on a military industrial economy.

This is what is in dire need of "adjustment." The best recommendation we give to you today is to take this message to the Secretary of Defense:

Together with Commerce, Labor, and Health and Human Services, help us defend our communities against our real worst enemies--internal neglect.

Appendix D

TOWN MEETING ON ECONOMIC CONVERSION

JUNE 27, 1992, ST. MARY MEDICAL CENTER

LONG BEACH, CALIFORNIA

Report From Focus Groups

"WHAT IS THE MAJOR PROBLEM RESULTING FROM MILITARY DOWNSIZING IN LONG BEACH?"

LABOR: Loss of good paying manufacturing jobs and skilled employees

Outgrowths

-Economic recession
-No labor alternatives to military
-Loss of negotiating leverage
-Lack of community support; lack of community awareness regarding importance of skilled workforce and manufacturing in economy
-Insufficient utilization of political influence

BUSINESS: Not accepting the challenge as "real"--not seeing it as My Problem

Outgrowths

-Survival
-Loss of contracts
-Cleaning up of toxic waste
-Lack of capability to develop new products

HUMAN RESOURCES: Decay of social, human, physical infrastructure in our community

Outgrowths

-Big business' main motive is profit
-Homeless and jobless = hopeless population and dying community
-When jobs leave social services are overburdened
-Need to develop peaceful, community based products
-Need to reallocate resources that we have
-Need recreation for unemployed young people
-Aerospace engineers are not accepted or respected by other industries, specifically commercial

GOVERNMENT: Local government's resources are limited to respond to loss of jobs and tax base

Coordinated community planning must take place within context of larger U.S. goal to replace defense economy with a broader definition of "national security".

Other Problems

-Lack of education related to jobs--alternative routes for h.s. students other than college
-Lack of community input on local government decisions related to economic development; need to define appropriate local decision-making process around the closures
-Need to reframe problems as "opportunities"
-Too much federal "porkbarrelling--no "whole" thinking is used
-Lack of government allocation of funds for civilian economic development
-Expenditures on unproven weapon systems instead of working people
-Local government needs to deal with issues beyond immediate crises to avoid long term problems--planning!

"WHAT ARE THE STRENGTHS YOUR SECTOR BRINGS TO THIS CHALLENGE?"

LABOR: Sixty years of past history of organizing skills, abilities and knowledge in USA--insight, expertise and leadership ability to influence public and political will

-We are most representative of the community--the one who speaks for community interests
-Ability to endorse labor oriented politicians
-We have problem solving skills to work together and get things done
-Labor care about people and the needs of people
-We have ourselves--without us this country would not be

BUSINESS: -Entrepreneurial skills
-Diversified leadership
-Community knowledge

-Human resources
-Ability to plan, organize and lead change
-Political clout
-Individual business people can provide/create forum for ideas and plans

HUMAN RESOURCES:

-Ability to re-teach people to think along more beneficial lines of thought i.e. working for the common good
-Awareness of issues of self-esteem and health with regard to unemployed workers
-Many of our organizations are interested in bringing community together to influence city council, county, state on their decisions about conversion and military facilities
-Skills, experience and committment to the continued life of this community

GOVERNMENT:
-Local structure e.g. Economic Development Bureau and Commission
-Large Congressional delegation
-Local government is closest representative group to those affected by layoffs
-Vehicle for education around issues and bringing people together to realize vision for the future
-Potential for bottom-up decision-making
-Human resources and community people: energy and involvement
-Training resources e.g. R&D at local university
-Government's leadership
-Government= non-partisan groups (?)

"WHAT STEPS SHOULD YOUR SECTOR TAKE TO MEET THIS CHALLENGE?"

LABOR:
-Labor needs to market itself
-Laborers need to get involved and interface with business people, politicians etc. and participate in coalition work in the community
-Expand what it means to be a union member: labor needs to be involved in unemployment councils, trade training centers etc.
-Research and publicize who is making money on "downsizing"

BUSINESS: -Formulate a community wide strategic plan, the goal of which is to expand involvement and improve communication. The means = Economic Partnership subcommittees, meetings with Labor, Harbour Committee, community groups, cultural groups and religious groups
-Join coalitions for planning

HUMAN RESOURCES:

As citizens we need to take an active role in the democratic process which includes:

-Educating ourselves and others in effective organizational skills, including cross cultural communication and successful approaches to economic problems worldwide
-Attending local government functions
-Making contacts/networking and becoming politically active

Other Steps:

-Get organized with positive dialogue with city government in a cooperative manner
-Encourage people to take part--true democracy
-Educate students at a young age to participate in democracy via teacher training
-Lobby city council to pass ordinance on low cost housing in relation to conversion of naval property
-Study what other communities and cities have done
-Take it to the streets! March on govt. buildings
-Establish clearinghouse to inform people of job openings

GOVERNMENT: -Develop a participatory planning process, including brainstorming; recognize government as a conduit for community involvement. Government must listen to communities and then set the agenda for tackling the issues.
-Put into effect programs, temporary and permanent to redistribute the effects of military downsizing
-Attract business to the area; lobby for federal funds for conversion
-Attract and allocate resources for job training and development of new industries
-Raise taxes on the wealthy. Close tax loopholes on large corporations and use these resources to rebuild the economy
-Reorganize our priorities: children are valuable

Statement of the National Toxics Campaign Fund at the Defense Conversion Commission, August 6, 1992

During the Cold War, a great tide of money swelled over the California economy. This wave of spending has receded and we can see the wreckage of the flood: widespread toxic pollution at military facilities and contractors; bloated, inefficient and often noncompetitive corporations who are coping with the loss of their most important customer; and an entire sector of our industrial economy aimed at products we don't need now.

The two organizing principles of our economy since the Second World War - anti-communism and military production - have lost their impetus. While the weapons industry and the armed services aren't about to disappear, hundreds of thousands of contractor employees, government workers and military personnel will lose their jobs over the next few years. Contractors, suppliers and communities will lose billions of dollars in business. The impact of that collapse is strongly felt more strongly in the West's regional economy than in other parts of the country.

Still, there's good reason for hope for the future. Environmental needs have created an opportunity for economic adjustment.

The opportunity is two fold. A highly skilled workforce, a massive research and production apparatus, and thousands of acres of valuable real estate are available now to produce civilian goods and services. These resources have been freed at a time when society is demanding new technologies and products for transportation, environmental protection, and the promotion of public health. We believe that key elements of the "military industrial complex" can be harnessed in the creation of a sustainable economy in our region.

Environmental problems, however, could be an obstacle to that economic recovery. The problem, however, is not regulation. Sensible, efficient environmental protection contributes to the health of the state's economy as well as it's residents.

The real obstacle is the widespread contamination of California's land and groundwater by the armed services and their contractors.

Here's what we must do:

1. The recent spate of base closures is creating severe stress on local economies. Jobs are being lost, have been lost; but because of severe contamination at the former worksites, no other job producing industries or activities are interested in opening up there. In a community like Sacramento, for example, the large tracts are well suited for commercial or industrial development. Instead, these formerly valuable pieces of land are becoming toxic ghettoes.

We need to expedite cleanup of contaminated bases and contractors in order to put the real estate back into the productive economy. We need a position guaranteed on Technical Review Committees for environmental and community representatives (already available for many federal facilities, but not necessarily for contractors). In Mountain View, citizen oversight of the Moffett Naval Air Station remedial investigation and feasibility study is widely acclaimed as helping to speed the process. In order to make this participation of the highest quality, we also need access to Technical Assistance Grants similar to those provided in the Federal Superfund in order to pay for independent technical advisors for community groups for non-National Priority List sites and federal facilities.

2. The military economy, especially the rich funding for contractors for military systems, is on the way out. We need new sources for jobs and and effort to build new driving engines for our economy. As one commentator notes: "When John Kennedy promised to put a man on the moon within a decade, he didn't deregulate the airlines and wait for them to reach escape velocity." Instead, he provided leadership and attracted a generation of technicians and managers to NASA - where they built a civilian space industry.

The military economy, whether bases or contractors, was never a private sector economy - it was driven by publicly shared and funded priorities. Any efforts to add new industries won't succeed if we simply cut environmental, labor or other public protections in order to entice private investment: we need to recreate the public sector leadership, public support and public financing that made US industries great in the past.

National conversion policy should also emphasize the development of industries that serve national needs -- for example, environmentally sound transportation vehicles.

3. The human infrastructure is equally as important as the land or the facility (and probably more important than the corporate structures). We need to develop programs to train, retrain and retool workers for the new jobs in these industries we must create. Neighbors and workers at military bases and contractors should play a key role in planning for the reuse of those facilities as they are cleaned, closed, converted or scaled back.

4. The new industries we will push for must be made more efficient and less wasteful, toxic and polluting. We can't continue to pour public research dollars into products that poison workers, communities or the environment. As people who work in these industries, as people who live in communities where these industries have done their dirty business in the past, we're entitled to participate in deciding these research priorities, and the goals must include employment and environmental quality.

5. We need to ensure that bases remaining in operation comply with the highest standards. This means making cleanup and operations comply with state and federal laws. For example, all federal facilities should participate in the Toxics Release Inventory. In San Diego, Navy facilities have already begun complying with requirements of California's Air Toxic Hotspots (AB 2588) legislation.

Our region has underlying economic strength. We disagree with characterizations of California as "damaged good." But, in order to recover our full potential, we need a partnership of government, business, labor, and community groups, including labor and environmental activists, to minimize this transition to a peacetime economy.

(The National Toxics Campaign Fund is a coalition of more than a thousand grass roots groups seeking preventative solutions to toxic pollution. Our board members from California include representatives of the San Diego Environmental Health Coalition, the Silicon Valley Toxics Coalition, the West County Toxics Coalition, WorkSafe. The Western Military Toxics Campaign is a network of grass roots community based organizations within NTCF pushing cleanup and accountability actions at contaminated military and contractor facilities. The network currently includes Citizen Alert in Nevada and the Sacramento Valley Toxics Campaign, as well.)

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P★A★C★T★
PATRIOTIC ALTERNATIVE TO COMMERCIAL TAKEOVER OF AMERICAN AIRCRAFT PRODUCTION & MAINTENANCE

An Incorporated California Business League
MAILING ADDRESS: 3971 Pixie Ave.
Lakewood, CA 90712

AUGUST 6, 1992

THE AMERICAN PEOPLE HAVE SHOULDERED THE PROBLEMS AND DEBTS OF THE WORLD FOR OVER 50 YEARS, AND THEY HAVE DONE THIS WITH PRIDE, EVEN THOUGH THERE WERE MANY SACRIFICES ALONG THE WAY.

WE HAVE FORGIVEN THE LOANS TO OTHER COUNTRIES WHILE WE CONTINUED TO PAY OFF OUR OWN INDIVIDUAL LOANS. FOREIGN GOVERNMENTS DID NOT HAVE TO REPAY WHAT THEY BORROWED AND WE PAID FOR IT THROUGH HIGHER TAXES AND HIGHER INTEREST RATES.

WE PAY FOR THE REBUILDING OF OUR FORMER ENEMIES COUNTRIES AND ECONOMIES THROUGH TAXES AND HIGHER INTEREST RATES.

WE DEFEND OTHER COUNTRIES FROM AGGRESSION WITH THE LIVES OF OUR SOLDIERS AND THE USE OF OUR TAX DOLLARS.

WE HAVE PAID DEARLY FOR OUR OWN DEFENSE WITH OUR TAX DOLLARS. WE HAVE FED THE SOVIET UNION WITH CHEAP GRAIN, WHILE OUR OWN PEOPLE PAY HIGHER PRICES FOR FOOD FOR THEIR OWN TABLES AND OUR FARMERS SUFFER UNDER HUGE PRIVATE DEBTS.

WE HAVE PROVIDED FOOD AND MEDICARE TO THE WORLD WHILE WE HAVE MILLIONS OF WORKING POOR AND HOMELESS HERE IN THE UNITED STATES.

THROUGH TAX SUPPORTED RESEARCH AND DEVELOPMENT, WE HAVE PROVIDED THE WORLD WITH CHEAP TECHNOLOGY THAT GIVES OTHER COUNTRIES AN UNFAIR ADVANTAGE OVER AMERICAN PRODUCERS.

NOW THAT THE COLD WAR HAS BEEN WON, WE ARE FACING A DOWNSIZING OF THE DEFENSE INDUSTRY AND THIS MEANS THAT MILLIONS OF PEOPLE WILL BE LAID OFF FROM JOBS THAT MANY HAVE WORKED AT FOR THEIR ENTIRE ADULT LIVES. WILL THESE PEOPLE FIND NEW JOBS THAT ALLOW THEM TO REMAIN A PRODUCTIVE AND ACTIVE PART OF OUR SOCIETY OR WILL THEY BE REWARDED WITH UNEMPLOYMENT, THEN WELFARE, OR IF THEY ARE VERY FORTUNATE, A JOB THAT PAYS MINIMUM WAGE AND WON'T SUPPORT A FAMILY?

WE ALL KNOW THAT MOST OF THE STEEL INDUSTRY IS GONE AND SO IS THE TEXTILE AND CLOTHING MANUFACTURING AS WELL AS APPLIANCES, ELECTRONICS AND ONE THIRD OF THE AUTO INDUSTRY.

THESE JOBS HAVE BEEN MOVED TO OTHER COUNTRIES AT SLAVE LABOR WAGES.

WHERE WILL WE FIND JOBS FOR THE WORKERS OF THE DEFENSE INDUSTRY WHO WILL BE LAID OFF?

WHO ARE THE WORKERS IN THE DEFENSE INDUSTRY?

THEY ARE THE PEOPLE WHO HAVE GIVEN US MOST OF THE TECHNOLOGY WE HAVE TODAY. THEY HAVE GIVEN US NOT ONLY MACHINES OF DEFENSE AND WAR, THEY HAVE GIVEN US SPACE FLIGHT AND THE SATELLITES FOR TELEVISION AND TELEPHONE, COMPUTERS, MEDICINE, LIGHTER PLASTICS AND METALS FOR CARS AND APPLIANCES, AND THE LIST GOES ON BECAUSE ALMOST EVERYTHING WE HAVE TODAY IS A RESULT OF THE SPINOFF OF RESEARCH AND DEVELOPMENT FOR THE DEFENSE AND SPACE INDUSTRIES.

THE AMERICAN DEFENSE WORKERS ARE THE PEOPLE WHO CAN TURN THEIR SKILLS AND ABILITIES TO PEACE TIME PRODUCTS AND PRODUCE A BETTER COUNTRY FOR ALL OF US.

THE AMERICAN DEFENSE WORKERS ARE PROBABLY THE MOST VITAL NATURAL RESOURCE OUR COUNTRY HAS AT THIS TIME AND WE CANNOT AFFORD TO WASTE THEIR SKILLS AND ABILITIES BY THROWING THEM ON UNEMPLOYMENT AND WELFARE.

WE MUST FIND WAYS TO KEEP THOSE PEOPLE EMPLOYED IN JOBS THAT WILL BENEFIT THIS COUNTRY NOW AND INTO THE FUTURE.

TO DO THIS WE NEED TO RETURN TO A FULL BLOWN EFFORT TO GO BACK TO THE MOON AND THEN THE STARS THROUGH A SPACE PROGRAM LIKE WE HAD IN THE 1960'S.

IF THIS COUNTRY CAN PAY THE WAGES OF RUSSIAN NUCLEAR SCIENTISTS TO KEEP WORKING IN RUSSIA FOR THE RUSSIANS, THEN WE CAN CERTAINLY PAY OUR OWN DEFENSE WORKERS TO WORK IN THE UNITED STATES FOR OUR BENEFIT.

IF IT TAKES EVERY PENNY OF THE PEACE DIVIDEND TO ACCOMPLISH THIS IT WILL BE MONEY WELL SPENT FOR THE FUTURE OF ALL OF US.

THE SAVINGS FROM A REDUCED DEFENSE BUDGET SHOULD BE MADE AVAILABLE FOR RESEARCH, DEVELOPMENT AND PRODUCTION OF PEACE TIME PRODUCTS TO ALL COMPANIES, NOT JUST THOSE WHO HAVE BEEN IN THE DEFENSE INDUSTRY.

WE ASK THAT ONE VERY IMPORTANT REQUIREMENT BE INCLUDED FOR ANY COMPANY WHO WANTS TO BE INCLUDED IN THE SHIFT FROM DEFENSE TO PEACE TIME PRODUCTS, THROUGH THE USE OF TAXPAYERS MONIES.

THAT ONE REQUIREMENT IS THAT THE PRODUCTS RESULTING FROM THE RESEARCH AND DEVELOPMENT, MUST BE MANUFACTURED IN THE UNITED STATES.

WE MUST NOT ALLOW ANYONE TO TAKE OUR MONEY, SKILLS AND ABILITIES AND THEN MOVE THE WORK TO A FOREIGN COUNTRY.

WE NEED TO PAY FOR OUR FUTURE NOW. WE HAVE ALREADY PAID ENOUGH FOR THE REST OF THE WORLD.

RESPECTFULLY,

Floyd Sparks

FLOYD SPARKS
PACT DIRECTOR
UAW LOCAL 148

FS:sl
OPEIU30

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Transforming the Military Economy

Testimony to the Defense Conversion Commission
Long Beach, California
August 6, 1992

Michael Closson
Executive Director
Center for Economic Conversion

I appreciate the opportunity to testify before you today on the timely and critical topic of economic conversion. And, I would like to commend the Department of Defense for bringing this very important issue out of the closet and addressing it in the light of day.

The Center for Economic Conversion, which I represent, is a seventeen year old not-for-profit organization located in the heart of Silicon Valley in northern California. Our organization serves as a national clearinghouse and resource center on positive alternatives to military dependency. In addition to various public education activities, a major part of our work involves providing conversion planning assistance to public officials and concerned citizens in military-dependent areas across the country. Our experience in this work informs my following remarks.

The Cold War is over and modest Pentagon cutbacks are underway. More cuts are both likely and desirable. These cuts pose both a threat and an opportunity for the citizens of our country. The threat is obvious — substantial job loss and economic dislocation in military-dependent areas across the country. The opportunity is less obvious but no less real. It arises from our unprecedented chance to shift much of the defense sector's valuable talent and technology to other areas of critical national need.

In order to minimize the threat and maximize the opportunity posed by military cutbacks, the following steps must be undertaken:

1) Government at all levels must move rapidly to address the conversion challenge. Thus far, the federal role in fostering conversion planning has been totally

inadequate. The legislation passed in October 1990 authorized $200 million for economic adjustment assistance — a very inadequate amount for the massive task at hand. To complicate matters, access to that modest pot of money was severely limited by bureaucratic red tape within the Departments of Defense and Commerce. Some have even characterized the delays in freeing up these monies as deliberate stonewalling. Whatever the case, the upshot was that an insufficient amount of money was authorized and it was much too slowly allocated.

As a result of this state of affairs, public officials and concerned citizens in many impacted states and localities have been left largely to their own devices to confront defense cutbacks. I do not have time here to go into the array of local and state level conversion planning efforts currently underway. But I have some materials that I will leave with you that describe the activity in some detail.

I want to stress that it is very appropriate, desirable and necessary for the affected state and local governments to get fully involved in conversion planning endeavors. But, the federal government has a crucial role to play as well — especially in terms of providing adequate financial resources. In regard to implementing conversion planning, the establishment of a large federal bureaucracy should be avoided. Rather, an Office of Economic Conversion should be established outside of the DoD with the charge of directing financial resources to targeted states and localities.

2) The concept of conversion planning should be expanded to include two complementary areas of emphasis:
a) economic adjustment assistance — enabling the smooth transition of affected workers, companies and communities and
b) economic revitalization assistance — stimulating sustainable economic development in critical fields of national need.

Traditionally, conversion planning has been conceived of as solely addressing the first dimension. The focus has been upon the supply side of the equation — helping the affected entities to adjust. But we must broaden our horizons and ask and creatively answer the question "conversion to what?" If we fixate upon the supply side, we will end up, for example, with former defense workers graduating from retraining programs with no job prospects in sight that are comparable to their

former defense-related employment. Therefore, we must think also in terms of stimulating the civilian demand for defense talent and technology. In other words, a comprehensive national conversion program must address both the adjustment problem and the need for new economic development. Job Creation

But, stimulating any old non-military demand is not appropriate. Instead, we need to think in terms of developing a national needs-based technology strategy to fill the bill. The specific needs to which I am referring are the areas in which we must invest to build a healthy society and economy for the twenty-first century — fields such as renewable energy development, mass transit, environmental restoration, infrastructure rebuilding, and urban renewal. One example of such a project is CALSTART a public-private consortium designed to create an advanced transit industry in southern California.

When we start to channel federal resources, freed up by Pentagon cuts, into these areas of critical need, not only will we commence to resolve these vexing problems but, in the process, we will generate millions of high skill jobs and thousands of positive business opportunities — many of which can take advantage of the talent and technology currently in the defense sector.

3) Much more emphasis should be placed upon advance planning rather than, as is now the case, after-the-fact adjustment assistance. If defense companies are to succeed in the commercial sector and substantial lay-offs avoided, the firms need time to plan and implement new civilian business initiatives. And their workers need advance retraining. Incentives in the form of tax breaks, low interest loans, and technical assistance would go a long way toward speeding their smooth transition to the new world before us.

4) Primary emphasis, in terms of technical and financial assistance, should be placed upon small and medium-sized companies, not the aerospace giants.

Most discussions of defense industry conversion concentrate upon the aerospace behemoths. They are large, visible and employ lots of people. But, for various reasons, these companies may be the most difficult to transform. Many of the largest — e.g. General Dynamics, Lockheed, Northrup, and Grumman — make over 80% of their sales to the DoD. These companies have had little success designing,

producing and marketing products for the civilian sector. Their arcane technologies, batch production processes, "old boy" marketing procedures, hierarchical organizational structures, and secretive corporate cultures make it very difficult for them to adapt to the commercial environment. Addicted to the Pentagon dole, even in the current climate they are more likely to pursue foreign arms sales than conversion alternatives.

Conversely, the small and medium-sized sub contractors and suppliers may be the best candidates for conversion, especially if they are innovative and flexible. However, because of their limited financial and technical resources, thousands of these smaller firms have gone out of business in recent years as Pentagon spending has declined. States such as Connecticut, Washington and New York are already assisting such companies with some degree of success. They are providing "small business innovation research" matching grants, various forms of marketing assistance, and establishing flexible manufacturing networks which promote the sharing of knowledge and resources among the companies.

One of the major challenges confronting the United States is to resurrect our civilian industrial base, a civilian industrial base eroded in part by years of diversion of high quality white and blue collar talent to the defense sector. I believe that targeted assistance to small and medium-sized defense oriented companies is one crucial part of the formula for redirecting this talent and revitalizing our civilian industry.

5) Toxic contamination is a major roadblock to effective conversion in many instances. Its timely cleanup must be adequately funded.

Most of the attention to the topic of toxic contamination has been focused upon government-owned facilities — especially military bases. But many defense plants are also heavily contaminated. For example, FMC's plant in San Jose, CA is reported to be seriously blighted by toxic wastes. Obviously, such contamination can significantly delay the conversion of both industrial facilities and military installations.

It is critical that adequate financial resources be allocated for the timely cleanup of these sites. In the case of federally owned facilities, the federal government must

provide the funding. But private contractors should not be let off the hook when their negligence caused toxic contamination. Pollution cleanup and environmental restoration are growing fields of business development and some defense firms are moving into that arena. But we certainly do not want to compensate companies for cleaning up the messes that they themselves have made.

6) In order to achieve best results, all affected stakeholders should be meaningfully involved in conversion planning. Such broad-based involvement has happened most frequently in the field of military base conversion. Where it has occurred, as in the case of Mather Air Force Base in Sacramento, generally the process has gone well and a plan developed which has received wide public support. Where conversion planning has been dominated by a few insiders, as in the case of Pease Air Force Base in New Hampshire, the outcomes generally have been much more problematic.

In regard to defense industry, workers, community members and local officials have a powerful vested interest in successful conversion planning. Yet, they frequently are excluded from corporate deliberations. Since legislative efforts to mandate the involvement of workers and community members in corporate conversion planning have failed in Congress, it seems as if the best strategy is for public officials to hold out a carrot to companies in the form of technical and financial assistance. In this manner they can come to the table as full fledged participants in conversion planning. Then, of course, it is incumbent upon those public officials to meaningfully involve other stakeholders, especially workers, in the process. Steps in this direction are being taken in San Diego and Tucson.

In conclusion, I encourage you to recognize that conversion planning should be not only an instrument of economic adjustment but also economic transformation. We desperately need an economic "perestroika" in America. If it is taken seriously and pursued with adequate funding, conversion planning can become a catalyst for the creation of a sustainable full-employment economy in our country.

CENTER FOR ECONOMIC CONVERSION APRIL 1992

State Level Legislation and Administrative Programs for Economic Conversion & Diversification

by Marie R. Jones

California

Governor Wilson signed an executive order in December of 1991 which directs the Office of Planning and Research to coordinate the State's efforts to help communities address the economic, employment and planning issues that result from base closures. It further directs that all such activities will be addressed by existing task groups and state programs, with the exception of the establishment of a multi-agency California Base Closure Environmental Committee. The Environmental Committee will oversee the cleanup of toxic sites and environmental hazards on military bases. The Committee will also assist local governments with the side-effects associated with federal clean-up efforts. Contact: Bill Livingstone, Governor's staff, (916)445-4571 or Marie R. Jones, CEC, (415) 968-8798

Connecticut

Connecticut has a long legislative history with conversion and diversification programs. In 1990, Conneticut passed puiblic act no. 90-270 which provides for:

- Grants for conversion feasibility studies
- Incentives for capital investment in the form of new production equipment
- Creation of a Connecticut Commission on Business Opportunity, Defense Diversification, and Industrial Policy, which is charged with the following duties: advise the Legislature on issues relating to the diversification and conversion of defense dependent industries; plan for the development of Connecticut's manufacturing base; create and implement an industrial policy for the state; evaluate legislation which affects Connecticut's economy; prepare and implement short and long term strategies to assist defense dependent firms; provide a forum to address small and large business issues; foster the development of public-private partnerships; and review public and private initiatives to improve the competitiveness of Connecticut's economy.

In 1991, the Legislature passed a diversification law that set aside $10 million in bond authorization for diversification projects and $1 million for a Defense Diversification Office inside the Connecticut Department of Economic Development. The Legislature is now considering a new bill that addresses labor issues which result from defense cuts. Contact: Rep. Jesse Stratton, (203) 240-8585
Pat Wass, Connecticut SANE/Freeze, (203) 522-7661

Maine

Maine legislators passed comprehensive conversion legislation in March of 1992 which was signed by the Governor as part of a legislative packet addressing job creation, economic growth and business assistance needs within Maine. The legislation writes into law the responsibilities of the Governor's Task Force on Defense Realignment and the Maine Economy, which was created by executive order in 1990. It also calls for the completion of the following tasks:

- Prepare a state-wide strategy and implementation plan to assist the State, defense dependent companies, workers, and communities reduce their defense dependency by shifting from military to civilian enterprises.
- Prepare and submit a strategic plan to implement these strategies by July 1, 1992.
- Prepare and submit legislation by late 1992 which: 1) identifies how state agencies will assist regions in achieving their objectives; 2) provide incentives and resources to implement state, regional and industrial strategic plans; 3) provide adjustment assistance for communities and workers while conversion is underway; and 4) coordinate state efforts toward adoption of federal legislation and policies that support conversion

Contact: Martha Hunt, Dept. of Economic Dev., (203) 258-4219
Susie Schweppe, Economic Conversion Project, (207) 448-3177

Massachusetts

On January 8, 1991, Governor Dukakis signed Massachusetts' first economic conversion bill into law However the legislation did not include an appropriation c

ıds, and the new Governor, Weld, has not implemented
: legislation.

:e law established an Economic Diversification and
ınversion Committee within the existing Industrial Ser-
:es Program. The Committee consists of directors from
: state departments of economics, technology transfer,
d labor; an academic, a labor representative, an indus-
alist, a marketing professional, and community activist.
ıe Committee is to work closely with a wide range of
.blic and private institutions which deal with human
sources, economic development, technology develop-
:nt, and finance. The law provides for the delivery of
ıancial and technical assistance to willing, qualified
assachusetts companies who derive over 25% of their
erating income from defense contracts. The law calls
: the Committee to utilize federal funds to finance
dustrial aid packages for individual firms of $50,000 to
:00,000. Contact: Rep. Dave Cohen, (617) 354-2169
ıelagh Foreman, Massachusetts SANE/Freeze, (617) 354-2169

Minnesota

innesota began its support of conversion activities in
)84 when it became the first in the nation with a State
:onomic Conversion Task Force. The Task Force does
)t receive state funds, but it is able to continue its
:tivities through direct staff support from legislative and
:ecutive offices. Legislators also passed a statute in
)86 which provides a faltering business with below
arket rate loans for machine retooling, for training,
ısiness and labor consultation, technology transfer and
her forms of technical assistance if the applying party
tablishes an Alternative Use Committee consisting of
ıual representation from management, labor, and the
fected communities. Indeed, management, labor or
fected communities are all encouraged to apply.

ıis legislative session there are no new conversion
lated bills in the state legislative bodies. However, there
e plans to introduce worker retraining legislation in this
the next session. Contact: Rep. Karen Clark, (612) 296-0294
net Groat, Minnesota Jobs with Peace, (612) 338-7955

Pennsylvania

gislators have again introduced the Pennsylvania Eco-
)mic Adjustment Act which mandates the formation of
.e Pennsylvania Economic Adjustment Board within the
epartment of Commerce, and appropriates $250,000 for
s formation. The Board would include business owners, labor representatives, the executives of various state departments, and members of the community. The Boa woould have the following duties: to develop and advoc an economic adjustment strategy for the State (no implementation component); to study declining or failing industries in Pennsylvania; and to encourage the development and review the progress of local and regional Economic Adjustment Committees.

The Act sets a legal basis for the formation of local level Economic Adjustment Committees, and the funding of these committees by local political subdivisions. The Committees are empowered to review the skills of the labor force and the mechanical capabilities of area facilities, and to determine the types of business activities which can use these skills and facilities.

This year the Act is again in the Appropriations Committee waiting for action. The bill was watered down after legislators made concessions to the Chamber of Commerce and Industry, so the bill has a better chance of being passed this year. Contact: Sheri Friedrick, Staff to Rep. Kukovich, (717) 787-6260 or Tyrone Reed, Pennsylvania Jobs with Peace, (215) 925-5667

New York

Governor Cuomo has announced plans for a new Defen Diversification Program which is being developed to: improve defense industry productivity and product quality; diversify defense industries into commercial markets; expand defense industries into markets overseas; develop human resources; and adapt new manufacturing processes and technologies. This program will utilize existing state level economic development programs to implement the new policy. Firms with fewer than 500 employees and at least 10% defense sales are eligible to participate in the program. The program will provide the following types of assistance:

- •Strategic Business Planning
- •Export Market Development
- •Production Process Adaptation
- •Human Resource Development
- •Total Quality Management
- •Technology Transfer
- •Procurement Assistance
- •Product Development
- •Competitiveness and Diversification Education

Contact: Ray Gillen, Gov's Task Force, (518) 455-5838
Jason Friedman, Dept. of Economic Dev., (518) 473-4886

Texas

Governor Ann Richards created a Task Force on Economic Conversion in 1991 to address defense dependency in Texas and plan for military cut-backs. She charged it with the following duties: to determine the impact of military cut-backs; to advise state and local agencies on actions they can take which will encourage advanced planning, by facilities, businesses and workers, for conversion to civilian activities; to recommend ways that state and local agencies can use existing resources to assist in retraining of dislocated military workers; to determine the role of the State in assisting firms find commercial markets for their military goods and services. The Task Force has since formulated policy recommendations for the Governor, which address the needs of workers, communities, and firms. The Governor's Task Force proposes to address the needs of workers in the following manner:

- The State should publish a guide to aide workers in finding and applying for worker assistance programs.
- The State should encourage/assist positive dialogue among employers, employees and state and local agencies to provide for greater job security.
- Public officials should encourage companies to provide maximum prior notice of anticipated layoffs and invite public agencies to firms to assist dislocated officials transition into appropriate programs.
- In cases of mass layoffs, JTPA and Substate Service Areas should set up cooperative one-stop shops to deliver services to dislocated workers.

The Task Force proposes that Texas address the needs of military base communities as follows:

- The State should publish a "Community Guide for Military Installation Restructuring" to aid communities in planning for military base closures or realignment.
- Texas should simplify the application process and seek out all available federal and state level funds to assist communities in planning for base closures, developing base infrastructure and maintaining base property during the closure process.
- The Texas Attorney General should formulate an immediate opinion concerning the conveyance of excess land resulting from the closure of Bergstrom AFB, Craswell AFB, and Chase NAS. For future base closures, the Texas Attorney Generals Office should research, consult with local affected communities and recommend a permanent statutory procedure for conveying federal property.
- At the time a base closure is announced, a Community Environmental Review Committee should be established that involves base environmental representatives, federal, state and local authorities and representatives from affected communities.

The Task Force recommends the following measures for adjustment of defense related firms:

- The Governor should convene a meeting with a group of CEOs from small and medium sized defense subcontractors and the largest prime contractors, for the purpose of establishing a cooperative relationship between the state government and the private sector on issues involving the impact of reduced defense expenditures. The group should discuss how the State can assist companies that have traditionally functioned as prime contractors to expand their production capabilities to include civilian production and to serve as subcontractors or suppliers to other industries.
- The Governor shall convene a conference with medium and small contractors to acquaint them with available state and federal programs for business and worker assistance, to establish contacts with non-defense industry, and to encourage diversification into civilian areas of work.

Finally the Task Force calls on the Governor to establish a single point of contact in the Governor's Office to coordinate all State efforts relating to base closure and realignments and defense industry reductions.

Contact: Phillip Warner, Office of the Governor, (512) 463-1859
Lloyd Dumas, Co-chair Texas Task Force, (214) 690-2010

Washington State

Washington legislators passed the Defense Diversification Bill in March 1991. The legislation established a program to assist defense dependent companies and communities with diversification, and appropriated $200,000 for the initial year.

The legislation establishes a Community Diversification Program, within the existing Department of Community Development, to provide diversification and conversion assistance to firms and communities in advance of anticipated cutbacks in defense spending. The program was directed to fulfill the following activities:

- Identify defense dependent firms, cities, counties and

:egions throughout the State.

•Monitor and forecast shifts in defense spending. Alert and work with firms and communities which may be impacted.

•Monitor/report on diversification efforts by defense dependent firms and communities in other states.

• Assist military dependent firms by providing information and assistance needed to introduce new commercial processes or products.

•Formulate a state plan for diversification in defense dependent communities.

ne program works under the direction of an advisory ard composed of representatives from labor, military-:pendent businesses, peace advocacy groups, local)vernment, local economic development organizations, :presentatives of five state agencies, the federal Office of conomic Adjustment and the League of Women Voters. ince passage of the legislation the Community Diversifi-ation Program has:

•Collected information on federal defense budget and policy trends, and collected information on military dependent prime contractors and subcontractors doing business in Washington State.

•Conducted a needs assessment process which consisted of a series of meeting with community, labor, and business members, a survey of defense contractors and subcontractors, and a survey of state labor union leaders.

• Developed a comprehensive Diversification Plan which outlines goals, strategies and recommended actions with regard to diversifying Washington's economy.

•Developed a Flexible Manufacturing Network which utilizes the leadership from a trade association to: 1) educate CEOs and business owners on the benefits of a flexible network for mutual supply and purchasing; 2) develop ideas for joint projects in marketing, production, and purchasing by military dependent firms; and 3) develop an inventory of what defense dependent firms produce.

•Produce strategic economic development plans for two military dependent communities (Fort Lewis, Lakewood Airforce Base and Widbey Island Naval Base).

The State Senate has also passed a bill which calls for the levelopment of a Technology Center at the University of Washington to support small firms. The bill is now waiting or a House vote.

Contact: Paul Knox, Wash. Diversification Program, (206) 586-8973
Bill Patz, Washington State SANE/Freeze, (206) 527-8050

National Legislation for States

Three NY senators are planning to introduce a $1 billion National Industrial Innovation Block Grant program the Legislature in Washington D.C.. This legislation designed to support the restructuring needs of defense-dependent companies and communities by funding states to pursue state level adjustment strategies. The program would differ from existing federal programs because it provides for assistance before cuts, layoffs, and closures occur. States will use existing programs and departments which are tailored to the needs, industrial base, and workforce of each state and are thus likely to provide immediate and effective results. To receive funds each state must submit strategies for providing services to achieve industrial diversification and improved competitiveness. The Block Grant funds could be used for a variety of purposes, including but not limited to:

•Technical assistance in planning & implementation of diversification strategies.

•Assistance in developing high performance work organizations, employee participation programs, and training and retraining.

•Support for manufacturing extension services and the introduction of advanced manufacturing technolo in firms.

•Assistance in developing new products and adapting existing products to commercial use.

•Support for small business innovation research programs.

•Technical assistance with market expansion, export trade, and procurement.

•Financial assistance for new product development, export, and working capital for diversification.

40% of funds will be reserved for firms to improve quality, productivity and market share, and 60% of funds will be reserved for human resource development. The program also requires that a state match federal funding on a 1 to 10 basis.

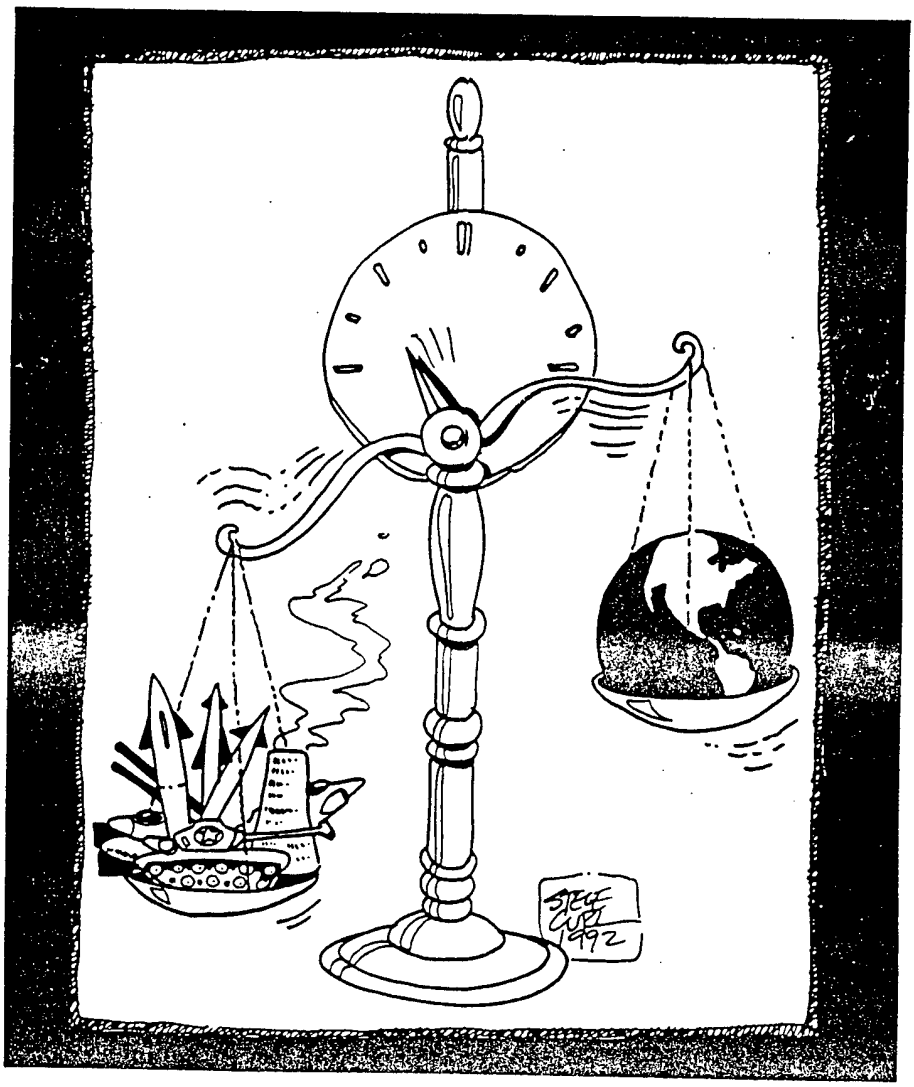
Contact: Lawrence Barker, NY Dept. of Econ. Dev., (518) 474-1131
Amy Mall, Governor Cuomo's Office (202) 638-1311.

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Center for Economic Conversion

Editor's Note

Within the past six months many conversion policies and plans, both good and bad, have emerged from across the nation. On the positive side, conversion work is becoming more sophisticated and effective as government, industry, and communities reach out to many of the organizers profiled here for assistance and guidance. Many activists play very strong roles in their community's conversion effort: in Tucson, Los Angeles, San Diego, St. Louis, Maine, Virginia, and Washington State conversion organizers sit at the table as experts in the conversion planning and implementing process.

However, there is a disturbing trend as well. New York state has developed a defense industry competitiveness and export promotion program, which will ultimately lead to greater international instability. And federal legislation has been introduced by Dodd and Lantos which would promote international arms sells as an adjustment strategy to defense cuts.

On the legislative front, California, Maine, Connecticut, Texas and Virginia have made powerful progress with new conversion legislation or executive orders. Unfortunately a few states have also run into some problems: the Minnesota Conversion Task Force has been eviscerated by the new governor, and an attempt to defund Washington State's model program was barely averted by vigilant conversion activists. At the federal level Rep. Rosa De Lauro, Mary Oaker and Senator Lieberman have all introduced promising conversion legislation.

Many localities and states have either initiated or completed conversion planning activities with the assistance of the Office of Economic Adjustment planning grants: Washington, Virginia, and New York states have finished their conversion plans while Rhode Island and Texas continue their planning process.

Finally, in the realm of conversion actions there is a diversity of news to report. Labor unions and activists have taken an aggressive stance with regard to corporate conversion: for example, activists in Minnesota are bringing their conversion agenda directly to the stockholder meetings of defense firms. And a number of innovative networking, technical assistance, and loan programs have been set up to assist small defense dependent firms in Washington, Massachusetts, and Connecticut.

This year is a promising one for continuing the conversion of our defense economy into a vital, just, and sustainable economy in the coming years. It is a pleasure to join the effort.

—Marie R. Jones

I hope to be responsive to your needs. Please respond with your suggestions or feed back about this Update.

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Conversion Organizer's Update was researched, produced, and written by Marie R. Jones, and edited by CEC Staff and Charles Lamoureux.

The Center for Economic Conversion is a non-profit public benefit corporation dedicated to building a sustainable peace-oriented economy. Founded in 1975, the organization serves as a national resource center and a catalyst for conversion planning. CEC provides educational materials; speakers; organizing assistance to conversion activists; technical assistance to workers, managers, and public officials confronting military cutbacks; and research on conversion issues.

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For information on materials available from CEC, consultations on defense plant and military base conversion planning, con-version organizing assistance, directed research, speakers, or workshops, please contact the Center. Contributions to CEC are tax-deductible.

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Conversion Briefs
Local & Activist's Initiatives

Arizona

Tucson - The Arizona Council for Economic Conversion (formerly Tucson Council for Economic Conversion) has laid some important foundations for attaining non-defense sustainable economic growth. ACEC has:

- Helped create a diversification planning committee to research the economic effects of defense spending and implement an economic conversion and diversification plan for Tucson.
- Assisted with an application to the Pentagon's Office of Economic Adjustment (OEA) for funding to develop the conversion plan.
- Created the beginnings of a local networking group that focuses on the technological aspects of conversion.
- Served as a catalyst in the creation of a diverse financial group to develop innovative financing approaches for contractors and suppliers to pursue civilian production. The group consists of bankers, venture capitalists and business leaders.

ACEC has also been instrumental in getting the Tucson City Council to pass a resolution in support of conversion planning. Likewise, ACEC is working with the county board of supervisors and state level officials to get similar resolution passed at these levels. *Contact:* Rosalyn Boxer, Arizona Council for Economic Conversion, *602-620-1241*

California

Alameda - The new mayor of Alameda, a retired Naval Captain, has developed a "Naval Base Committee" to study issues at the Alameda Naval Air Station. The committee has met twice and is comprised of 15 citizens on three subcommittees: Current Operations (enhanced relations between the City and the naval base keep Alameda abreast of toxic issues), Retention (lobbies to keep the base open) and Strategic Planning (plans for smooth transition to civilian use). Controversy is brewing over the role of the Strategic Planning Committee and the ex-mayor has called for its elimination. However, peace activists are heartened by the fact that "Alameda's existing government is willing to plan for the possibility of base closure." *Contact:* Judy Pollard, *510-865-3651*

Irvine-The Economic Development Demonstration Project is working with State officials to establish a state wide Manufacturing Extension Program which would identify the needs of manufacturers and help them to improve competitiveness. In addition, CALSTART, a new private non-profit has been launched to promote advanced transportation systems as an alternative to the aerospace and defense industries in Southern California. Lockheed has donated a building to CALSTART at its Burbank location which the City of Burbank will refurbish. *Contact:* Margo Bowers, Economic Development Demonstration Project, *714-724-6253*

Long Beach- The Long Beach Task Force on Economic Conversion recently emerged out of concerns over the City's $2.7 billion dependency on DOD spending. After researching the adjustment strategies of other localities, the Task Force has decided to reach out to a variety of constituents including labor and business. The Task Force is planning a Town Meeting on June 27 to educate the public on what is possible with conversion planning and to provide a forum for a wide range of groups to voice their concerns and suggestions for solutions. In addition, the Task Force is trying to get an economic conversion ordinance passed by the City of Long Beach which will establish an Economic Conversion Committee to "promote economic stability by building a *healthy diversified, full-employment* economy." *Contact:* Nancy Mary, Long Beach Task Force on Economic Conversion, *213-594-0127* or Bob Spivey *213-438-5229*

Los Angeles - *The Aerospace Task Force Report: An Economic Adjustment Plan for the Los Angeles County Aerospace Industry* was completed in March of 1992. The report covers the extent of defense dependency in the county and forecasts the economic impacts of down-sizing on the L.A. community. The report calls for broad based participation in the adjustment process, including participation of federal, state and local actors and groups from the public and private sectors. It outlines the following three part adjustment strategy:

1. Develop new business opportunities within the Aerospace/High Technology sectors. Create a California high technology strategy, commercialize aerospace technology, finance high technology enterprise, establish a state wide industrial offset policy, provide technical/research assistance to aerospace companies.

Maine

The Economic Conversion Project of Maine (formerly the Peace Economy Project) has completed community impact studies which document how much local taxpayers spend each year for federal military purposes and how much has been lost to their community in forgone federal domestic program funds. ECP also completed a report entitled "Shift in Federal Spending - What the Peace Dividend Can Mean to Maine." The report became a vehicle for ECP to meet with a wide variety of defense contractors, business groups, labor representatives, and state officials and to support new budget priorities and conversion planning initiatives. The report was co-sponsored by Maine AFL-CIO and the Maine Council of Churches and endorsed by the Maine Conference of Mayors. In essence the report created a vehicle to bring together a state wide coalition of stakeholders, which together successfully lobbied the Governor to create the Governor's Task Force on Defense Realignment and the Maine Economy by executive order. The Task Force received $150,000 in federal EDA money to support its work.

The ECP Town Meeting Initiative is off to a great start: ECP delivered over 70 municipal "Reinvest in Hometown America" resolutions to Congress and the President on May 16, as part of the "Save Our Cities" campaign. The resolution calls for the Congress and the President to redirect federal tax dollars from defense expenditures to critical domestic programs such as education, housing, health care, social services, transportation, employment and job training, and deficit reduction. As well as assisting industries, workers, and communities most affected by military cutbacks to make the transition to civilian activities.

ECP co-sponsored with the Real Security 92 Campaign (a non-partisan Maine coalition with a focus on electoral education), a Rebuild America Conference in Maine. Many key State representatives attended the conference and heard 19 key leaders from various constituencies talk about conversion (including Bath Iron Works CEO Buzz Fitzgerald, the president of Maine Conference of Mayors, the president of the AFL-CIO, leaders from the Teacher's Association, members of Physicians for a National Health Program, and representatives from veterans, homeless, and children's rights groups. All speakers called for conversion and a shift of federal spending. If you would like a copy of the conference video-tape, please call Susie Shweppe.

ECP and the Edmund S. Muskie Institute of Public Affairs are working together to produce a televised documentary and stakeholders discussion on Maine's economic situation and future. The purpose of the documentary is not only to draw attention and action to conversion of Maine's military economy but also to draw attention to the need for an overall transformation of Maine's economy to make it sustainable in the long term.

Portland Maine has a sister city in Russia called Port Angel. ECP is planning to do a joint conversion program with activists in Port Angel this Fall. Port Angel is a military dependent city with many similar characteristics to Portland. ECP will send a delegation to explore conversion possibilities and share organizing experience with fledgling activists there in June. Finally, ECP has some exciting but too soon to be announce news about Bath Iron Works.

Economic Conversion Project has also lobbied around the congressional defeat of the "take down the budget walls campaign." ECP has been working with many churches who have taken a lead role in writing letters to editor and congressional delegates to get support for removing the budget walls. *Contact:* Susie Schweppe, Economic Conversion Project, *207-781-3947*

Bath - The Bath-Brunswick Conversion Task Force has identified two possible joint use plans for the Brunswick Naval Air Station including a plan for a Fire Department sub-station on 40 acres of the base and a Research and Development Center. The plans for the Fire Department Sub-station are progressing well. The Task Force has also received EDA funding for a re-use Oversight Group which includes city officials from three communities, planners, and members of the Task Force. The Oversight Group will analyze the region's level of defense dependency and act as a permanent regional conversion planning group. This effort is unique because planning efforts have began long before industry and base closures have occurred. Bath Iron Works has received a new military contract from the Navy which will last through 1997 and the base lease will continue through 1995. *Contacts:* Wanda Plumer, Brunswick Chamber of Commerce, *207-725-8797* or Dave Gleason, Coldwell Banker/Gleason Reality, *207-865-9446*

Maryland

Baltimore - The City Council passed a resolution which made Baltimore a nuclear free zone and Mayor Curt Schmoke signed it into law in March 1992. In addition, the mayor has directed a task force to look into the possibilities of divesting city employees' pension funds from nuclear weapons and energy industries. The task force will study the issue and the Mayor plans on introducing an ordinance in Fall.

The Development Commission has met with Martin Marietta to develop initial plans for the production of a ship based electrical power generator that uses warm ocean waters to produce electricity for cities. The product would

2. Develop support for public-private initiatives to make California a more competitive and productive place for aerospace and high technology businesses (reduce the burden of worker's compensation claims, improve environmental regulatory and enforcement procedures, improve public education, save the L.A. Air Force Base and Space Systems Division by targeting existing housing resources to their employees).
3. Secure employment opportunities for dislocated workers (improve and better coordinate education, placement and retraining services).

The report also calls for funding the following initiatives: L.A. County Aerospace High Technology Council, L.A. Technology Resource Center, California Venture Development Fund, Temporary Housing Program, Clean Energy Consortium, Start-up Loans and Business Incubators, and The Advanced Transportation Development Consortium. *Contact:* Edna Bruce, Community Development Commission, *213-260-2187*

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San Diego - The Economic Development Task Force developed a set of conversion recommendations that were approved for implementation by San Diego City Council. The recommendations include: writing an economic base study to help target industries in jeopardy of contract cancellation; reviewing the City's lobbying agenda; developing a public information plan on issues impacting San Diego's economy; and most importantly obtaining funds to implement the City's Economic Conversion Program, which the San Diego Economic Conversion Council (SDECC) has worked on for some two years. Indeed, the City has already obtained a $55,000 California state grant to fund a survey of San Diego's defense companies which is expected to be a model for other California cities. In addition, the DOD Office of Economic Adjustment (OEA) awarded the City a $100,000 community planning grant to support the formulation of an adjustment strategy, including: an inventory of federal, state, and local programs which can assist military dependent companies; a market analysis to identify potential markets for defense firms, new technology potential and growth industries; a fiscal analysis which estimates the local impacts of military cutbacks; a business retention strategy for defense suppliers; and a strategy for new business development and recruitment.

The Economic Conversion Program was formulated with plenty of opportunities for public input and criticism, because SDECC held numerous "Town Meetings" for that purpose. In addition, SDECC will be involved in overseeing the implementation of the Program's activities, because it is a member of the City's Economic Conversion Advisory Group. As a member of the City's Task Force, SDECC has been involved since last year in incorporating conversion into the City's new economic development plan.

This plan includes three main components: 1) creating a better business climate, 2) assisting companies to convert to civilian production, and 3) assisting displaced workers. The plan includes status quo business development recommendations such as regulatory change, increasing tourism through the development of major events and an international airport, revitalizing depressed urban communities and housing development. However, SDECC's objective has been to urge the city to look beyond retention of the status quo to identify economic development alternatives like economic conversion.

Finally SDECC's Executive Director, Marcia Boruta, was invited to participate in the Third International Congress of Scientists and Engineers in Berlin and to formulate an International Network of Engineers and Scientists for Conversion. *Contact:* Marcia Boruta, San Diego Economic Conversion Council, *619-278-3730*

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San Francisco - The Arms Control Research Center continues its campaign to actively promote and monitor Bay Area base closures. ARCs 1992 Base Closure and Conversion Campaign is designed to enhance public awareness and create demonstration projects. And ARC is continuing its three year monitor of the conversion of the Presidio Army Base. In September, ARC released a report entitled *The Environmental and Economic Implications of the Presidio Army Base Transfer*, which examines how environmental contamination may impede transfer of the base to the National Park Service. ARC is also working to ensure that the public has a voice in the conversion of the Hunter Point Shipyard, which is entangled in a bazaar mix of regulatory authority because the Shipyard is currently being leased to the City of San Francisco. *Contact:* Arms Control Research Center, Saul Bloom, 415-397-1452

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Santa Barbara - The Peace Resource Center is initiating a new project called the Peacetime Economy Project, which brings together a coalition of community groups to press for health care, housing, environmental protection, education and other vital issues. The project will include a series of public education efforts to alert the public about the hidden costs of military spending. The project already successfully lobbied the City Council to pass of a resolution for City level support of conversion activities by local military reliant firms. And the City passed a resolution calling for change in federal funding priorities away from military towards social programs. A similar resolution was passed by the Santa Barbara County Supervisors in April 1992. Finally, Santa Barbara County has set up a conversion planning commission. *Contact:* Steve Freedkin, Peace Resource Center, *805-965-8583*

be based on ocean thermal energy project research by an applied physics lab. Martin Marrieta has an ocean naval center in Maryland and is very interested in the project.

The City of Baltimore has just completed its annual public hearing at which the Mayor identified the critical urban needs of the city. The Mayor called for a new federal-local partnership, in which the federal government would provide grants to localities which can then direct the resources towards their most critical local needs. *Contacts:* Katherine "Sissy" Corr, Jobs with Peace *301-342-7404* and Dick Ullrich, Development Commission, *301-366-1324*

Massachusetts

Boston - Mass SANE/FREEZE cosponsored a conference entitled "The New American Agenda: Massachusetts and the 21st Century Economy" in January of 1992. The conference featured such notables as: Senator Kennedy, Senator Kerry, Professor Robert Reich (Kennedy School of Government), John Hodgman (president of Massachusetts Technology Development Corporation). Conference participants explored a variety of strategies to put the Massachusetts economy back on track. Speakers emphasized the importance of shrinking the defense budget and redirecting money to infrastructure, industrial development, education, job training, health care and other domestic needs. *Contact:* Shelagh Foreman, SANE/FREEZE, *617-354-2169*

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The Bay State Center for Applied Technology (BSCAT) is advocating a state level program, in which BSCAT and local economic development offices work with small defense related manufacturers to identify new markets, change technology and production processes, and develop their workforce. *Contact:* John Hoops, *Bay State Center for Applied Technology,*

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Pittsfield - A new coalition has formed between SANE/FREEZE, the Mayor, economic development professionals, and state representatives. The coalition is preparing an OEA grant application to the state to develop a customized local diversification program. The coalition is particularly interested in developing a self-employment program for dislocated defense workers or a network of worker cooperatives similar to those developed in Mondragon, Spain. *Contact:* Pamela Gilchrist, Berkshire County SANE/FREEZE, *413-499-0906* or Al Robertson, Berkshire Enterprises, *413-448-2755*

Minnesota

Jobs with Peace has reassessed its tactics with regard to the new Governor, who dis-empowered the State Economic Conversion Task Force by dis-inviting the participation and representation of community and peace groups. Consequently, Jobs with Peace is now laying the ground work for the formation of a new regional economic conversion task force to replace the Governor's. Jobs with Peace also coordinated a public hearing on jobs retention in Minnesota.

Jobs with Peace has spearheaded a coalition of 29 groups including labor unions, community groups, peace groups, and religious organizations to challenge and redirect federal spending priorities. The coalition calls for money to be redirected from the defense budget to pressing urban needs and conversion. Jobs with Peace has also focused its lobbying efforts on converting the attitudes of 8 key Minnesota congresspeople. *Contact:* Janet Groat, Minnesota Jobs with Peace, *612-338-7955* .

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Economic conversion resolutions were filed with Eaton, ESCO, General Electric, Honeywell, Morrison Knudsen, Rockwell International and Unisys by stockholders who support conversion efforts. Members of the International Brotherhood of Electrical Workers, Local 2047, which represents production workers at Unisys plants in Minnesota, together with Jobs With Peace called on Unisys to do alternative planning at local production sites. Unfortunately, the company kept the resolution off the ballot by claiming that it was not within the purview of shareholders and constituted ordinary business. If the resolution had been adopted, management would have been required to work with labor and community members on new product ideas to save jobs. Jobs with Peace, Interfaith Center on Corporate Responsibility and IBEW Local 2047 sent a delegation to the Annual Shareholders Meeting to bring up the resolution. There ensued a lively debate about conversion, executive pay and perks and other issues. The resolutions at the remaining companies ask for a report on company efforts to retrain workers and retool military dependent plants.

In related news, a Unisys plant in New Jersey will be closing down as of June 1992. Workers at the plant are organizing to keep the plant open and they have formed an informal partnership with Jobs with Peace.
Contacts: Janet Groat, Minnesota Jobs with Peace, *612-338-7955* or Valerie Heinonen, Interfaith Center on Corporate Responsibility, *212-870-2293*

Missouri

The **Saint Louis** Economic Conversion Project (SLECP) is working with the Regional Economic Adjustment Company (REAC) and they have obtained a DOD grant of $70,000 for conversion planning. REAC has three proposals into the Department of Commerce and one into the Department of Labor for conversion activities. The most

important of which is a challenge to existing Department of Labor retraining guidelines. REAC and SLECP would like to see retraining redefined to include learning new skills not just learning a new trade. This is important for defense workers because managers and many blue collar workers can find jobs in the private sector if they have new skills. They do not need to learn a new trade. Both groups would also like to see skill training programs that go into effect before layoffs occur rather than afterwards.

SLECP is challenging McDonnell Douglas's push to make F-15 sales to Saudi Arabia. SLECP notified congressional representatives that only 20,000 jobs would be lost if the F-15 sale is not approved rather than the 40,000 that is claimed by McDonnell Douglas. And SLECP maintains that selling the F-15 to Saudi Arabia is a short term dangerous job creation program that will line the pockets of McDonnell Douglas with $3 billion in profits. SLECP has received support from labor and church groups for their position. SLECP plans to bring their agenda to a McDonnell Douglas shareholders meeting this summer.

In the Fall of last year Saint Louis Economic Conversion Project was the citizen representative to the Economic Adjustment and Diversification Committee. The Committee included representatives from nine counties, the City of St. Louis, business, economic development departments, State Department of Labor, and the Chrysler and McDonnell Douglas Corporations. The Committee completed an economic development and reindustrialization plan for Saint Louis. The plan outlines a funding and implementation strategy to meaningfully respond to defense cutbacks. It covers the following six areas: import and export assistance strategies ($2,760,000), job training/ employee enhancement strategies ($43,225,000), financing strategies ($6,500,000), technology transfer/management assistance ($800,000), business development programs ($6,075,000), and administration/research/planning ($200,000).

Contact: Mary Ann McGivern, SLECP, *314-726-6406*

New Mexico

Citizens for Economic Conversion and Diversification have been working on issues of diversification within New Mexico. CECD is interested in promoting and retaining existent New Mexico businesses as part of an overall economic development strategy. In addition, CECD is working with Los Alamos National Laboratory to identify military technologies from Los Alamos that have been successfully transferred to civilian production in the past as well as exploring the regulatory obstacles to technology transfer. Contact: Edith Lenneberg, CECD, *505- 898-7589*

Santa Fe - Concerned Citizens for Nuclear Safety has instituted The Project for Economic Conversion of Los Alamos National Laboratory. The goals of the project are to facilitate and encourage the redirection and revitalization of LANL's national defense and civilian research and development programs in the post-Cold War era. To accomplish this the project has:

- Enlisted the aid of the most highly qualified and respected experts on nuclear weapons research, environmental health and safety, and economic conversion.
- Funded and produced a study of the economic effects of defense spending in New Mexico, entitled "Net Federal Spending in New Mexico County, with emphasis on Military and Department of Energy Spending, and with details for the Los Alamos Regio" (by Greg Mello).

The Project is currently involved in the creation of a broad-based and influential Economic Conversion Committee, including community leaders, economic development experts, and elected officials. This committee will provide the planning, coordination, and leadership necessary for a smooth transition of the Los Alamos National Laboratory to its new post-Cold War role.

CCNS has also been actively engaged in challenging DOE plans to open a Waste Isolation Pilot Plant in New Mexico. If the plant is approved it will provide permanent underground disposal for plutonium-contaminated waste from nuclear weapons production. *Contact:* Jay Coghlan or John Stroud, CCNS, *505-986-1973*

New Jersey

Fort Dix - Congressman James Saxton, a Republican, has announced a plan for a white collar prison at Fort Dix - a partially decommissioned base. Common Agenda of Newark plans to fight the plan, as they don't feel that it is a positive example of conversion. Contact: Hiroshima Day Committee and the Common Agenda of New Jersey, *201-376-5629*

New York

Oneida-Herkimer Economic Conversion Task Force received a $23,000 grant from the New York State Department of Economic Development to study and plan for defense cuts. The Task Force has completed a study of defense dependency in Oneida and Herkimer counties. The major conclusion of the study is that defense dependency in the counties has declined over the past 15 years, largely because the counties have expanded their non-military economy. The Task Force is now working on a "preemptive" planning process that includes questioning community, business, labor and special interest leaders about the

strengths and weaknesses, economic objectives, and a 10 year vision for the future of the area. The Task Force is currently planning the third phase of their project and it is likely to include a town meeting or conversion workshops with all the effected constituency and production of a written conversion plan. *Contact:* Carol White, Oneida-Herkimer Economic Conversion Task Force, *315-263-2386*

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The **Syracuse** Economic Alternatives Project is working with the Oil, Chemical and Atomic workers (out of Denver Co.) to develop legislation for a Worker's Superfund. The Worker's Superfund is being pushed as a G.I. Bill for displaced workers and will provide money to workers if plants are shut down for environmental problems, military cutbacks, or run-away shops. *Contact:* Howard Hawkins, Economic Alternatives Project, *315-475-4822*

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Long Island - The Long Island Alliance is reviewing the N.Y. State Report by the Governor's Defense Advisory Panel. The Alliance is concerned about the Panel's recommendation to increase arms exportation as a strategy for dealing with domestic defense cuts. In addition, the Alliance is concerned that the report calls for an additional two years of study rather than committing funds for worker retraining. The Alliance has been instrumental in forming a Long Island Citizen's Commission on Local and Global Futures. The Commission has four committees which focus on social policy, the economy, the environment, and foreign policy. The committee on the economy will explore conversion options as part of its overall efforts. *Contact:* Margaret Melkonian, Long Island Alliance to Prevent Nuclear War, *516-741-4360*

Pennsylvania

Pittsburgh - has been awarded federal money for the development of high speed magnetic levitation trains. The trains may be developed by a new corporation called Maglev Inc. Maglev is a consortium of academics, labor, business and community members whose goal is to develop a high speed train which runs from Pittsburgh to Ohio and Virginia. The corporation has also successfully obtained state funding for train production.

The Tri-State Conference on Manufacturing is developing an early warning network with the Steel Valley Authority to assist communities with plant shut-downs. The Tri-state Conference is teaching community and church groups how to identify the early signs of a potential plant closure. And the Steel Valley Authority complements this effort by providing communities with assistance in developing alternative strategies to deal with the closure. *Contact:* Tom Webb, Tri-State Conference on Manufacturing, (412) 421-1980

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The **Philadelphia** Navy Yard is on the Pentagon hit list. Pennsylvania Jobs with Peace is working hard to empower the effected communities to plan for the Yards eventual closure and conversion. JWP convened a meeting with community leaders to plan for the eventual conversion. The group is optimistic about taking pro-active measures to deal with the closure. Jobs with Peace has also been working hard on the "Save our Cities/Save Our Children" campaign. *Contact:* Barbara Smith or Tyrone Reed, Pennsylvania Jobs with Peace, *215-925-3758*

Rhode Island

The Office of Strategic Planning is continuing its study of the impact of defense spending reductions on Rhode Island businesses, workers and communities. The study focuses on small and mid-sized defense contractors and long term economic development efforts (see October 1991 issue of Conversion Organizers Update). However, President Bush's plans to cancel the Sea Wolf submarine has upset this focus. Business and community leader's have called for short-term strategies to deal with the crisis at Electric Boat which, although in neighboring Connecticut, is Rhode Island's largest employer. The Governor's Office has responded by trying to get Bush to restore funding for the second and third Sea Wolf vessels, and by seeking out large firms to relocate to facilities adjacent to Electric Boat. *Contact:* Dr. Robert K. Griffith, Jr., Chief, Office of Strategic Planning, Rhode Island Dept. of Administration, *401-277-1220*

South Carolina

Savannah River - The Energy Research Center will begin discussion and assessment of the potentials for limited conversion at the Savannah River Site. While recognizing that there is limited potential for conversion of the facilities and grounds at the Savannah River Site, because of extensive radioactive contamination, the ERF is interested in the potential of planning for conversion of the technical expertise and entrepreneurial ability of the 27,000 workers at Savannah River. Contact: Frances Hunt, Energy Research Foundation, *803-245-9116*

Texas

Dallas/Ft. Worth - local chapters of the League of Women Voters from across the nation are working together to organize a comprehensive push to put conversion into the National League of Women Voters Platform and hence onto the national agenda. The Dallas chapter sent out letters urging support of the conversion platform at the June 12-14 League of Women Voters convention in Boston to 1,200

local chapters of the League. Call your local League and urge them to support the platform.
Contact: Richard Callenberg 213-443-0303, Tricia Sullivan or Jim Frost, Economic Conversion Committee of the Dallas League of Women Voters, *214-688-4125*

Virginia

The Task Force on Economic Conversion is completing a study of state level responses to the defense build-down. The task force is interested in exploring various strategies which different states undertake in response to base closures and contract cutbacks. The study will explore the reasons for and differences between pro-active and reactive conversion and diversification strategies. Virginia Polytechnic Institute sponsored a conference on economic conversion on May 21, 1992 which included such notables as: Senator Charles Robb, Michael Closson, Paul Knox, Greg Frisbe, and many others. *Contact:* John Accordino, Virginia Task Force on Economic Conversion, *804-367-1134*

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Hampton - The Peninsula Peace Education Center was just formed by a number of concerned citizens over defense firm layoffs of 1000 blue and 1000 white collar workers. The PEC will begin its work by sponsoring two conversion conferences in the coming months. Contact: Al Schy, Peninsula Peace Education Center 804-826-4443

Washington State

SANE/Freeze has successfully kept support alive for Washington State's Economic Conversion Program. The state effort was in jeopardy of receiving no appropriation for the coming year. SANE/FREEZE worked hard to keep the pressure on state politicians to maintain the state conversion program, which they have done (see state update). In addition, SANE/FREEZE is gearing up for the state's electoral arena: Washington will have six open seats in November. *Contacts:* Bill Patz, Washington State SANE/FREEZE, *206- 527-8050* or Paul Knox, Community Diversification Program, *206-586-8973*

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Oak Harbor - A loose community coalition, called Partnership Oak Harbor, has developed out of the need for a cooperative response to the possibility of a Whidbey N.A.S. close down. The Partnership includes seven summit teams each with a particular mission that include: Human Services, Education, Land Use and Transportation, Community Image, Recreation, Business Development, and Community/Military Involvement. At present the Partnership is in its infancy, but it has already defined economic development and adjustment to base closure in long range terms. *Contact:* Partnership Oak Harbor, 5021 50th S.W. #101, Oak Harbor, Washington 98277

State Level Legislation and Activities

Alabama

Legislative efforts have been put on hold in Alabama. A year ago SANE/FREEZE put together a conversion package for the chamber of commerce, but the effort was undermined when 10,000 new military jobs came into Huntsville.
Contact: Robert Hunt, Huntsville SANE/FREEZE, *205-881-2027*

California

Governor Wilson signed an executive order in December of 1991 which directs the Office of Planning and Research to coordinate the state's efforts to help communities address the economic, employment and planning issues that result from base closures. It further directs that all such activities will be addressed by existing task groups and state programs, with the exception of the establishment of a multi-agency California Base Closure Environmental Committee. The Environmental Committee will oversee the cleanup of toxic sites and environmental hazards on military bases. The committee will also assist local governments with the side-effects associated with federal clean-up efforts .

The Assembly Democratic Economic Prosperity Team (ADEPT) is holding a hearing on defense dependency and conversion issues in California on May 14th 1992. Legislators have invited key people from the defense industry, labor unions and conversion organizations to speak on the issue and possible legislative actions.
Contact: Bill Livingstone, Governor's staff, 916-445-4571 or Andy Michael, Rep. Vasconcellous, *916-445-4253*

Colorado

The Federal Budget Task Force, which was established to investigate the need and prospects for economic conversion, has been having difficulty with its planning process because the state is unclear about what the respective roles of the federal and state government will and should be.
Contact: Ford W. Cleere, *303-352-8537*

Connecticut

Connecticut legislators passed a diversification law which sets aside $10 million in bond authorization for diversification projects and $1 million for a Defense Diversification Office inside the Connecticut Department of Economic Development. The legislature is considering a new bill that will address labor issues which result from defense cuts. *Contact:* Pat Wass, Connecticut SANE/FREEZE, *203-522-7661*

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The Connecticut Department of Economic Development has developed a $10 million loan program to assist small and medium defense firms develop new non-defense products. It has also assisted Textron-Lyoming with $1 million to develop and produce commercial engine devices.

Connecticut Innovations Inc. (CII) has given $800,000 to Data Products of New England to assist with their conversion activities.

The Regional Development plan for South-Eastern Connecticut is scheduled for completion this spring. The plan emphasizes the development of tourism and a deep water port (the former navy pier in New London, Connecticut).

The Southeastern Connecticut Coalition for Economic Development has been granted $100,000 by the AD Little Foundation. The coalition plans on developing a small business incubator with the funds (small business incubators provide low rents and technical assistance to small start-up firms). *Contact:* Pat Wass, Connecticut SANE/FREEZE, *203-522-7661*

Hawaii

The Hawaii State AFL-CIO passed a resolution during its 14 biennial convention in support of local and federal legislation for adequate economic conversion planning at the national and local level and for appropriate worker assistance for those adversely affected by military cuts.

The Spark Matsunaga Institute for Peace sponsored a conference on conversion planning on June 6. *Contact: Rhoda Miller*, Spark Matsunaga Institute for Peace, *808-956-7427*

Maine

Maine legislators passed comprehensive conversion legislation in March of 1992 as part of a legislative packet which addresses job creation, economic growth and business assistance needs within the state. The legislation writes into law the responsibilities of the Governor's Task Force on Defense Realignment and the Maine Economy, which was created by executive order in 1990. It also calls for the completion of the following tasks:

- Preparation of a state wide strategy and implementation plan to assist the State, defense dependent companies, workers, and communities reduce their defense dependency by shifting from military to civilian enterprises.
- Preparation and submission of a strategic plan to implement these strategies by July, 1992.
- Preparation and submission of legislation by 1992 which: 1) identifies how state agencies will assist regions in achieving their objectives; 2) provides incentives and resources to implement state, regional and industrial strategic plans; 3) provides adjustment assistance for communities and workers while conversion is underway; and 4) coordinates state efforts toward adoption of federal legislation and policies that support conversion.
- Appointment by the House and Senate of 18 new members from the public at large to The Task Force. The new members will include representatives from the various regional task forces.

The Economic Conversion Project of Maine is working with state legislators to appoint effective new members to the task force. *Contact:* Susie Schweppe, Economic Conversion Project, *207-781-3947*

Massachusetts

Massachusetts received a grant from the EDA for $168,000 for conversion activities throughout the state. The state has augmented these funds with an additional $69,000 from state coffers. Massachusetts will use the funds to provide field services and an economic conversion demonstration project for military subcontractors and suppliers. The state has already received funding applications from Lynn and Springfield, Massachusetts. The state is also looking for matching funds for a small business and industrial services program to provide loans and technical assistance to very small defense dependent businesses. *Contact:* Shelagh Foreman, SANE/FREEZE, *617-354-2169*

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The Machine Action Project has contracted with the State's Industrial Services Program to complete a study on defense dependency in Massachusetts. The Study will look at

defense dependency in three industries: plastics, electronics and metalworking. MAP will first compile a data base of defense dependent contractors and subcontractors and then conduct a detailed study of a cross section of 100 firms to look at the exact level of dependency and to identify any conversion activities and obstacles to conversion. The report should be finished in November 1992, and is being funded as a model by EDA.

The Machine Action Project has also prepared a detailed report which analyzes the economic changes and the causes of those changes in the Massachusetts Economy. The report is entitled "The Massachusetts Economy 1967-1991: Up the Down Labor Market." *Contact:* Machine Action Project, Elyse Cann, Bob Forrant *413-781-6900*

Minnesota

The new Governor does not support the activities of the State Economic Conversion Task Force that was initiated in 1984 under a different administration. Governor Carlson has in fact dis-invited some of the community and peace activists representatives from participation. There are plans underway to develop a new task force independent of the state which can continue with its former mandate.

Representatives in the state legislature are planning to introduce new worker retraining legislation in this or the next session. Contact: Janet Groat, Minnesota Jobs with Peace, *612-338-7955*

Missouri

State legislators are considering a bill which would include conversion activities in the approved activities of Neighborhood Assistance Programs. Neighborhood Assistance Programs are run by not-for-profits and allow a 50% tax write off to donors. In the past these programs have focused primarily on activities like the construction of community centers.

State legislators are also considering a bill as an addendum to the Distressed Industry Task Force Law. The bill would establish an expanding industries retraining program which would provide training and retraining assistance to firms which expect employment growth. This assistance will also be available to defense industry contractors. *Contact:* Mary Ann McGivern, Saint Louis Economic Conversion Project, *314-726-6406*

New Jersey

A bill which would have mandated an alternative budget that could meet the needs of areas and cities of the State, with money from defense cut, died when its Republican backer failed to bring it to the floor for a vote.

Contact: Hiroshima Day Committee and the Common Agenda of New Jersey, *201-376-5629*

New York

Governor Cuomo has announced plans for a new Defense Diversification Program which is being developed to: improve defense industry productivity and product quality; diversify defense industries into commercial markets; expand defense industries into markets overseas; develop human resources; and adapt new manufacturing processes and technologies. This program will utilize existing state level economic development programs to implement the new policy. Firms with fewer than 500 employees and at least 10% defense sales are eligible to participate in the program. The program will provide the following types of assistance:

- Strategic Business Planning
- Export Market Development
- Production Process Adaptation
- Human Resource Development
- Total Quality Management
- Technology Transfer
- Procurement Assistance
- Product Development
- Competitiveness and Diversification Education

The State has began an extensive outreach campaign to identify and offer Defense Diversification Program assistance to at least 1,000 firms. New York's economic development program is focused on making military industries more competitive within the military market. To date $1.7 million has been provided to 39 defense contractors to improve competitiveness; $1.5 million was provided to 50 defense firms for worker skills upgrading, 22 defense suppliers received export market assistance, and 4 defense contractors will receive financial assistance to develop non-defense related export sales.

New York has also appropriated $1 million to support defense diversification activities in 1992-93. More specifically, $100,000 for technological transfer for conversion activities, $450,000 for civilian market development, and $450,000 for employee training for civilian market development.

The Governor's Defense Advisory Panel completed it report entitled: *Defense Spending and Its Impact on New York State's Economy in the Post Cold Era.*

Contacts: Howard Cort, NY State Dept. of Labor, *518-457-1973* or Ray Gillen, NY State Dept. of Economic Development, *518-474-7756*

Pennsylvania

The Pennsylvania Economic Adjustment Act has again passed through the Labor Relation Committee into the Appropriations Committee (where it has been effectively

killed during the past two legislative sessions). The Act would mandate the formation of the Pennsylvania Economic Adjustment Board within the state's Department of Commerce, and would appropriate $250,000 for its formation. The Board would include business owners, labor representatives, the executives of various state departments, and members of the community. The Act would set a legal basis for the formation of local level Economic Adjustment committees, and the funding of these committees by local political subdivisions. The committees would be empowered to do the following: review the skills of the labor force and the mechanical capabilities of area facilities; determine the types of business activities which can use these skills and facilities, while minimizing community and worker dislocation in the event of crisis or economic instability; conduct interviews and public hearing as necessary; and prepare reports of activities to the board. The bill was watered down after legislators made concessions to the Chamber of Commerce and Industry. The bill has a better chance of being passed this year. The concessions included eliminating mandatory participation on the part of businesses who are closing or relocating with the Economic Adjustment Committees. *Contact:* Barbara Smith or Tyrone Reed, Pennsylvania Jobs with Peace, *215-925-3758*

Rhode Island

The state of Rhode Island has completed 3/4 of its year long conversion planning study. The study examines the defense economy of the entire state and the likely impact of reductions in defense spending on business, the workforce and communities in the state. The study takes a hard look at both the shipbuilding industries and those based on defense research and development activities. The Office of Strategic Planning will present the report and recommended courses of action to Governor Sundlun sometime this summer.

Early this year the State also initiated a number of experiments to identify the best economic development methods to use in response to defense cuts. These experiments included a comparison of the relative effectiveness of various economic development and training programs. Much of this work been completed, and the Office of Strategic Planning is currently in the process of analyzing the results, which will be released soon.

Contact: Dr. Robert K. Griffith, Jr., Office of Strategic Planning, Rhode Island Dept. of Administration, 401-277-1220

Texas

Governor Ann Richard's Task Force on Economic Transition has formulated the following policy recommendations, which address the needs of workers, communities, and firms. The governor's Task Force proposes to address the needs of workers in the following manner:

- The State should publish a guide to aide workers in finding and applying for worker assistance programs.
- The State should encourage/assist positive dialogue among employers, employees and state and local agencies to provide for greater job security.
- Public officials should encourage companies to provide maximum prior notice of anticipated layoffs and invite public agencies to the companies to assist dislocated officials transition into appropriate programs.
- In cases of mass layoffs, JTPA and Substate Service Areas, should set up cooperative one-stop shops to deliver services to dislocated workers.

The Task Force proposes that the state address the needs of military base communities as follows:

- The state should publish a "Community Guide for Military Installation Restructuring" to aid communities in planning for military base closures or realignment.
- The state should simplify the application process and seek out all available federal and state level funds to assist communities in planning for base closures, developing base infrastructure and maintaining base property during the closure process.
- The Texas Attorney General should formulate an immediate opinion concerning the conveyance of excess land resulting from the closure of Bergstrom AFB, Craswell AFB, and Chase NAS. For future base closures, the Texas Attorney General's Office should research, consult with local affected communities and recommend a permanent statutory procedure for conveying federal property.
- At the time a base closure is announced, a Community Environmental Review Committee should be established that involves base environmental representatives, federal, state and local authorities and representatives from affected communities.

The Task Force recommends the following measures for adjustment of defense related firms:

- The Governor should convene a meeting with a group of CEOs from small and medium sized defense subcontractors and the largest prime contractors, for the purpose of establishing a cooperative relationship between the state government and the private sector on issues involving the impact of reduced defense expenditures. The group should discuss how the state can assist companies that have traditionally functioned as prime contractors to expand their production capabilities to include civilian production and to serve as subcontractors or suppliers to other industries.
- The Governor should convene a conference with medium and small contractors to acquaint them with available

state and federal programs for business and worker assistance, to establish contacts with non-defense industry, and to encourage diversification into civilian areas of work.

Finally the Task Force calls on the Governor to establish a single point of contact in the Governor's Office to coordinate all state efforts relating to base closure and realignments and defense industry reductions.

The Governor's Task Force on Economic Transition reconvened for a meeting May 1, to discus the Manufacturing Technology Center, possibilities for retraining defense workers to civilian work, and establishing a consortia for large and small defense contractors. The Task Force heard about conversion and reuse activities at the following bases: Bergstron AFB, Chase NAS, and Carswell AFB. Toxic cleanup is the largest concern at all of these bases.

The Governor will be meeting with the CEOs of defense contractors to encourage conversion and diversification, as well as to determine what their companies need in the way of assistance to ensure successful conversion activities. Contact: Phil Warner, Office of the Governor, *512-463-2000*

Virginia

Governor Wilder created the Governor's Commission of Economic Conversion and Adjustment (a public private partnership) by executive order on March 25, 1992. The Commission will:

- Study the defense dependency of the State and localities to date.
- Initiate community education programs to inform defense-dependent communities of the availability of technical and financial assistance.
- Organize planning efforts for alternative use of military bases and factories
- Coordinate state programs that provide assistance to defense impacted firms, communities and workers.
- ¡Make recommendations to the federal government for increased and effective support of conversion efforts in Virginia.
- Make recommendation to remove superfluous regulations by federal, state and local governments that impede firms attempting to convert to non-defense business activities.

The Commission will be appointed by the Governor and include representatives from business, labor and the State. However, the Virginia general Assembly did not allocate money for the office, so it will have to be funded from existing executive branch budgets. It will include a full time staff person. *Contact:* John Accordino, Virginia Task Force on Economic Conversion, *804-367-1134*

Washington State

The Community Diversification Program (CDP) will be able to continue its conversion related work after receiving continued funding commitments from the State of Washington. Since its inception CDP has:

- Collected information on federal defense budget and policy trends, and collected information on military dependent prime contractors and subcontractors doing business in Washington State.
- Conducted a needs assessment process, which consisted of a series of meeting with community, labor, and business members, a survey of defense contractors and subcontractors, and a survey of state labor union leaders.
- Developed a comprehensive *Diversification Plan* which outlines goals, strategies and recommended actions with regard to diversifying the state economy. The plan has been very successfully received by people and organizations from around the state and the nation.
- Developed a Flexible Manufacturing Network which utilizes the leadership from a trade association to: 1) educate CEOs and Small business owners on the benefits of a flexible network for mutual supply and purchasing; 2) develops ideas for joint projects in marketing, production, purchasing etc. by military dependent firms; and 3) develop an inventory of what defense dependent firm produce. The Flexible Manufacturing Network has been received with great enthusiasm by small and medium sized business owners, and CDP expects that the Network will provide small firms that sub-contract to prime military contractors with a non-military alternative - each other.
- Developing strategic economic development plans for 2 military dependent communities (Oak Harbor with its Naval base and Lakewood with its Air Force Base).

CDP is also applying for federal funding from EDA in order to effectively deal with forecasted layoffs from the Boeing Corporation.

Washington had a $900 million revenue shortfall this year, which has undermined additional calls for conversion related legislation. However, the state Senate has passed a bill to develop a technology center at the University of Washington. The technology center will support and assist small firms with technology transfer and conversion. *Contacts :* Bill Patz, Washington State SANE/ FREEZE, *206- 527-8050* or Paul Knox, Community

National Legislation

House

Representative Barbara Boxer (D-CA) first introduced "The Community Economic Adjustment Funding Act" (H.R. 2784, H.R. 5010. & H.R.2784) in 1991 to assist counties affected by base closure, defense contract cancellation or reassignment, and defense spending reductions. The bill has twelve co-sponsors, but it is not currently being pushed because other approaches seem more viable.

Rep. Boxer and Richard Gephardt (D-MO) are cosponsors of H.R. 5010, the "Industrial Revitalization Act of 1992." The bill would establish a loan guarantee program to assist aerospace firms that are impacted by defense cuts or competition from subsidized foreign companies. The loans would be available for developing civilian products. The bill would also allocate $60 million for retraining grants of up to $6000/worker at local educational institutions.

Rep. Rosa De Lauro (D-CT) just introduced "The Defense Industrial Diversification Act" (H.R. 4730) as a companion bill to Senator Lieberman's bill. The bill provides for the following:

- Companies at least 35% dependent on defense contracts would be able to set up tax-free accounts for investment in new non-defense plants and equipment, or they could receive a 20% tax credit on money invested in non-defense related plant, equipment or worker retraining.
- A new office within the Small Business Administration would be established to assist small defense related businesses in conversion. It would guarantee loans or provide matching grants for development of non-defense business.
- Communities seriously affected by military cutbacks would be eligible for Community Planning Grants under the Economic Development Administration.
- The Commerce Department, in consultation with the Defense Department and other agencies, would be directed to complete a study of diversification.
- A new "Council on Economic Diversification and Adjustment" would be established in the White House to help carry out the act.

Rep. Tom Downey (D-NY) has introduced "the Defence Diversification Act of 1992," which would establish a $10 billion loan guarantee program for military dependent companies to diversify. $6 billion of the funding would be targeted to large companies and administered by the Treasury Department, and $4 billion would be administered by the Small Business Association for small firms. The bill also includes tax write offs for retooling, research and development, and retraining. The bill provides incentives for companies to hire displaced workers by allowing tax deductions for each worker hired and establishes a $1 billion dollar matching block grant program for states to assist small and medium sized defence dependent businesses.

Rep Mary Oaker (D-OH) has introduces "The Defense Economic Adjustment, Conversion, and Reinvestments Act," (H.R. 5116) which provides $1 billion to assist workers. Assistance would include: career counseling, job search, and retraining. The bill also provides $1 billion to help defense companies develop new products and markets. Half of the money made available would be in the form of guaranteed loans and half would be in direct technical assistance. The bill also calls for $50 million in direct aid to communities with base closings, $200 million for export development of civilian products, and $750 million to assist small firms convert to civilian production.

Rep. Tom Lantos (D-CA) has introduced H.R. 4454, "The Defense Industrial Stabilization and Community Transition Act," which provides assistance to companies engaged in commercial arms sales overseas, as well as some provisions designed to foster economic conversion. The bill is the house companion to Sen Thomas Dodd's bill. We do not recommend either bill.

Rep Leon Panetta (D-CA) introduced H.R. 4016, which amends the Comprehensive Environmental Response, Compensation, and Liability Act of 1980. It requires the federal government to identify the uncontaminated parts of a base six months before base closure. Uncontaminated land would be declared "excess," and the federal government would be able to lease or sell it, before the entire facility is

cleaned up. The bill is designed to smooth out the delays created by current superfund regulations, which mandate complete base clean-up prior to transfer or sale of any portion of a site.

As of April, the bill had 20 co-sponsors, and received strong support at the House Subcommittee on Transportation hearing April 9th. The bill initially invoked concern on the part of environmental advocates. However, after the hearing representatives of Friends of the Earth, California EPA, and the Texas Attorney General's Office were favorably inclined to the bill: Panetta's office indicated that it was willing to modify the bill in accordance with their concerns. For more information, contact The National Toxics Campaign Fund, Military Toxics Project, 1168 Commonwealth Avenue, Boston, M.A. 02134.

Senate

Sen. Christopher Dodd (D-CT) has introduced the "The Defense Industrial Stabilization and Community Transition Act" (S 2133), which permits the Export-Import bank to loan money to foreign countries so that they can buy U.S. arms.

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Sen. Joe Lieberman (D-CT) has introduced S. 2075, "The Defense Industrial Diversification Act," which would establish a tax free "I.R.A." for businesses wishing to convert military facilities. The bill also requires notification to defense workers 90 days prior to any layoff. It creates three new offices to coordinate government and local conversion efforts: the Presidential Council on Economic Diversification in the Executive branch, an Office of Commercial and Defense Product Integration in the Department of Defense, and an Office of Small Business Diversification within the Small Business Administration. The bill also allows communities impacted by defence cuts to apply for Community Planning Grants from the Economic Development Administration. Rep. Rosa De Lauro has just introduced a companion bill in the House.

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National Industrial Innovation Block Grant program: This legislation is designed to support the restructuring needs of defense-dependent companies and communities by funding states to pursue state level adjustment strategies. The program would differ from existing federal programs because it provides for assistance before cuts, layoffs, and closures occur. States will use existing programs and departments which are tailored to the needs, industrial base, and workforce of the state and are thus likely to provide immediate and effective results. To receive funds states must submit strategies for providing services to achieve industrial diversification and improved competitiveness. The Block Grant funds could be used for a variety of purposes, including but not limited to:

- •Technical assistance in planning & implementation of diversification strategies.
- •Assistance in developing high performance work organizations, employee participation programs, and training and retraining.
- •Support for manufacturing extension services and the introduction of advanced manufacturing technologies in firms.
- •Assist development of new products and adapt existing products to commercial use.
- •Support for Small business Innovation Research programs.
- •Technical assistance with market expansion, export trade, and procurement.
- •Financial assistance for new product development, export, and working capital required for diversification.

40% of funds will be reserved for firms to improve quality, productivity and market share, and 60% of funds will be reserved for human resource development. The program also requires that states match federal funding on a 1:10 basis. Portions of this initiative are included in Rep. Tom Downey's bill. *Contact:* Brad Johnson or Amy Mall at (202) 638-1311

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In related news, the Weiss bill is undergoing revisions that include making alternative use committees voluntary, with a tax credit incentive for participating companies.

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In addition, Sentaor David Pryor (D-AR) has been directed by the Majority Leader to form a nineteen member working group to study conversion. The Senate Task Force on Defense and Economic Converion is already studying various pieces of legislation.

By Susan Strong and Marie Jones

National Organizations

Campaign for Responsible Technology (CRT) continues its work to ensure that technology serves social and environmental needs. CRT is organized around the need to redefine the role of the single largest industrial policy program in the U.S.—SEMATECH. SEMATECH is a government sponsored (with a $100 million government subsidy) high-tech research consortia of 14 U.S. owned semiconductor manufacturers. SEMATECH was formulated to develop a smaller, faster micro-chip to compete with Japanese micro-chips. CRT has been pushing for SEMATECH to address the economic, environmental and health problems facing electronics workers and communities. CRT began its work by working with CEOs from the 14 semiconductor industries in SEMATECH. However, this strategy proved unfruitful, and after two years of effort, CRT has begun pressuring Congress for change. CRT has redrafted the legislative language in the appropriations bill for SEMATECH, and this new bill has been introduced into Congress. *Contact:* Campaign for Responsible Technology, Rand Wilson, *617-391-3866*

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The **Center for Economic Conversion** continues to consult with conversion activists and public officials across the country, including most recently in California, Virginia, Texas, Arizona, and Maine. CEC staff gave a presentation to the California Assembly Democratic Economic Prosperity Team (ADEPT) on conversion legislation from other states around the country. CEC is also planning for a four day national retreat for conversion organizers in late August. CEC continues to be a catalyst and resource for local conversion organizers, conversion planners, groups, public officials and others engaging in conversion and diversification efforts. CEC just published its seventh issue of *Positive Alternatives*. CEC has also recently published a summary of state level conversion legislation and this latest version of Conversion Organizers Update.
Contact: Center for Economic Conversion, Marie Jones or Michael Closson 415-968-8798

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The **Center for Policy Alternatives** surveyed state level policy makers regarding economic conversion and diversification plans and policies. Results showed that most did not see the need for federal programs or assistance in these areas, but they were interested in what other states are doing to promote diversification and ameliorate defense dislocation. *Contact:* Center for Policy Alternatives, Robert Stumberg 202-387-6030

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Citizens Budget Campaign (CBC), a coalition of over 100 national peace, religious, and social justice organizations, has just joined forces with the National Priorities Project. Through their new "Reinvest in Our Communities Campaign," they aim to influence the national debate during the 1992 campaign season. CBC calls on Congress to significantly cut military spending and increase investment in programs that address human and community needs. *Contact:* NETWORK, *202-526-4070*

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Common Agenda Coalition has banded together with the National Headquarters for Jobs with Peace and the National Priorities Project to produce an alternative national budget which includes a $151.2 billion cut to defense spending ($36.2 billion cut to strategic and nuclear weapons, $62 billion cut to troops in Europe, $54 billion cut to foreign intervention) and a $16 billion economic conversion and adjustment program ($9 billion to corporate conversion, $3.5 billion to job training, $3.5 billion to civilian Research and Development). The Coalition is working with supportive progressive U.S. Congress-people on getting this alternative budget on the national agenda.
The Coalition formed two years ago to a pursue a unified strategy of action, and it is comprised of over 50 national peace, social justice, civil rights, and environmental organizations. The Coalition has called for a united campaign to: cut the military budget in half; use the money to meet human and environmental needs; and support economic conversion to a peace economy with the goal of employment for everyone at a decent wage. *Contact:* Common Agenda Coalition, Mary Wester, *617-338-5783* or your local Common Agenda Organization.

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Employment Research Associates has been training the staff members of the Senators who were appointed to Senator Mitchel's Economic Conversion Task Force. Employment Research Associates have been providing staff with policy options for economic conversion and

adjustment in the short and long term. *Contact:* Employment Research Associates, Marion Anderson, *517-485-7655*

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Investor Responsibility Research Center Inc. tracks conversion and diversification resolutions by military dependent company shareholders. They are tracking conversion and diversification resolutions in the corporations of Eaton, Honeywell, Morrison Knudsen Rockwell international, Scientific Atlanta, Unisys, and General Electric. *Contact:* IRRC, Paul Ferrari, *202-234-7500*

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National League of Cities Board of Directors Task Force on Economic Conversion has continued pushing for military reductions and economic conversion. They call for a 30% real reduction in defense spending during the next five years, with Congress reallocating much of the savings to meet the critical needs of cities. The NLC has compiled a compendium of resources for cities interested in supporting conversion and diversification efforts, and is using this tool in workshops it is holding in several areas of the country. *Contact:* NLC, Carol Day, *207-839-6258*

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National Governors Association continues its Economic Conversion Policy Program. The NGA's Economic Development, Science and Technology Program sponsored a workshop on state economic conversion policies in Chicago on November 4-5th 1991. Representatives from 18 states participated in the workshop. The National Governor's Association forthcoming *Governor's Guide to Economic Conversion* will detail conversion issues and programs from around the country. The Guide will highlight some of the topics discussed in the workshop. *Contact:* NGA, Eric Dobson, *202-624-7740*

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The National Commission for Economic Conversion and Disarmament has been briefing individual members of Congress, Congressional committees and the presidential candidates on conversion policy and legislation. ECD is also continuing to monitor the status of previously authorized and allocated federal funds relevant to conversion and is working to insure that these funds are spent. In January 1992, the Commission and Massachusetts SANE/FREEZE convened a conference in Boston to examine the potential of conversion policy at the federal and state levels to lead the economic recovery. ECD also developed a computer model to calculate the national and regional economic cuts of military cuts and conversion. *Contact:* NCECD, Greg Bischak, *202-462-0091*

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The Federation for Industrial Retention and Renewal is a nationwide association of community based organizations which is designed to respond to plant shutdowns and introduce grass roots activities into plant closures. While, three affiliates have base conversion projects, FIRR affiliates concentrate on conversion of manufacturing contractors. FIRR is interested in the economic aspects of conversion. FIRR provides information on conversion strategies and supplies technical assistance to conversion organizations. In particular FIRR assists with general organizing. FIRR is linked with religious and labor communities. Contact: Federation for Industrial Retention and Renewal, Jim Benn *312-252-7676*

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National Jobs with Peace Campaign is continuing efforts in support of economic conversion around the country. Jobs with Peace is working to create concrete models for economic conversion at the plant, city, and state level. As part of this work, campaigns are currently underway at Unisys in Minnesota, the Philadelphia Navy Yard, and in the city of Baltimore. On-going efforts to pass state legislation requiring or encouraging alternative use planning are continuing in Minnesota and Pennsylvania. *Contact:* National Jobs with Peace Campaign, Mary Westropp *617-338-5783*

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The **National Priorities Project** in Massachusetts, in collaboration with the Citizen's Budget Campaign, has produced a series of reports on the state and local effects of federal budget priorities in the 80s for 11 states (CA, GA, IL, IA, NH, NJ, PA, OH, TN, TX). They include as analysis of budget reductions in various areas of social and environmental spending, increases in military spending, and the need for a comprehensive economic conversion plan. NPP is also currently preparing a series of city reports demonstrating the local effects of federal budget cuts and showing how federal budget priorities are effecting local services, economic development and opportunities for conversion. *Contact:* National Priorities Project, Greg Speeter, *413-584-9556*

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National SANE/Freeze will present its fifth national congress from June 25-28 in Nashville TN. The title of the congress is "From the Cold War to Global security: Crisis and Opportunity." The conference includes an exceptional list of workshops, panels, and seminars. Registration is $65.00. *Contact:* SANE/FREEZE, Ray Sells, *615-346-1139*

New Resources

After the Cold War: Living with Lower Defense Spending, Office of Technology Assessment, New Orders, Superintendent of Documents, P.O. Box 371954, Pittsburgh, PA 15250, $12.00

"Bankrupting American Cities," by Dr. James R. Anderson. Available from Employment Research Associates, *517-485-7655*, $5.00

Beyond Guns and Butter: Recapturing America's Economic Momentum After a Military Decade, by Glenn R. Pascall and Robert D. Lamson, McLean Press, 1992

Building A Peace Economy: Opportunities and Problems of Post-Cold War Defense Cuts by Betty Lall and John Tepper Marlin, Westview Press, 1992, $39.95

"Converting the American Economy," by Marian Anderson, Greg Bischak, and Michael Oden. Available from Employment Research Associates, *517-485-7655*, $9.00

Defense Spending and its Impact on New York State's Economy in the Post Cold War Era, A report by the Governor's Defense Advisory Panel, *518-474-7756*

The Economy and National Defense: adjusting to military cutbacks in the post-cold war era, a report by the Committee for Economic Development, 212-688-2063, 477 Madison Ave., N.Y., N.Y. 10022, $12.00

Dismantling the Cold War Economy, by Ann Markusen and Joel Yudken, Basic Books, 1992, $25.00

"Diversification Strategies for Military-Dependent Communities, Firms, and Workers in Washington State," by Department of Community Development, Paul Knox, *206-586-8973*, P.O. Box 48300, Olympia, MA 98504

"The Environmental and Economic Implications of the Presidio Army Base Transfer," by Saul Bloom, Brian McElroy, and Revelle Russel, Arms Control Research Center, *415-397-1452*

The Governors Task Force of Economic Transition: Volume 1 Recommendations, Chairman John Hannah Jr., Contact Phillip Warner, *512-463-1861*

"Military Dollars and Public Sense: Do Military Budgets Help the Economy," by Kevin Cassidy and Kevin Bean, published in *Social Policy*, Fall 1991

"Net Federal Spending in New Mexico County, with emphasis on Military and Department of Energy Spending, and with details for the Los Alamos Region, " by Greg Mello, Concerned Citizens for Nuclear Safety, *505-986-1973*

"A Shift in Military Spending to America's Cities," by Marion Anderson, Greg Bischask, and Michael Oden. Available from Employment Research Associates *517-485-7655*, $9.00

The Sun Never Sets, Ed. by Joseph Gerson and Bruce Birchard, Published by the American Friends Service Committee, $16.00, This book covers base closure in the Philippines.

"What the Peace Dividend Means to Maine's Economy," by Marion Anderson. Available from Employment Research Associates, *517-485-7655*, $5.00

Disarming Military Industries: Turning an Outbreak of Peace into an Enduring Legacy, by Peter Southwood, Macmillan Press, London, 1991

Economic Conversion Contacts
May 1992

LOCAL, STATE, & REGIONAL PROJECTS

ALABAMA

Huntsville SANE/FREEZE, 508 Glencoe Rd., Huntsville, Alabama 35802 *Robert Hunt*, 205-881-2027

ARIZONA

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Arizona Council for Economic Conversion , P.O. Box 42108, Tucson, AZ 85733, *Rosalyn Boxer* 602-620-1241

CALIFORNIA

Alameda for a Nuclear Free Society, *Judy Polard* 510-865-3651

Arms Control Resource Center, 942 Market St., Suite 709, San Francisco, CA 94102, *Saul Bloom* 415-397-1452

Berkeley Commission on Peace & Justice, Economic Conversion Subcommittee, c/o 828 Spruce St., Berkeley, CA 94707-2043, *Brad Warren*, 510 - 527-8242

Economic Development Demonstration Project, City of Irvine, P.O.Box 19575, Irvine, CA 92713, *Margo Bowers*, 714-724-6253

Citizens' Commission for Economic Security & Alliance for Survival, 200 N. Main St. Suite M-2, Santa Ana, CA 92701, *Marion Pack*, 714-547-6282

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TESTIMONY BEFORE THE DEFENSE CONVERSION COMMISSION OF THE DEPARTMENT OF DEFENSE

by
Harry Sello
Defense Conversion Strategies

Hearing: August 6, 1992
Long Beach City Library Public Auditorium
Long Beach, California

Honorable Chairman and Members of the Commission:

On behalf of our company *Defense Conversion Strategies,* I wish to thank the Defense Conversion Commission for the opportunity to present our views on a number of matters which we believe are vital to the economic health of our country, the State of California and the individual companies involved.

It is our distinct hope that the testimony presented here will be responsive to the Commission's needs and will assist them in completing their purpose as stated in the Memorandum for Correspondents No. 121-M of April 30, 1992. Restated here;

" • the purpose of the Commission is to review the impact of force and procurement reductions on the U.S. economy

• the Commission will also examine the potential for federal programs to retrain DOD military personnel and civilians for non-defense pursuits, and —

• the potential for cooperative ventures with defense companies to assist their conversion to commercial activities."

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With your permission, my partners, Richard D. Schmidt and Robert P. Shepard, have joined me and are available to provide support information and to assist in the answering of questions. Our company was formed to assist defense-oriented companies with the development and implementation of new commercial business strategies and to reduce the potential of significant defense industry related job loss. Biographical summaries, as well as a brief description of our company, have been given to you as attachments to the text of this testimony.

1. Statement of the Problem

The Congressional Budget Office predicts that, under the current defense program, over 800,000 defense-sector jobs will be eliminated by 1995 across the United States. California has lost more than 175,000 aerospace jobs during the past five years — about 75,000 during the past year alone — and expects to lose at least another 220,000 before 1995. As a rule, for every person who loses their job at a prime contractor, nearly three subcontracting and 1.5 service-industry positions disappear. If defense cuts are larger than currently planned, as proposed by the president and Congress, America could lose up to 2.5 million jobs by 1997.

This dramatic reduction in defense spending projected over the next several years will place many defense-dependent companies and workers at risk. A state initiative to help these businesses and workers adjust to defense budget cuts, convert to commercial production, and improve competitiveness for survival in the global economy is essential to our nation's and California's economic development. State industrial assistance programs, already in place and operational in New York, Connecticut and Virginia, may be an example of an efficient and effective way to deliver immediate assistance to defense-dependent firms.

The greatest needs were found to be among the small and medium-sized manufacturers, involved the application of technology and were in areas such as: strategic planning, basic management practices, production processes and techniques, workplace organizations and employee involvement, and accessing new markets.

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This certainly does not mean that the larger companies do not have problems of conversion. They may simply be in a position to bring more resources to bear, more quickly, and generally have deeper financial pockets. Large companies could be in a position to advise and assist the smaller companies who serve as their sub-contractors.

At present, there is little foundation being laid in California, and for that matter at the Federal level, for moving into non-defense markets using the technological genius that helped end the "Cold War" and give the world new hope for peace.

With its lock on a quarter of the budget pie, defense is practically the only pool of money that Congress can raid for a variety of large programs such as health, education and environment. It may be that Congress and the Administration ultimately turn to non-partisan commissions to recommend defense priorities for the future. Recently, a National Academy of Sciences panel recommended the formation of a $5 billion Civilian Technology Corporation in which industry and government would work together to advance the commercialization of high technology products.

In 1991, the defense outlays in California were estimated to be $51.1 billion and the risk to all of us is that we will lose valuable productive assets that we may never regain if we do not think through the conversion process and develop a plan. Furthermore, success rates for contractors attempting to move defense technology and expertise into other areas have ranged from low to terrible and may only offset 25 or 30 percent of lost defense contracts. Companies accustomed to dealing with one customer, DOD, frequently cannot cope with commercial requirements such as mass production and marketing.

It is our opinion that the key to the USA's and California's successful transition to a peacetime economy rests with those individuals in government and industry who will not dodge the issue and who would be willing to identify not only the nature of the problem, but also propose solutions that will not suffer the consequence of delay. Delay would be disastrous in today's highly competitive global marketplace.

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2. Conversion Program

A program essential for successful transition to a commercial enterprise needs to address a number of critical issues. Some of the more important ones are shown in the following list:

- A Plan for Diversification

  This is the most critical and is the first step to be taken. Depending upon the circumstances, it is tantamount to writing a business and implementation plan for the establishment of a new business. Such a plan should contain a careful assessment of the skills and capabilities of the company as well as a studied and realistic layout of the goals and objectives of the business. The plan should realistically assess the firm's weaknesses, plus the cost and resources required to cope with those weaknesses in a timely and expeditious manner.

  A comprehensive and effective diversification plan will deal with each of the following factors involved in a conversion program:

  ~ Retraining of workers
  ~ Introduction of new production methods
  ~ Acquisition of new technologies — by development, licensing, partnering or purchase
  ~ Establishment of high performance workplace systems with total quality management
  ~ Development of new products and their applications
  ~ Identification of civilian markets
  ~ Development of commercial marketing and sales expertise
  ~ Establishment of export trade capabilities
  ~ Penetration of overseas markets, focusing upon the most promising global market areas

3. Obstacles to the Commercialization of Defense Enterprises

Growth and survival in the intensely competitive global marketplace means surmounting formidable obstacles on the part of the defense company attempting to diversify — illustrated by the following:

- Marketing

  To compete in today's global, commercial, market means the development of an international marketing and sales capability. Typically, defense companies serving essentially one customer, DOD have not had the practical experience of serving a large number and variety of customers, each with his own pattern of behavior, needs and desires — and in the presence of competitors. In addition, vendors to DOD must acquire the ability to react quickly to market forces of obsolescence and change. In newly developed products, the "time to market" i.e., from development to first introduction, must be minimized, unlike the classical gestation period for new products used by DOD which, in many instances, can take years to be fully accepted. The luxury of delivering needed product "at any cost" vanishes in the necessity to maintain competitive worldwide price structures.

- Manufacturing

  Keeping pace with the market, or accessing a market for the first time means having an established, cost effective, quality manufacturing capability. Defense firms have classically manufactured products of high quality and reliability. This has been accompanied historically, by complex inspection, auditing and documentation procedures consistent with DOD's requirements. Such procedures are generally not consistent with commercial needs which not only require quality and reliability, but also cost effectivity, and usually volume manufacturing. New techniques such as flexible manufacturing, just-in-time procedures, and computerized, selected data collection must be employed in the competitive, commercial world.

Manufacturing has become an effective tool with which to compete successfully in the European marketplace. In the new regulatory EC-92 environment, it has become necessary for a U.S. firm to establish a 'European presence.' This means, not just selling, but making a deeper commitment such as R&D, applications and/or manufacturing. Large companies have either already done so, or have the capability to do so. Small companies, on the other hand, face the prospect of establishing joint ventures or other types of strategic alliances with European companies, in order to reduce the cost of commitment to the market.

- ISO-9000

To gain access to the European market manufacturers must meet International Standards Organization (ISO) requirements. Typically U.S. high technology products such as aerospace, electronic components, measuring and testing instruments and telecommunications are either partially or fully regulated by this system. ISO-9000 standards enable a company to receive a certification on its manufacturing process and provides assurance that there is a quality system in place. Certification must come from an EC organization which in turn is authorized by an EC member-state government to perform quality systems audits. ISO-9000 also requires to the certification of purchasing, assessment of subcontractors plus inspection and testing of purchased components. Since ISO-9000 certification for a manufacturing operation located outside of the EC is extremely difficult to receive, a U.S. firm not manufacturing in the EC will operate under a handicap. Given two suppliers competing in Europe, a competitive edge goes to the one with ISO-9000 certification. Thus defense companies seeking to operate in Europe must be willing to open up their proprietary lines to a complete European, ISO-9000 audit.

- Rules of Origin/Local Content

The European Community rules of origin regulations require that products marketed in Europe have a significant proportion of their manufacturing performed in Europe (local content) in order to qualify as European origin. Local content can vary from 30% to 100% of the manufactured value of the product. Key product sectors impacted are telecommunications, transportation, microelectronics, data processing and utilities. In addition, for telecommunications and transportation, European-origin suppliers are also granted a 3% bidding advantage over U.S. suppliers. The amount of local content can also vary among the European Community depending upon the circumstances and product.

These rules can severely impact the capability of a small or medium-sized defense manufacturer to produce for sale in Europe by adding yet another factor pushing him in the direction of establishing European operations.

- Harmonization and Certification

The EC-92 regulations for the harmonization of product standards and certification across the Community will largely be in place by January 1, 1993. This will essentially remove the historical barriers to intra-EC trade which had been caused by differences between the European countries in the practices of standards and certification requirements. Certification in one European member-state will qualify as certification in all.

This situation presents U.S. companies with two problems:

1. Since the majority of the EC standards do not conform with those of the U.S., our manufacturers must obey two sets of standards.
2. Only EC laboratories and groups are accredited to test and certify regulated products.

This acts as yet another hurdle to U.S. exporters in that they do not have equal access to the standards, testing and certification system in the EC market as do EC producers.

- Technology Transfer and Cooperation

International strategic alliances, based on technology transfer or technology cooperation, represent a powerful approach for U.S. defense companies in penetrating and operating in the global marketplace. For small and medium-sized companies, in particular, alliances have become almost mandatory in order to cope with the financial and resource requirements necessary to establish "presence" in a foreign marketplace. For large companies, alliances involving technological cooperation have become a valuable part of their survival strategies for diversification, acquisition and development of new commercial products.

In the commercial world, many U.S. and European high technology companies have set up alliances based on technology transfer and cooperation for the purpose of joint development, manufacturing and marketing in Europe.

Since a great deal of the technology in defense companies has been developed under the auspices of DOD programs and sponsorship, the transfer and use of such technology or know-how must take into account DOD contractual requirements and restrictions on the "sharing" of technology. Not all alliances or joint ventures require that technology be transferred. Technological cooperation and joint projects can be set-up where two partners jointly develop and "interface" via the new hardware they have developed.

- Dual Use Technologies and Export Control

Europe has less restrictions internally than does the U.S. on the application of so-called "dual use" (commercial and military) technologies and is consequently moving forward briskly to commercialize such technologies. The U.S. export control restrictions are damaging to the U.S. lead in such areas, particularly as a result of jurisdictional

overlap export requirements of the Munitions List (State), the Commodity Control List (Commerce) and the Military Critical Technology List (MCTL) administered by DOD.

The existing restrictions in these various control regimes will determine not only whether or not a given technology can be exported — but even influence the way in which the technology can be used in a commercial agreement or deal. In many instances certain technologies or products cleared for use between two partners are also subject to restrictions to third party sale.

- European Preference

European defense firms have the same kinds of conversion needs and in many cases will employ similar strategies. However, there are some very distinct differences which work to the disadvantage of their U.S. competitors such as the following:

- European defense companies are larger and more centrally structured — and do not support nearly as large an infrastructure of small companies as in the U.S.
- Technological relationships, such as joint ventures, are reinforced and encouraged by the industrial policy of Europe.
- European member-states do not generally allow companies to fail.
- European defense companies exclude participation by foreigners.
- Defense contracts in Europe usually are awarded to the same contractor who is thus better able to plan and predict a long range program than is his U.S. counterpart.

4. Conclusion

Defense companies now facing the difficult process of converting to a commercial environment must plan a survival strategy, which includes the necessity to penetrate and expand into the global commercial marketplace.

To carry out this strategy, they must overcome not only the obstacles enumerated in this presentation — but must do so without delay. The vicious competitive commercial atmosphere will not permit them to do otherwise. U.S. defense companies, particularly

the small and medium-sized ones, will need every bit of advice and assistance in planning, training, support and encouragement they can get.

We hope that our views as presented in this hearing will be useful to the Defense Conversion Commission in accomplishing its purpose.

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Dr. Harry Sello
Technology Alliances

Robert P. Shepard
Government Contracts

Biographical Summaries

Richard D. Schmidt specializes in business development and market diversification. With more than twelve years business planning experience, he has worked on a variety of projects with companies including Boeing, California Microwave/Defense Products, CTT, Fairchild Space, ILC Technology, Independence Technologies, JPL/Astronautics Laboratory, Lockheed/Sanders, Loral, McDonnell Douglas Space Systems, Orbital Sciences Corporation, Rockwell, Semiconductor Industry Association, Teledyne Microwave and United Detector Technologies.

Mr. Schmidt is currently engaged with activities focusing on the state of California's conversion to a peacetime economy and has provided assistance to the Governor's Office of Planning and Research, the Commission on State Finance and ADEPT (the Assembly Democratic Economic Prosperity Team). His activities also include the analysis of various states' conversion programs providing recommendations to government and industry.

Dr. Harry Sello is a specialist for more than twenty-five years in the formation, negotiation and implementation of high technology international business alliances. These include joint ventures, cooperative agreements, manufacturing projects, R&D agreements plus the marketing and sales of products and technology in electronics, materials and microelectronics.

He has worked with over ninety companies which range in size and interest including IBM, Schlumberger Corporation, Tektronix, SMI Ceramics America, Mitsui & Company, Fujitsu Inc., Hyundai and LSI Logic of USA and Canada. Also included are the Scottish Development Agency, Scotland, Normandy France and Flanders Belgium.

Key projects have been: the implementation of eight major international licensing and technology transfer agreements in Europe (including Hungary) and Japan; assistance to the Flanders Government on the establishment of high technology electronics business in Belgium; assessment of the integrated circuit manufacturing capability of a world class Japanese corporation; sale of a major U.S. integrated circuit manufacturing facility in Europe.

Robert P. Shepard presents an extensive background in contracts management and marketing administration in both the government and commercial electronics businesses. He was Director of Contracts and Controller for various divisions of Varian Associates and responsible for Program Management of major multi-service computer programs for Zenith Data Systems. He served in similar capacities at General Dynamics, Scientific Data Systems, Morrow Designs and The Santa Cruz Operation. His background also includes establishment of dealer and distribution channels for product conversion to the commercial marketplace.

Mr. Shepard has served on procurement and acquisition committees for several industry trade associations: American Electronics Association, Electronics Industries Association, MAPI, NSIA and the Scientific Apparatus Manufacturers Association. He also served at the Pentagon, assigned to the Deputy Chief of Staff for Research, Development and Acquisition. He has conducted analysis of technology utilization for defense based product conversion.

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Defense Conversion Strategies

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Services Portfolio

Defense Conversion Strategies was formed to assist defense oriented companies with the development and implementation of new commercial business strategies and to reduce the potential of significant defense industry related job loss. Fundamental to the success of the conversion process in the United States, and in individual States, is building an active partnership between the private sector and government. We believe that our industry and government experience favorably positions us to support conversion of defense-based products and services to the commercial marketplace.

Defense Conversion Strategies Offers:

Assessment ~
- Review existing sales revenue
- Assess existing marketing and sales capabilities
- Analyze new product developments
- Evaluate existing technological capabilities

Planning ~
- Prepare strategic plans for diversification
- Identify and develop commercial marketing expertise
- Develop the international market
- Assist with funding resources

Implementation ~
- Introduce advanced manufacturing technologies and production methods
- Provide for re-training
- Develop or acquire new products
- Form mergers, acquisitions and other alliances
- Transfer and licensing of technology for new ventures
- R&D alliances
- Set up channels for distribution and sales in the U.S., Europe and Far East
- Develop sales and marketing strategies
- Specific product-market surveys
- Worldwide sourcing and purchasing
- Presentations and seminars

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GOVERNMENT VIEW

ıreatened by downsizing? Take Burbank, for example

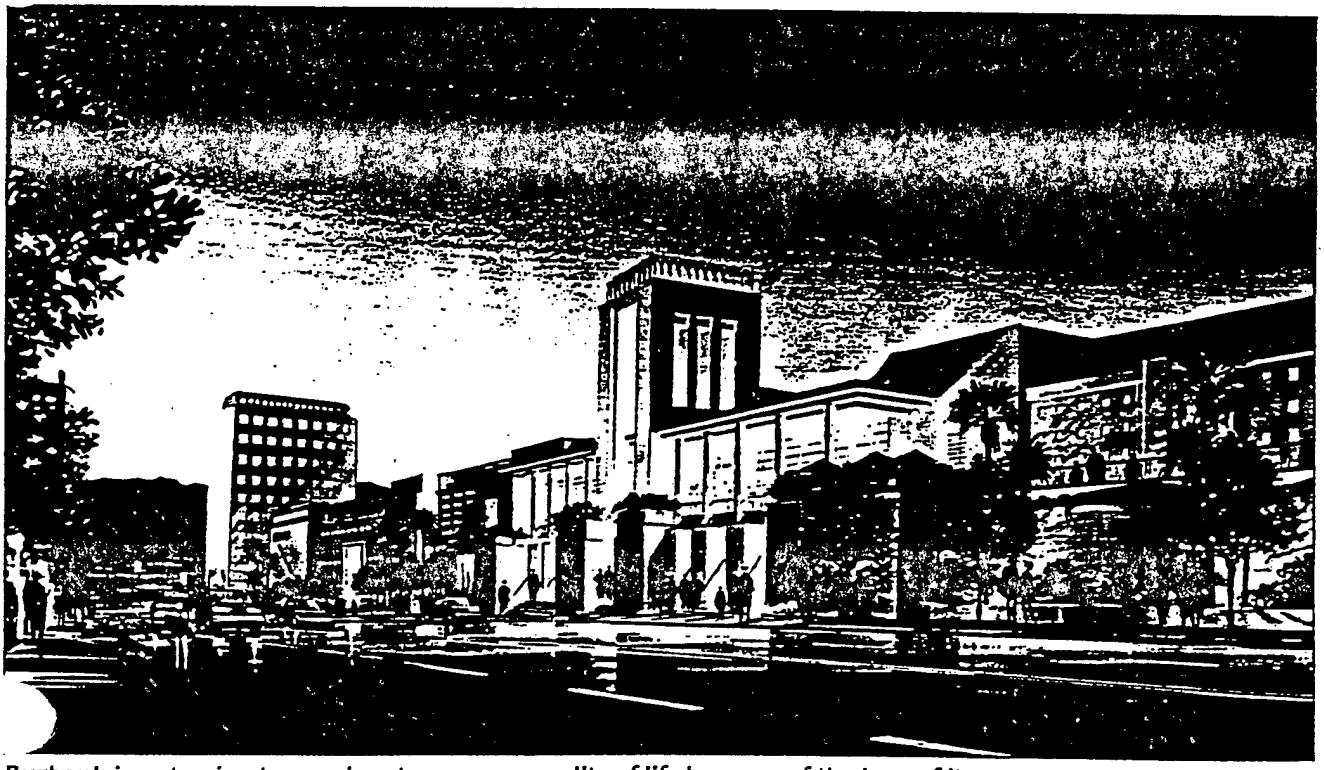
We need to sieze on the opportunities that are available to the community to make this (downsizing) transition smoothly and beneficially.

By Thomas E. Flavin

friend of mine once remarked that he knew things would change when I became mayor but he did not think that three days after my election, Burbank's largest employer, largest landowner and largest taxpayer would announce it was leaving the city. Such was the case in May of this year when Lockheed Corporation announced its plans to move most of its operations to Georgia.

The city, of course, had been ˙˙˙are that Lockheed intended on ˙ing much of its manufacturing out of Burbank but we had always expected it to be to Palmdale or other high desert areas where Lockheed owns a great deal of land. The surprise for the City Council and community came from the relocation of manufacturing to Georgia and a few specialized engineering operations to Palmdale.

Of course, one's reaction when a 60-year corporate resident which owns 325 acres - or 5 percent of the city's usable land area - finally states publicly that it is leaving is shock. There is hardly any of our 95,000 residents who does not know of some friend, neighbor or relative who had worked or is now working for Lockheed. On a very human level, we are all personally aware of the disruption and uncertainty this decision has brought to the people who occupy those 9,500 affected jobs. That psychological shock for the community continues as lay-off notices or job relocations take place. It is the human part of the issue that affects the attitudes of every individual in the community.



Burbank is not going to acquiese to a poorer quality of life because of the loss of its aerospace base. Redevelopment in Burbank, which includes the above - pictured mall, is just one step which will improve the economic base of the city while creating thousands of jobs and eliminating flight.

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he next reaction is to attempt to ess the more tangible, economic ıct on the community. One ckly realizes that even more certainty about the future exists. e aerospace industry has long en a fixture in the economic dscape of Southern California e we only have bits and pieces of ormation about its true nomic impacts. On the surface know that 9,500 direct jobs will lost. But what does that mean in ms of consumer activities, pro-rty values and state and local tax enues?

Job loss impact

We know that in 1989 Lockheed d $165 million in business with s Angeles County vendors. Will all s business be lost to other areas d how many jobs will be lost from ese small businesses? What out service-oriented businesses - staurants, dry cleaners, markets at depend upon a healthy econ-y? Already some have had their es drop off 30 percent to 40 per-nt, and more than half the Lock-ed workforce still remains. Even thout hard data, it is apparent at significant revenue losses uld occur over the next few years ich will mean a reduction of city rvices. Should this scenario un-ld, difficult choices will have to be ade by the community.

Besides the macro-economic issues of a national recession and Defense Department cutbacks there are state and regional factors at play. The multitude of environmental bureaucracies implementing regulations for water, air, soil, waste disposal and others have put Southern California at a competitive disadvantage for manufacturing purposes.

Other states are aggressively taking advantage of this situation with local offices, and financial incentive packages to attract these manufacturers. Add to this the local no-growth attitudes and policies and what is seen is a coalescing of economic factors which threaten the economic health of Southern California. We are no longer insulated from national and international trends.

Transition to what?

Burbank is really just one city that is caught up in this economic transformation away from manufacturing. The question is - to what are we transitioning? The economists tell us that the service economy has been for the last few years the segment of the economy that has experienced the greatest growth. Some argue that if this trend continues, it will result in a lower standard of living for Southern California. Could be, but we in Burbank see these economic forces of transformation being irreversible at this point.

he multitude of environmental bureaucracies . . puts Southern California at a competitive isadvantage for manufacturing purposes.

That does not mean however, that we are going to acquiesce to a poorer quality of life. We have determined that we need to sieze on the opportunities that are available to the community to make this transition smoothly and beneficial. In Burbank, this means enhancing our three economic centers.

First, the retail base downtown is currently being revitalized with the 2.6 million square-foot Media City Mall under construction by the Alexander Haagen Company. This project has spawned additional retail development plans for the downtown area.

Second, Burbank has been fortunate to have three of the major media companies - Walt Disney Studios, Warner Brothers and NBC - headquartered in Burbank. These companies wish to develop additional facilities at their Burbank sites to meet the growing media industry demand worldwide. When completed, this will truly establish Burbank as the entertainment capital of the world.

The third economic center of Burbank is the Airport/Lockheed areas. The 325 acre Lockheed property is bounded by the Burbank Airport, the I-5 freeway and the Ventura-L.A. commuter rail line. This ideal location will result in the Lockheed property being recycled for three primary uses: office parks, retail, and airport and other public facility uses. This transition to new economic uses in this area will focus on the high-tech companies.

The future economic health of Burbank is tied to effectively managing the transition from manufacturing to media, retail and high-tech industries. Lockheed's departure is a significant factor, but is only part of a much bigger economic picture. Managing the economic transition successfully is the challenge facing Burbank - and, likely, many other cities in Los Angeles County.



Essentially, Burbank is a microsm of much of Los Angeles Coun-. It has had historically a strong ıdustrial base made up of erospace, plating companies, sol-ent users and others. This is anging for Burbank - and other as of Los Angeles County.

homas E. Flavin is mayor of urbank.

 Submitted by Mr. Bill [illegible]

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August 4, 1992

The U.S. Electronics Industry And The U.S. Defense Industrial Base

In the heyday of the defense buildup that began at the end of the Carter administration and accelerated through the first Reagan administration, investment in defense electronics companies was widely viewed as the superior play for participating in that buildup. From the onset of the cold war, the United States had relied on superior technology to offset superior numbers and U.S. electronics technology represented a very considerable superiority relative to Soviet electronics technology. Consequently, the electronics content of the weapon systems developed and fielded during the buildup was substantially higher than prior generation systems and the trend showed no sign of slackening. For defense electronics companies all this meant a premium valuation. Through 1985, the peak year of the buildup, price/earnings multiples for publically-held defense electronics companies were consistently above 15, somewhat above the multiple in those years for all publically held companies and nearly twice the multiple for aerospace companies.

Today, things are very different. Defense spending turned down after 1985, even before the collapse of the Soviet empire and the Soviet Union itself, and in the aftermath of that collapse the downturn shows every sign of accelerating. DoD spending for electronics and communications equipment and R&D held up briefly after the downturn but then it too headed downwards -- and at a faster pace than DoD spending as a whole. In 1985 the value of DoD contract awards for electronics and communications equipment and R&D was nearly 15% of the value of all awards ($182.7 billion). By 1991 this percentage was down to 10.7% (of a total value for all awards of $171.8 billion). The result is ominous, if predictable. The 1985 valuation premium for defense electronics companies has eroded completely. Indeed price/earnings multiples for such companies now match the multiple for aerospace companies which in turn is substantially less than half the multiple for publically held companies generally.

The decline in the fortunes of the defense electronics companies is not simply a problem for the shareholders and employees of those companies. To begin with, DoD spending for electronics and communication equipment and R&D led to more than superior performance of U.S. weapon systems. DoD and other government funding for computers and computer software played and continue to play a major role in the development of computer hardware and programming for commercial applications. The same is true for other electronics and communications technologies. Lower DoD spending will necessarily

slow down and even halt these spin-offs. Secondly, the one constant in the transformed world we find ourselves living in today is that our superior technology provides the best and cheapest way for the United States to maintain its superpower status. That in turn means that the maintenance of a vibrant U.S. defense electronics industry is vital to our national security. Reasonable people will no doubt differ on the extent of self sufficiency required to protect our national security, but it seems clear that at the least we must maintain within our shores mastery in the core technologies of the electronics industry. This requires maintaining the R&D and engineering capacity necessary to improve and go beyond those technologies. In addition, the history of the consumer electronics sector of the U.S. electronics industry indicates that the maintenance of some domestic manufacturing capacity is required to assure the maintenance of R&D and engineering capacity. Experience with resolving manufacturing problems provides the knowledge base that is the prerequisite to successful R&D and engineering efforts. Finally, for some key technologies, it will not be enough to maintain R&D and engineering capacity within our shores. In some cases (for example, in the case of the technology possessed by Fairchild Semiconductor) the capacity will also have to be owned by Americans.

Maintenance of a vibrant U.S. defense electronics industry will require continued support from the DoD and other federal government sources. We cannot count on equity markets to finance vibrancy. Current price/earnings multiples make this route unattractive to investors and companies alike. Neither can reliance be placed on debt markets. The technology of the electronics industry is complicated and the business is high-risk. Banks are unwilling to make the effort to understand the business and in any event are deterred by the risk. Finally, we cannot expect vibrancy to be maintained with the internal resources of the defense electronics industry itself. The industry is dominated by medium-sized highly-focused companies. They do not possess the net worth or the diversification to finance the required effort.

The most direct way to maintain a vibrant U.S. defense electronics industry is for the DoD to commit in advance to buy systems and components produced by the industry. In some instances such commitments will have to be given if we are to preserve the technology incorporated in the systems and components within our shores because the systems and components are militarily unique and only minimum purchase commitments, even if not strictly required to maintain national security, will maintain the technology. Submarines, armored tracked vehicles and fighter aircraft provide examples of systems of this type in other industries and there are also some examples in the electronics industry. In these instances, a DoD minimum purchase commitment probably implies abandonment of the competitive dual-sourcing strategy adopted by some elements of the Department in the 1980s. We cannot have both a viable defense industrial base and rigorous competition in a time of declining defense budgets, and it seems clear which of the goals will have to go.

Providing minimum DoD purchase commitments and abandoning competition for militarily unique systems and components implies some increases in the prices of such systems and components. That is the necessary cost of maintaining our national security.

We can hold the increases in check, however, if we change the way the DoD does business with its contractors:

o The DoD has to make its planning process more visible and participatory. The more industry knows of the Department's plans the lower the risks associated with industry's plans and the lower its prices will be.

o Greater use of multiyear contracting.

o Reduce the regulatory burden upon companies doing business with the Department -- most important the detailed and repetitive pricing and system audits and the intrusive inspections of the manufacturing process -- so that industry can reduce the overhead required to manage this burden. At the same time the adversarial quality and prosecutorial zeal that in recent years has accompanied the enforcement of regulations should be eliminated.

DoD spending on advance commitments for militarily unique systems and components is not the only way to maintain a vibrant U.S. defense electronics industry. We also can change the rules of the game. The rules governing the sale abroad of U.S. - produced military equipment and products incorporating a military technology provide one of the most fruitful areas for change, change that can have almost immediate results:

o Until recently the DoD has recouped from its contractors the non-recurring costs incurred to develop technology when products incorporating the technology were sold to customers other than the U.S. government. The principal effect of the rule has been to make DoD contractors less competitive relative to their foreign competitors who are not subject to such recoupment. DoD has recently suspended recoupment as applied to products incorporating technology that is developed in the future except when the products are major defense equipment which are the subject of foreign military sales. An act of Congress is required to suspend recoupment for FMS major defense equipment. Congress should pass the required legislation to give a small but important boost to DoD contractors. Furthermore, DoD should revise its suspension of recoupment to apply equally to products incorporating already developed technology. If suspension is a good idea for future technology it is an even better one for current technology.

o DoD should relax somewhat its vigilance regarding the export of products incorporating military technology. While we must be careful not to embolden our potential adversaries by making high-tech weapons technology too freely available, the fact is that the Department frequently restricts the export of technology that is readily available from our economic competitors. This weakens our national security by weakening the defense industrial base.

o DoD should increase its oversight of offsets conferred by U.S. sellers in connection with the sale abroad of military equipment and products incorporating military

technology. In their understandable urgency with closing the sale, U.S. sellers have sometimes agreed to terms that damage the U.S. industrial base by giving foreign manufacturers what amounts to a preference over domestic manufacturers.

A more difficult change in the rules of the game is posed by the attempt to enlist the R&D and engineering that maintains and advances commercial electronics technology in the maintenance and advancement of defense electronics technology. The idea is to promote convergence in defense and commercial technologies, and ultimately in defense and commercial systems and components, and thereby confer on defense R&D and engineering the benefits of the larger spending on commercial R&D and engineering. Technology incorporating this convergence is referred to as dual-use technology. There are a number of ways to foster dual-use technology:

o The most direct way is for the DoD to reassess systematically the need for military specifications that exclude commercial systems and components from consideration in military applications. The Department regularly talks about the need for such a reassessment, but the will still seems to be lacking.

o Approaching the problem from the other direction, the DoD should also abandon its long insistence on owning exclusive rights in technical data developed with government funding. The suspension of recoupment removes one obstacle to the use of such technology for commercial purposes, but contractors are unlikely to proceed far in this direction until they possess appropriate and clear ownership rights.

o The last two DoD authorization bills have expanded the permissible uses of contractor IR&D funded by the Department to include activities promoting the development of critical technologies as well as dual-use technologies and also permitting IR&D funds to be used for the development of environmental technologies. We should go even further in this direction and permit IR&D funds to be used for the development of infrastructure technology. Federal funding of the national interstate highway system was initially justified on the basis of its contribution to national security and the development of a system of electronic highways and other infrastructure improvements can be similarly justified.

o If dual-use technology is to really take hold, however, two fundamental changes in the way defense systems and components are manufactured and in the corporate culture of defense contractors will have to take place. First, the Department is going to have to loosen the rigid and inefficient procedures it has imposed in the name of quality control on virtually all manufacturing of defense systems and components and permit the convergence of defense quality control with the best commercial manufacturing practice. DoD adoption of the ISO9000, Quality Management and Quality Assurance Standards, to replace MIL-Q-9858A and MIL-I-45208A would go a long way in this direction. Just as important, however, if defense electronics companies are to benefit from a convergence in defense and commercial technology and manufacturing, they will have to have to market

what they produce in the commercial arena. Successful commercial marketing requires a change in corporate culture away from single-minded attention to performance and cost-plus pricing that characterize the defense market. The difficulties in making such a change are certainly no less than those standing in the way of DoD adoption of a more realistic quality control regime.

Finally, the vibrancy of the U.S. defense electronics industry will be advanced by moving forward with some if not all of the host of programs that have been adopted or proposed to enhance the product and process technology of the U.S. defense industry generally and U.S. industry as a whole. Some of the most promising of these programs are:

- DARPA's Dual-Use Technology Partnerships and DoD's Manufacturing Technology and Manufacturing Extension programs.

- Increased funding by DoD of Small Business Innovation Research grants along the lines set forth in the DoD authorization bill that recently passed the House of Representatives.

- The Manufacturing Technology Center, State Technology Extension and Advanced Technology programs of the Department of Commerce's National Institute of Standards and Technology.

- Other DoD funding of critical technologies, including in particular funding for SEMATECH and multi-chip module technology.

Attached to this statement are position papers further elaborating on the points made above.

me. Bill Auer. 11

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DEFENSE INDUSTRIAL BASE ISSUES

The following are policy statements on policy items 2, 7, 8, 10, 17 and 22.

2. Contracts to U.S. Companies First

If the U.S. is to maintain its advanced state of technology in weapons systems, defense contracts must be granted on a priority basis to U.S. companies. In the past few years there has been a growing tendency to bid major defense contracts to foreign suppliers. While this may result in short-term cost savings, each contract let to a foreign defense contractor weakens the U.S. technology base.

Global competition in the commercial marketplace is a valid part of our capitalistic system; however, maintaining a strong defense posture in today's world requires constant, intense effort in order to maintain a technological superiority in weapons systems. This technological lead can only be maintained and nurtured by granting preferences in military contracts to U.S. companies.

Every military contract let to a foreign supplier reduces the dollars set aside for maintaining overhead, including research and development capability for U.S. companies, and correspondingly strengthens the technology base of foreign suppliers which if allowed to continue would weaken the ability of U.S. companies to compete technologically and increase the dependence of our country upon foreign military technology. We believe this is a sure fire recipe for becoming a second rate power in the world.

7. Be More Flexible Regarding Export Licensing ("Don't tie our hands")

One method U.S. defense contractors could use to maintain financial strength is to encourage export of non-critical goods and services to other countries, and thus provide income and financial strength to maintain a readiness for supplying U.S. military needs. We believe that the government should relax restrictions on export licensing. With the sharply reduced threat from the USSR, now is the time to promote privately funded technology development by increasing our exports of technology products. Restricting the export of technology tends to bottle up our technologies, preventing us from becoming more competitive in the global environment and encouraging foreign competitors to leap-frog our technology. Each segment of technology being restricted from export weakens our companies and strengthens foreign suppliers. It is also recommended that the U.S. provide

a greater export promotion budget. In FY 1991, according to the GAO, the U.S. spent $2.67 billion on export promotion programs, but $1.97 billion or 74% was spent by the Agricultural Department. In 1987, Canada spent about $17 per capita on commercial services versus $.41 per capita in the United States, to promote industrial exports. Accordingly, we recommend that the government both reduce restrictions on licensing of technology exports, and help companies promote the sale of technology to foreign countries.

8. Expedite Adoption of ISO Standards and DoD - Submitted by James Schaming

It is the position of the American Electronics Association that the ISO9000 Series, Quality Management and quality Assurance Standards, replace MIL-Q-9858A, Quality Program Requirements, and MIL-1-45208A, Inspection System Requirements. We recommend that ISO9000 be designated by the U.S. Department of Defense (DoD) as the primary Quality System Standard for all defense related procurements.

Assuming ISO9000 were the defense standard provides advantages to American businesses and the DoD as follows:

- It is a quality management standard applicable to almost all industries including services, whereas the Military Standards primarily emphasize hardware manufacturing industries.

- Its requirements cover all departments and functions affecting quality, including sales/marketing and design/process development, not just manufacturing operations.

- It works best in a Total Quality Management (TQM), team oriented, defect prevention type of environment.

- The system documentation requirements are the same as specified by the Military Standards.

- It requires Quality System certification/registration via accredited third party certification and ongoing review to maintain certification. ISO9000 would not supercede current government oversight responsibilities, but would reduce the need for continuous surveillance.

- Companies already having quality systems that meet the Military Standards will be able to change over to ISO9000 without much difficulty.

- Because of declining defense budgets and the vastly changed nature of the marketplace, companies must now compete internationally with countries that have adopted ISO9000 as their standard and thus would be on equal footing.

- With U.S. commercial companies now rapidly becoming registered to ISO9000, product quality nationally is being raised to new heights, resulting in improving our country's overall productivity, profitability and competitiveness. Quality system registration provides an important edge for companies selling in Europe and around the world.

- DoD and OEMs will be able to find an ever increasing number of suppliers meeting ISO9000 that previously did not have systems that met the Military Standards. The result will be achievement of higher quality and reliability at lower cost to the DoD and OEMs.

10. Adopt a "Quid Pro Quo" Offsets Policy

Offset agreements are arrangements under which a foreign purchaser (or foreign government) requires as a condition of purchase of U.S. military-related exports that the U.S. seller offset the sale with purchases of goods and services in the purchasing country. Direct offsets involve goods and services that are pertinent to the system purchased. For example: requiring that components of the system be furnished by subcontractors in the purchasing country. Indirect offsets are contractual arrangements for counter-trade in goods and services unrelated to the military system sold. These can be commercial products, tourism or other types of activities which provide funds to the foreign country to purchase the military products from the U.S. supplier. Some of these offsets actually exceed in percentage terms the dollar value of the military export. For example: some foreign purchasers required offsets equal to 130% of the value of the defense system sold.

Possible solutions to the use of the excessive offsets include:

- Legislative efforts to deal with the question of offsets in defense procurement

- Defining the offsets issue as an "industrial base" issue

- Discussing the offsets issue with the Defense Security Assistance Agency ("DSAA") which has jurisdiction over defense Memoranda of Understanding ("MoU's")

- Meeting with Department of Commerce representatives to discuss the offsets problem

One specific method of attacking this problem is for the government to limit the percentage of offset in granting licenses for exports of military systems.

17. A National Plan for the Defense Industry

Because of the substantial downsizing of the defense budget, and its pervasive influence on thousands of defense-oriented companies, we recommend that the federal government, in conjunction with the defense industry, formulate a national plan for the defense industry. Such a national defense industry plan is needed for two basic reasons: First, the U.S. must foster an environment to create state of the art defense technology, as well as to maintain preparedness to meet defense emergencies with accelerated production of dependable equipment; second, such a national defense industry plan can assist defense contractors in effecting a transition to commercial applications for military technology, increase competitiveness, and maintain the United States' lead in those technologies which have increasing currency in the global economy, thus creating jobs for American companies to offset the substantial reduction in defense jobs over the next five to ten years.

There are many aspects to such a national defense policy, ranging from the reformation of acquisition policies (see the AEA Los Angeles Council's letter dated June 6, 1992 to Congressman Les Aspen) to policies of federal-industry collaboration in sharpening America's competence in new growing technologies, as proposed by the Senate Task Force on Defense Transition Report dated May 21, 1992. The Task Force recommendations are summarized as follows:

(a) Industrial Transition and Assistance:

- Fund regional and state manufacturing extension services (similar to the agricultural extension services funded by the Federal Government for many years)

- Establish the NIST State Technology Extension Program (STEP) which helps state governments improve the coordination of technology and manufacturing extension programs.

- Establish the DoD manufacturing extension program which would provide matching DoD funds for a wide range of factory assistance programs, teaching factories, CIM centers, flexible manufacturing

networks and high performance manufacturing infrastructures.

- Fund regional technology alliances which acknowledge the regional clustering of highly competitive technology based industries (e.g., optics in Rochester, electronics in Silicon Valley, aerospace in Seattle and Southern California).

- Provide trade and export assistance to assist small and medium size companies in expanding their exports in an increasingly competitive global economy. The U.S. is far behind in funding of these export programs in comparison with other developed countries.

- Increase funding for the trade and development program whereby the Secretary of Commerce would enter into agreements with non-profit industry associations and trade organizations to promote non-agricultural exports.

- Amend DoD recoupment policy by eliminating the requirement of recoupment of R&D money spent on military technologies that are commercialized. This will ease barriers to civil-military integration and decrease defense dependency on military contractors which will make defense downsizing easier for such firms.

(b) Investment in Growth Technology:

- Fund critical technology partnerships with industry. These partnerships acknowledge that the technical risks and financial barriers to developing critical technologies are so great that no one company has the resources or can take the risk to develop these technologies. Therefore, it is necessary for the government to act as a catalyst as well as a backer of efforts to develop and lead in these new technologies.

- DoC Advanced Technology Program (ATP) - The ATP makes awards to companies to support industry-lead projects to accelerate the development of important new technologies in such areas as electronics, advanced manufacturing, advanced materials and bio-process engineering.

- Expand DARPA Dual-Use Technology Partnerships - These involve consortia of private sector firms

selected by DARPA for encouragement and funding where the technology being developed has both commercial and military applications.

- Support ongoing civilian aerospace R&D partnerships in NASA. NASA's role here is to be the catalyst for development of technologies useful to civilian aviation and space industries, by funding R&D projects in those areas in cooperation with industry.

- Initiate the National Environmental Technologies Agency (NETA) to fund grants for environmental R&D. The object of such grants is to develop environmentally sound and energy efficient technologies to help secure America's environmental security and competitiveness.

- Emphasize dual-use Dod R&D - This would involve setting aside additional funds for projects that meet significant defense needs but which have commercial applications as well.

- Increase small business innovation research (SBIR) grants. These grants, which provide initially $50,000 per proposal with a follow on for up to $500,000, should be expanded.

- Reorient defense labs by redirecting their R&D infrastructure towards national needs and assisting commercial industry.

- Extend the R&D tax credit. The 20% incremental tax credit should be expanded and extended. It should be expanded by eliminating or reducing the incremental requirement and increasing the deductible amount from 65%.

- Provide grants for manufacturing, education and high skills retraining. These programs acknowledge that workers in American industry must be trained in the latest manufacturing techniques if the U.S. is to remain competitive globally.

- Grants for retraining of high skilled defense workers. These programs would retrain defense workers who were layed off as a result of the defense budget downsizing.

In conclusion, the United States is probably the only country among the world's economic developed countries that does not have an industrial policy in which government acts as the partner,

rather than as a antagonist, to business. In fact the government has provided an industrial policy toward certain favored industries such as agriculture, even though this segment produces an insignificant contribution toward our economy and pales in comparison to the opportunities for expansion of the U.S. economy in new technologies and manufacturing.

An example of how industrial policies in other countries are hurting U.S. competitiveness, the recent loss of the Boeing contract for 100 commercial airliners in favor of the AirBus government, supported consortium indicates the need for a reversal of U.S. policy. The need for an industrial policy is heightened by the defense budget downsizing and the hundreds of thousands of jobs which have been lost and will be lost as a result of the reduced defense expenditures, estimated by the Brookings Institution to be as much as 48% between now and the year 2001.

The U.S. can no longer afford the 19th century attitude that capitalism requires an iron wall between the government and private industry. The U.S. government must help private industry in the battle for global competitiveness and to assist defense-oriented companies in transitioning to commercial areas.

22. Eliminate the Competition Between Government Labs and Industry for Contracting Dollars

We recommend that the Government R&D labs gradually reduce their share of R&D work, including repair depots which are often used to upgrade their contract solicitation to R&D work, squeezing out private companies. Further, it is recommended that these R&D labs share their wealth of technology in government/industry partnerships in a consortia.

AEA
L.A. Defense Committee
"Finance and Contracts"

Maintaining the Manufacturing Base of Defense Contractors and Building the National Infrastructure

"The Defense Department has an unrealistic perception of the defense industrial base's ability to withstand defense cuts and needs to take steps beyond promoting research and development efforts if it wants to preserve weapons production capability, according to industry representatives." (1)

"In a February letter to Secretary of Defense Dick Cheney, Senate Armed Services Committee member Sen. John McCain (R-Ariz) said he found concern throughout industry that too much emphasis is being placed on "research and development at the expense of paying adequate attention to the problem of preserving our national production capability and capacity."" (1)

Our country has many needs in this day and age, two of which are an ongoing defense capability and developing a world class infrastructure. It is a forgone conclusion the defense industry will become a mere shadow of it's former self; Yet, it is important to maintain a defense capability. It is also understood that for our country to reestablish itself to the level of prosperity Americans expect, our infrastructure must be brought up to current day technology.

Definition: Infrastructure - The basic installations and facilities on which the continuance and growth of a community, state, etc. depends, as roads, schools, power plants, transportation, communication etc.

The technology that exists in the defense industry is enormous. If the downsizing defense industry is given the charter, the technology can be leveraged as a significant contribution to rebuilding the countries infrastructure. Think for a moment if our public transportation systems, or even more our cars, could some way utilize guidance and recognition technology. How far would that advance transportation? How about a national communication system relying more and more on secure wireless technology rather than laying wire and cable across our continent?

(1) Defense Daily, March 6, 1992, pg.376

In order to maintain an ongoing defense capability this country must find a way to maintain the defense manufacturing base. It is understood the defense industry as we knew it through the cold war will cease to exist. However, the ability to produce military hardware must live on if we intend to remain the preeminent world power. A government supported program that ties the commitment to infrastructure redevelopment and defense industry preparedness has merit. By leveraging the technology of the defense industry into the countries need for infrastructure advancement the defense industry would, at any time, be prepared for a call to arms while advancing technology and our countries infrastructure.

With well defined and communicated defense strategies the defense industry could pursue the technologies to keep our defense capability improving (R&D), while we apply the technologies, employees, and facilities to rebuild our infrastructure. This keeps people employed. Additionally, the teams that have manufactured our defenses are adequately maintained and the special facilities necessary to manufacture defense systems would be supported. All these are key if we are committed to maintaining our defense manufacturing base.

How do we finance the assurance of our countries defense? Answer: contribute to the advancement of infrastructure.

Government must create a financial environment that insures that resources are available for industry to make the necessary investments in the future of American defense and infrastructure. The federal government needs a proven and reliable source as a partner to rebuild the national infrastructure. The defense industry can be that partner. A tax credit program is a financial incentive (financial environment) for defense contractors to co-invest in our countries infrastructure while maintaining the manufacturing base of our defense industry.

A contractor would receive tax credits based on dollars spent during a technology transfer, presuming a few conditions were satisfied: A) defense technology is utilized, B) the contractor guarantees and is held accountable for the retrievability and manufacturability of specified defense related hardware/software or technology. Presuming the above, important facilities, teams and technologies would be advanced and applied to our infrastructure while the defense manufacturing base of the nation is preserved.

Tax credits have been used to the societies advantage when the government deems them useful. The country needs to maintain the defense industrial base, the country needs to maintain employment, the country needs to update its infrastructure. The defense industry has a record of focusing on and producing what the government needs in a cooperative and business like fashion. The defense industry has proven its ability to partner with the federal government. A tax credit program can be the impetus for a new and lasting partnership between government and industry for the good of our society and our economy.

"Defense Industrial Base Issues"

Technology and R&D Sub-committee

1. **Critical Tech base maintained in the US**

The issue has two distinct components; Political and Industrial. A few of the influences are:

* The international foreign practice called 'Off-set'. The practice is becoming a more and more flagrant demand by buying international countries. The results are extortion of US technology as the price of doing business and is rapidly resulting in the dissolution of US technological leads. The US Government has no quid pro quo to 'Off-set' for Foreign firms selling to the US Government. It is strongly recommended that the US Government adopt a reciprocal policy between Governments against 'Off-sets".

* No known US source of critical technologies. To preserve on-shore access to these technologies in the event of national emergencies, consideration should be given to Government sponsorship of domestic sources and/or a policy requiring foreign technologies to be second sourced or licensed to a US source as a condition of being used.

* The proposed DoD plan to only bring concept into initial development and not into production may maintain a cadre of "Systems" sources but ignores the core of our tech bases, THE COMPONENT DEVELOPER. The component developer looses incentive because he is not afforded a production opportunity to recoup his investment and the US looses a critical industrial base, the source for critical military components. The approach of shop but never buy must be changed to selectively maintain a responsive capability.

2. **Contracts to US Companies first**

The rash of foreign acquisitions of US companies in the last eight years makes is difficult to assess which is "us" and which is "them". The examples are numerous; Thompson CFS, GEC, Smith, etc., etc.. If the axiom of the necessity of maintaining technology and industrial capability in the US is true, then it is equally true that contracts should be awarded to US companies first in order to insure this resource. There is certainly precedence for this policy. We see existing policies of "domestic first" in many international markets today. These appear to be for economic or national pride reasons rather than national security, but they do limit our access to their markets.

5. **Intellectual property rights ownership and recoupment of R&D**

The US Government's DoD procurement regulations and contracting practices have evolved to an environment which destroys incentives to pioneer and invest. Government

contracts frequently insist on the Government's ability to buy full and unrestricted rights in data. Others demand the establishment of second sources thereby resulting in the loss of intellectual property belonging to the originator.

Precontractual expenditures for development are frequently disallowed costs for recoupment and the Governments practices of negotiating modest profit before taxes results in many investment never being fully recovered. The Administration's prognostications of few programs ever going into production further discourages the incentive to invest because there is not a pay back. These disincentives must be removed or the innovations and contribution of the Aerospace community to the strength of America's technology base will wither.

* Assure production to the developer.
* Recognize and respect intellectual property rights in Government contracts.
* Realign procurement policies to allow recover of investments and commensurate return on investment.

6. **Funding of critical technology development versus merely identifying them.** An Irish proverb says "You can see only as far as you will lift your eyes and grasp only as far as you will extend you arm". We have many of great vision but we have all experienced the trials and troubles of actual bringing the vision to practical practice. In a national emergency we will need the tools not just the concepts. Past lessons speak strongly for the need to sponsor critical technology development particularly in those areas where we are loosing the initiative to overseas sources or where innovation can give us quantum superiority, not second place.

19. **Deal with the protection of Data Rights and Intellectual Property.**
SEE NUMBER 5.

CONVERSION THROUGH ACCELERATED TECHNOLOGY TRANSFER

Sharon A. Hudnall, Director
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Good afternoon. My name is Sharon Hudnall, and I'm the owner of Response Management, a market research and business development firm based in San Diego. My company works with high technology enterprises in diversification planning and technology transfer, which I believe is key to strengthening the economic health of government-contract dependent communities.

Accelerating the transfer of knowledge and technology to the commercial sector is critical to off-set the loss to communities of defense-directed contracts. This year, about $25 billion of federally funded research and development is taking place at over 700 federal R&D laboratories and centers. Over 100,000 scientists and engineers, or 1 out of 6 in the U.S., work at these sites that address virtually every area of science and technology. To borrow a phrase from the poet Allen Ginsburg, I have seen some of the best minds of my generation locked up inside the military industrial complex. Unleashing this brainpower will boost America's innovation and productivity and help us gain better direction of our future. Closer entrepreneurial relationships with industry and sharing of benefits are important also to future funding and assurance of quality research within the government sector.

In the past, my associates and I have worked with clients who contacted us for market research after they'd already made the decision to explore new applications for a product or service in which they had established expertise. Typically, and under the best economic conditions, technology transfer projects take no less than two years and often as many as five to reach a point of sustainable growth. T^2 is not a quick fix for companies facing imminent lay-offs nor is it a path that can be pursued without considerable executive passion and the willingness to take informed risks and make near-term sacrifices for long-term gains.

However, many firms had the foresight and courage to take action two or three years ago, with the advent of Perestroika in the USSR and the project cutbacks following passage of the Graham-Rudman Act. Although these pioneers are not highly publicized, some are beginning to enjoy real successes in the "sunrise" industries -- for example, in energy and environment, health, education, transportation, advanced materials development for commercial products, manufacturing process improvements, information, robotics, and other fields.

Our interest in defense conversion arises out of the positive experience we have had in technology transfer among aerospace, the nuclear power industries, the chemical processing industries and information technology firms. Beginning last year we started to focus on local Southern California companies as a logical market for diversification through discovery, planning and penetration of commercial sectors. Although most small to mid-sized companies have fully awakened to the post-Cold War reality of having their economic security zone threatened by funding cut backs, we've found ourselves confronting a largely confused and/or paralyzed business community. As a result, much of our marketing interactions with potential clients have assumed the mode of evangelists and missionaries for technology transfer and new entrepreneurial thinking involving the resources of the federal laboratories in their region.

Although companies and individuals are going to have to accept responsibility for saving themselves, much of what we are facing in terms of changing entrenched attitudes resistent to economic diversification and conversion should, I believe, be addressed more proactively by federal, state and local governments. Rather than try to protect yesterday's status quo and focus on the symptoms of chaotic industry restructuring, such as job loss, our collective task is to re-examine the economic viability of maintaining a publicly subsidized military force while freeing capital for private enterprise in civilian trade. Hopefully, our options in the new century for earning an income are more richly varied than engaging full throttle in international weapons sales, the strategic direction for growth apparently chosen by General Dynamics, a stalwart opponent of diversification and conversion.

I would like to briefly highlight three areas in which the Department of Defense could effectively address the immediate needs of defense-contract dependent communities. These may be summarized as: *Communication, Capital and Market-Driven Quality Leadership.*

(1) First, let's talk about Communication and Outreach for joint R&D and commercial applications for government-patented technologies. DoD laboratories must send out the unequivocal message into each government-dependent community that the armed forces of the 1990s are being shaped into a leaner and more technologically skilled Base Force, as stated by the Secretary of the Navy earlier this year, and that restructuring reflects a new role for the United States as a military superpower. The downward trend in the size and number of government procurement contracts is not tied to the recession but, in fact, accompanies a strategic move toward more investment with the private sector in R&D and less in the weapons stockpile. More aggressive communication and outreach is needed to educate (actually *advertise* to) local businesses about the wealth of government-patented technologies that can be licensed for commercial applications. I urge that the DoD support their laboratories in community outreach by setting up Industrial Partnership Centers in each affected city for this purpose and fund aggressive outreach programs.

(2) Second, the issue of *capital.* We're in a nationwide credit crisis, according to the financial press, which isn't likely to subside for several years. Through the U.S. Department of Commerce, Americans have invested millions of tax dollars or 10% of the total 10 billion ECU budget for defense conversion projects throughout Eastern Europe through the European Bank of Reconstruction and Development, which is providing long-term, low-interest loans and grants. Concurrent with our country's funding of defense conversion in Europe, the Department of Commerce will provide $5.6 million to help local defense firms convert to non-military production. According to the Los Angeles Times, about "$4 million of the fund would be used to establish a revolving loan fund for small businesses that want to diversify into non-military ventures. The remaining money would go to two locally

based technology centers," assumedly near Los Angeles. Please note that San Diego does not consider itself an extension of the LA region; a defense conversion center in San Diego County, allied to NRaD and the Naval Command, Control and Ocean Surveillance Center (NCCOSC) and other R&D centers is needed to serve firms in our city.

The DoD could also offer a domestic funding structure to help offset the risk for small and mid-size contractors to undertake conversion. One suggestion would be to set up a Small Business Innovative Research (SBIR) program specifically for defense conversion. This type of SBIR could extend funds to cover Phase III transfer and premarket commercialization of technology designed and developed originally for military applications and investment in facility expansion and labor skills.

Pouring millions of dollars into loosely defined "Displaced Worker Re-training Programs" is like a bandaid over a haemorrhage unless accompanied by a commitment to foster a commercial base in the region that will provide not just "jobs" but economic stability and meaningful careers. The DoD can best help the taxpayers get a return on conversion training funds if it applies them to strengthening enterprises and academic organizations who are in tune with the economic and multi-cultural mix of their communities and can demonstrate managerial and technical competence. "Re-training America's workforce" in today's world means sending many mid-level managers back to college for advanced engineering and science degrees, and turning "blue collar workers" into world-class master craftsmen.

Companies who want to be in the future pool of preferred contractors also must be willing to invest some seed-money and profit into raising the quality of our workforce and in gaining greater efficiencies in their own operations. Further, they must be willing to share both the resources and rewards of innovation with independent brain trusts, such as the Federal Laboratories and the best-managed research universities. This "sacrifice" could mean smaller ROIs spread over a longer timeframe.

(3) Finally, *Market-Driven Quality Leadership*. Make Conversion a formal part of the DoD's thrust toward Total Quality Leadership. Set and enforce improved quality standards for encouraging and managing technology transfer industry contacts. Tie defense conversion projects to performance standards and command goals so that it becomes a measurable, accountable process.

The government has established a sound basis for technology transfer through such resources as the National Technical Information Service (NTIS), Federal Laboratory Consortium, National Technology Initiative for Cooperative R&D, and through the success of NASA in bringing the benefits of government-funded research to the commercial marketplace.

Federal agencies -- and the DoD in particular -- must instill a sense of high quality service in government personnel responding to industry inquiries. This means expediting the speed and enthusiasm with which phone calls are returned by the laboratories' technical points of contact, Cooperative R&D Agreements are negotiated, information is distributed, and conversion-related proposals are evaluated. A CRDA can now take from 3 to 12 months to complete, a light-year in terms of commercial product development and marketing lead-time, which moves more like speed of light.

The DoD also can provide incentives to preferred contractors who can meet competitive commercial as well as military standards and who bring innovation to government from their experience in private sector markets. They can give preference to companies who can attract the best performers and who reward the creativity and loyalty of their staff by sharing profits and decisionmaking and allowing more employee ownership. Finally, vendors who can achieve superior results for less cost through ongoing Quality Improvement Processes, as driven by commercial markets, are exactly the type of contractors who are best qualified to serve the Department of Defense.

A final suggestion would be for DoD to exercise its leadership role in NATO by more aggressively seeking out and supporting international compatabilities rather than differences for R&D and contract work. An excellent precedent for this was the decision by the Office of the Assistant Sectretary of Defense, Product and Logistics, to adopt the ISO-9000 or International Quality Standards as part of MIL-Q. Mandating contractor certification to ISO-9000 not only places part of the burden of government waste-reduction on the private sector that benefits from defense contracts, it also prepares these suppliers to compete in a global marketplace against European and Asian suppliers who can meet the most stringent quality standards. Another area for international cooperation and positive technology sharing would be to work with Europe to establish a global standard for electromagnetic compatability. Such alliances build a technical foundation for world peace and avoidance of Fortress Europe/Fortress America trade blocs.

The basis for America 's increased global competitiveness and for fostering more innovation among government contractors requires the ability to transfer knowledge to commercial applications and back again. As such, cooperative R&D and technology transfer must become a well-publicized strategic priority of the Department of Defense and its contractors.

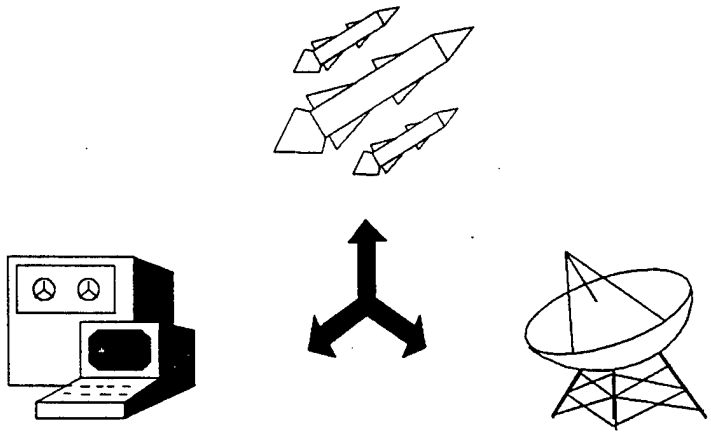
Appendix K

SUBMITTED BY SHARON HUDNELL

RESPONSE MANAGEMENT

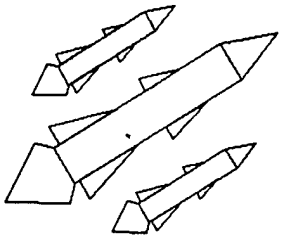
ACTION THROUGH COMMUNICATION

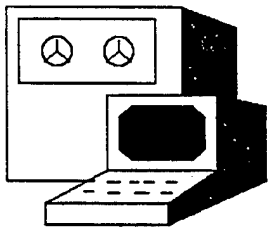
TECHNOLOGY TRANSFER
DIVERSIFICATION
ECONOMIC CONVERSION

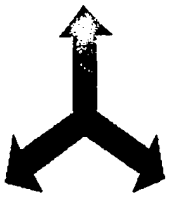


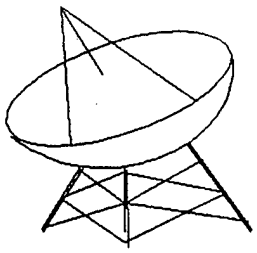
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TECHNOLOGY TRANSFER
DIVERSIFICATION
ECONOMIC CONVERSION







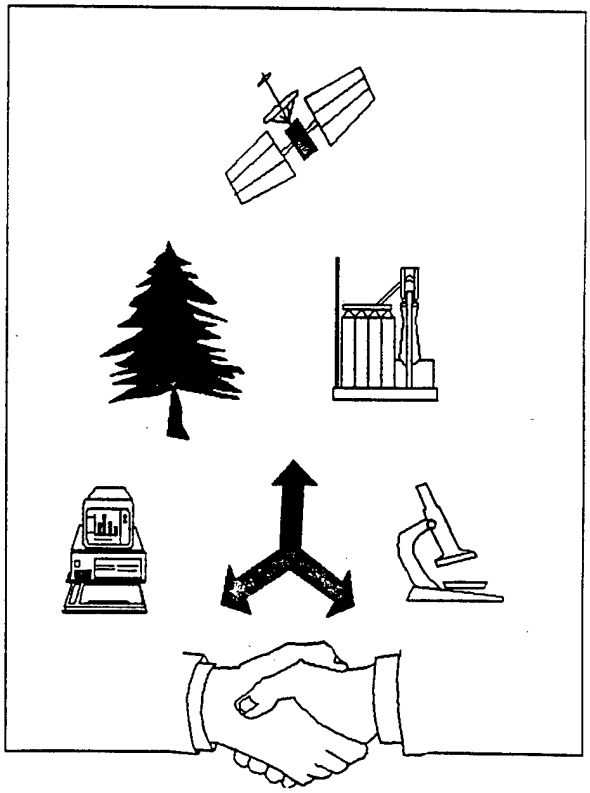


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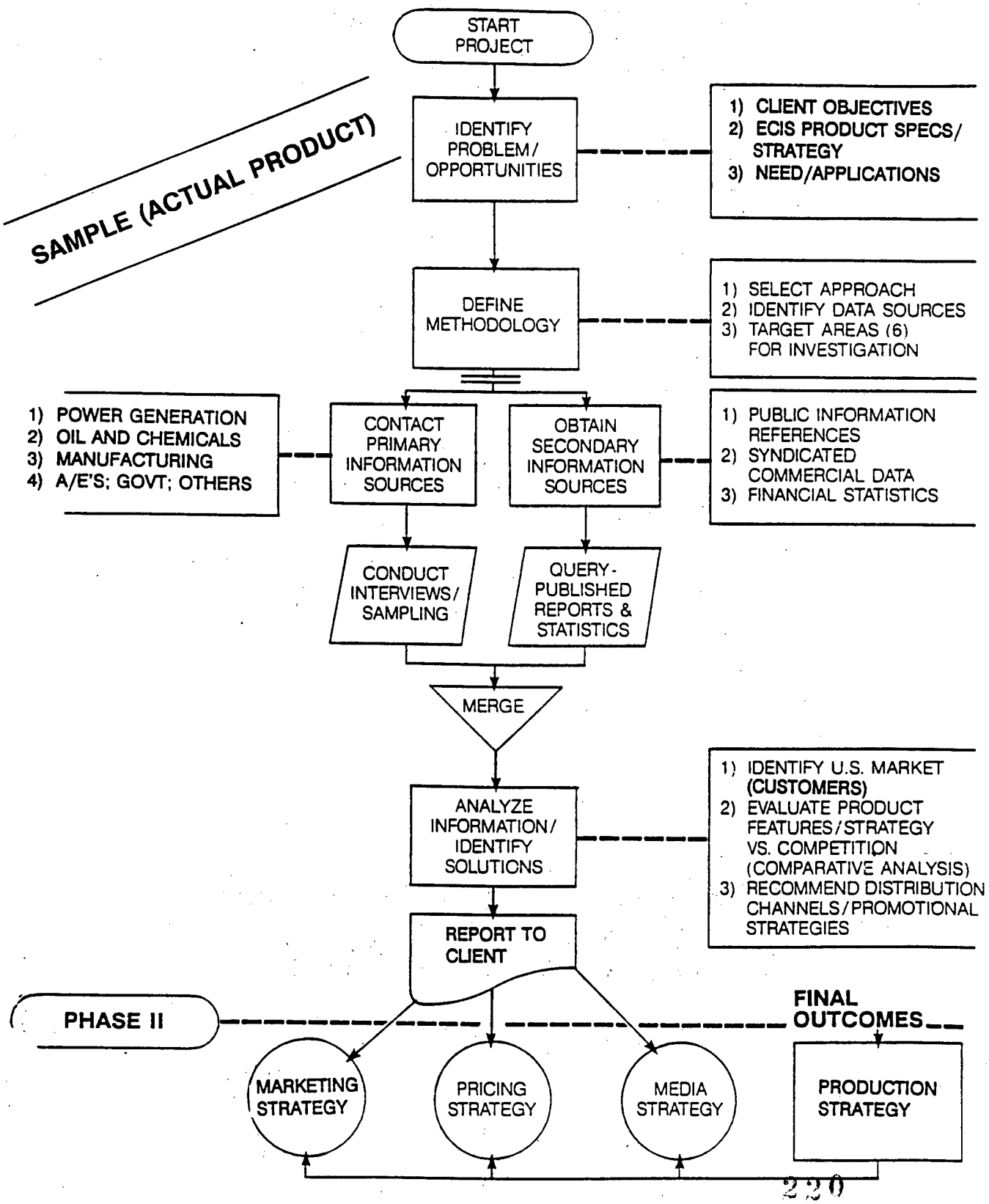
Our Customers Are People Who Create Their Own Future . . .

Response Management serves companies who believe in growth. We assist by acting as catalysts for positive change, assigned to search out new opportunities on your behalf for business development. Areas in which we have performed specialized market research and supported economic development include:

* **Energy and the Environment**
* **Advanced Materials and Process Innovation in Manufacturing**
* **Information and Communication Technologies**
* **Industrial Electronics and Instrumentation**
* **Medical Devices and Biotechnology**
* Human Performance (R&D, Training Systems and Studies)



RESPONSE MANAGEMENT'S APPROACH TO PHASE 1 -- PRE-COMMERCIALIZATION MARKET RESEARCH



Response Management resources include: senior market researchers with current knowledge and expert contacts within a broad range of industries, strategic planning consultants who can assist with preparation of business and marketing plans, access to current market and competitor information, and real-world experience in the diversification planning and implementation process. Critical questions arise throughout the planning and execution of change strategies -- and we are there to respond with timely, reliable options.

Companies who have benefitted from having us on their team include . . .

* An engineering consulting firm with a 30-year track record assessing risk in nuclear power operations who has now gained a recognized foothold in the chemical processing industries applying the same analytical principles and software tools

* The Defense Applications division of a large contractor, now exploring air quality and other environmental solutions in private industry for remote sensor devices using powerful laser technology

* A major engine manufacturer in the Midwest who has diversified into solar power energy projects to provide electricity to rural areas and developing regions

* An information services group that has developed a family of new database products aimed at an international customer base that has doubled its revenues in two years

* A broad-based training company that has reached an industrial market leadership position by discovering emerging demands in several manufacturing sectors for multimedia educational products

Not every business venture succeeds, but there is no surer route to failure than refusing to become informed about potential alternatives for growth.

Our job is to make sure your time and financial investments are based on informed decisions and guided by proven strategies for market exploration.

S•D•E•C•C

SAN DIEGO ECONOMIC CONVERSION COUNCIL

TESTIMONY OF THE SAN DIEGO ECONOMIC CONVERSION COUNCIL (SDECC) PRESENTED BY MARCIA BORUTA, EXECUTIVE DIRECTOR TO THE DEFENSE CONVERSION COMMISSION, AUGUST 6, 1992

My name is Marcia Boruta. I am Executive Director of the San Diego Economic Conversion Council (SDECC), a non-profit, community organization founded in 1985 to foster conversion in San Diego County.

We thank you for this opportunity to present our concerns. We take this issue very seriously in San Diego County. According to our Chamber of Commerce, San Diego County is the "largest military complex in the free world." One-fifth of the population is directly dependent on military spending. Another 20-40% is indirectly dependent. (See Attachment A, San Diego Economic Bulletin, for detailed information on military spending in San Diego) In 1990, our community began planning for this transition, and Councilman Bob Filner will tell you about the City of San Diego's Economic Conversion Program during his testimony.

I want to make two key points today. They can be summarized by saying 1) Invest in America because our future depends on it, and 2) Involve the people in planning and implementing this transition because our democracy depends on it.

I would like to share our definition of economic conversion to show the range of actions that must be taken by various players to make this a successful transition. We define conversion as the orderly redirection of resources from military to socially useful civilian activities. A key word is "orderly"--that means we know what's coming and we can plan for it. The federal government can facilitate this process by providing advance notification of military reductions to communities and companies. Another key concept is "socially useful"--that means we should redirect our resources to meet the urgent needs facing our nation and our communities. This has been called a "needs-based technology strategy" or "demand-side" conversion. The Cal-Start project to build electric car components in Los Angeles is an example of this.

We say that action must happen at three levels. At the company level, the companies that are vulnerable to military reductions must look for commercial alternatives. Taxpayers who supported military production during the Cold War have the right to expect this corporate responsibility. Workers must be involved in the process; companies who have been able to diversify have said that employee participation was an essential part of the company's ability to become more productive. Employee participation is also a key element of the high performance workplace. (See Attachment B, The Eight Key Elements of High Performance Work Systems) Sharon Hudnall, who spoke earlier and with whom we work closely, suggested a variety of ways the federal government can help companies. We urge you to implement these and other ideas that will encourage responsible corporate behavior.

(over)

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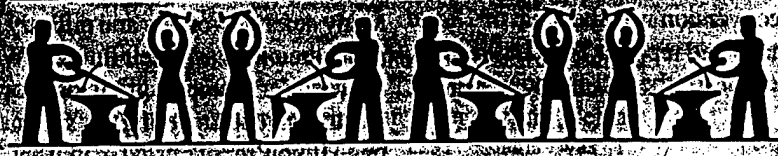
MAY-JUNE 1992

SAN DIEGO ECONOMIC

CONVERSION NEWS

"The purpose of the San Diego Economic Conversion Council (SDECC) is to foster the conversion of the economy from the excessive production of military products to the production of goods and services of use, quality, and value within the civilian sector, while assuring national security and creating more jobs."

Published by the San Diego Economic Conversion Council (now including SANE/FREEZE of San Diego).
Mailing Address: SDECC, 405 West Washington Street #143, San Diego, California 92103 USA.
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Telephone: (619) 278-3730



Thinking Globally
NEW PRIORITIES: PART TWO

People were calling for new priorities this spring. In San Diego and Washington DC, across the equator in Brazil, the urgent needs of our cities, our children, and our planet took center stage. Along with increased public awareness came a renewed call for the peace dividend.

In Washington and San Diego, people united under the cry of "Save Our Cities! Save Our Children!" The events in Los Angeles added urgency to the May 16 event. Over 200,000 people marched in Washington and over 60 organizations rallied in San Diego to call for federal investment in the needs of our cities and children now that the Cold War is over.

In Rio de Janeiro, U.N. Secretary-General Boutros Boutros-Ghali opened the Earth Summit by urging the nations of the world to redirect military spending to environmental protection. Boutros-Ghali called for an era of new collective security, recognizing that world security was becoming less a military matter and instead acquiring an economic and ecological dimension.

What would it take to fund these domestic and international needs? The U.S. Conference of Mayors asked Congress for a $35 billion annual investment in cities. The World Game Institute estimates the annual cost of meeting the world's human and environmental needs to be 25% of the world's total annual military expenditures ($1 trillion).

The usual response these days is "we have no money." But the Center for Defense Information identified $32 billion in unneeded military spending for 1993. The ending of the Cold War and the growing recognition of the danger inherent in international arms sales should easily release $250 billion from the $1 trillion spent globally on military activities.

It's not our wallet that's lacking, it's our will. Shifting federal tax dollars from military programs to socially useful civilian activities is an essential component of economic conversion. In the coming months, we will be working with local and national coalitions to elevate the budget priority issue in local, state, and national election debates.

Acting Locally
SAN DIEGO'S CHALLENGE

Calling for new national priorities in San Diego is not easy. While our community recognizes the need for urban jobs, the prospect of shifting money from the military to urban needs threatens the livelihood of many San Diegans. SDECC works to address this dilemma by building coalitions that support new priorities and by assuring that our community has an economic conversion plan to cope with the transition.

Our participation in the San Diego Coalition for Save Our Cities! Save Our Children! is an effort to build local support for new priorities. Sixty organizations endorsed the Coalition which continues to meet to map a strategy for the future. SDECC is also joining with other coalitions, including the Coalition for Equality and the Campaign for a Fair Share, to make the link between local needs and national priorities.

Our work on the City's economic conversion plan has new significance since General Dynamics announced it would sell most of its San Diego operations. GD's decision to return its profits to shareholders rather than invest in conversion has placed the responsibility for 10,000 jobs on the shoulders of the San Diego community. One of our goals this summer will be to develop sustainable alternatives for consideration.

We invite you to discuss these issues at our Town Meeting on the third Tuesday of the month. (see *SDECC Calendar*)

SAN DIEGO ECONOMIC CONVERSION COUNCIL MEMBERSHIP APPLICATION

Name _____ Phone _____

Address _____

Regular @ $30 _____ Supporter or Nonprofit Organization @ $50 _____

Sponsor @ $100 _____ Limited Income @ $20 _____ Newsletter Only $10 _____

Corporate Member @ $250 _____ Donation $_____

I want to volunteer. Call me. _____ Add me to your mailing list. _____

Please clip and return to:
SDECC, 405 West Washington St., Suite 143, San Diego, California 92103

Members receive the quarterly POSITIVE ALTERNATIVES published by the Center for Economic Conversion and the monthly CONVERSION NEWS published by SDECC.
SDECC is a non-profit educational corporation. Contributions are tax-deductible.

SDECC Testimony - Attachme

San Diego
Economic Bulletin
Vol. 40, No. 7
July 1992

San Diego's 1991 defense industry

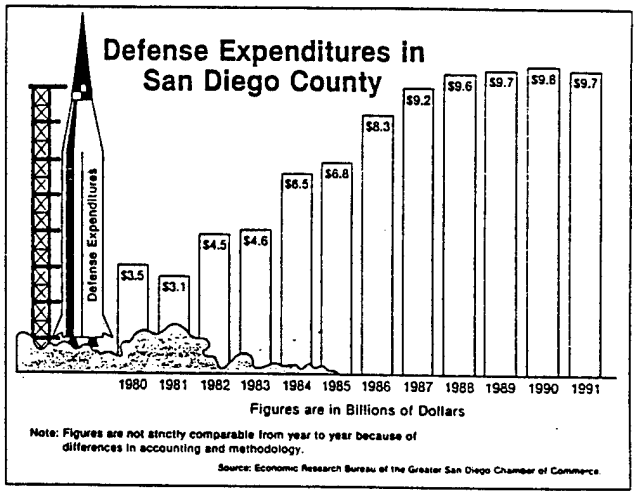
Figures compiled by the Economic Research Bureau (ERB) of the Greater San Diego Chamber of Commerce show revenues generated in San Diego from defense spending totaled $9.6 billion in 1991. This was 1.7 percent lower than in 1990, the first decline since 1981.

Defense expenditures accounted for 16 percent of San Diego's 1991 gross regional product (GRP), estimated by the ERB to be $59.4 billion. The ratio of defense dollars to GRP was the smallest since 1983. Defense expenditures nevertheless remain the second largest source of San Diego revenues trailing only manufacturing in total dollars generated.[1]

The pivotal national and international events of 1991 greatly affected San Diego and the extensive network of defense-related operations in the area. The Persian Gulf War, breakup of the Soviet Union, and shrinking U.S. federal defense budget all had significant ramifications on San Diego's defense industry.

San Diego based troops were prominent in the United States' military actions in the Persian Gulf conflict of 1990 and 1991. Thousands of Navy and Marine troops were sent from the San Diego region to participate in the war effort.

Weapons and other military equipment built by San Diego companies were conspicuous in the war effort as well. The most prominent was General Dynamics' Tomahawk cruise missile manufactured in San Diego. San Diego firms also developed computer software used to aim weapons and fire missiles, built fuselages for the Apache helicopter, made cargo ships bringing arms and supplies to the area, and produced an assortment of components used in weaponry and equipment.



The swift conclusion of the war and return of troops to San Diego brought a short-lived boon. The U.S. government's goal of reducing the federal budget by cutting defense expenditures, however, became apparent among San Diego's defense contractors. The impact was most evident in major San Diego employers, such as General Dynamics and Rohr, completing or having defense contracts canceled and having to lay-off workers.

The breakup of the Soviet Union and end of the cold-war further reduced the apparent threat to national security and need for arms buildup. The U.S. defense industry continues to face major consolidations and restructuring as

SUMMARY OF DEFENSE SPENDING
SAN DIEGO COUNTY

	Expenditures (millions)		
	1991	1990	Change
MILITARY PAYROLLS	$4,853.7	$4,694.1	3.4%
Active Duty Personnel	3,390.0	3,220.9	5.3%
Civilians	670.0	680.8	−1.6%
Retired Military Personnel	793.7	792.4	0.2%
DEFENSE CONTRACTS	$4,774.4	$5,099.5	−6.4%
Procurement Contracts*	3,418.4	3,735.0	−8.5%
Expenditures by Local Bases	1,180.0	1,184.5	−0.4%
Military Construction Projects	176.0	180.0	−2.2%
TAL	$9,628.1	$9,793.6	−1.7%

.ıcludes prime contracts and estimates of subcontracts, classified, and other undetailed contracts totaling less than $25,000 each.

Source: Economic Research Bureau of the Greater San Diego Chamber of Department of Defense; Navy Public Affairs Office, COMNAVBASE – San Diego; United States Marine Corps – Camp Pendleton and Marine Corps Recruit Depot; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

[1]Defense and manufacturing dollars overlap with a significant portion of defense contracting also counted as manufacturing.

San Diego's Future



Tony Lettieri, principal-in-charge of land use planning at Lettieri-McIntyre and Associates will give a presentation on the **Otay Ranch Project**. The luncheon meeting will be held at the Chamber offices at the Emerald - Shapery Center on Wednesday, July 15, 1992, beginning at 12:00 noon. The cost of the luncheon is $15 for members and $25 for non-members. Reservations are required at 544-1341.

million.[3] Another 5,463 families of deceased personnel received $40.5 million in 1991.

San Diego's large military presence gives the region a competitive advantage in federal government decisions to close bases and the execution of other "realignments". ⁻ause of San Diego's extensive military operations and ⁻estment, local military bases have been spared from significant closures.

San Diego may in fact gain personnel from the transfer and reassignment of troops as bases are closed in other areas. Some Long Beach-based ships and their crews, for example, are expected to be transferred to San Diego when the Long Beach Naval Station is shutdown in 1993. This would offset losses expected in San Diego as ships are decommissioned as the Navy reduces it's entire fleet size.

In 1991 the Defense Department's Base Closure Commission considered closure of both the Marine Corps Recruit Depot (MCRD) and Naval Training Center (NTC) because of reduced needs in training new recruits. These two major training facilities were deemed too valuable to close, however, as they offered vast advantages in their continued operations. San Diego's proximity to the Pacific fleet and other operations were cited as vital links to newly trained recruits. Costs were also found to be prohibitive to close the facilities and transfer parts of operations to other areas.

San Diego is not expected to have significant reductions in base operations. While some installations may be shut down or absorbed into other areas, the net effect of transfers and reassignments should keep San Diego's military personnel near current levels.

Thousands of other San Diego jobs depend upon defense ⁻enditures through employment in private companies ⁻ving DOD contracts. Thousands of additional jobs are directly and indirectly tied through sub-contracting and through vendors selling goods or services to defense contractors as well as to military bases and personnel.

The livelihood of one-fifth of San Diego's population, including active-duty military personnel, civilians working directly for the military or with private defense contractors, retirees, and their children and other dependents may directly be tied to defense expenditures.

PROCUREMENT CONTRACT AWARDS
SAN DIEGO INCORPORATED CITIES
DEPARTMENT OF DEFENSE

Incorporated city	Total Contracts (000s) FY 1991	FY 1990	Change '91/'90
Carlsbad	$23,262	$13,554	71.6%
Chula Vista	21,383	46,162	−53.7%
Coronado	22,107	10,033	120.3%
Del Mar	1,298	1,567	−17.2%
El Cajon	10,130	6,303	60.7%
Encinitas	1,089	377	188.9%
Escondido	3,174	2,019	57.2%
Imperial Beach	246	1,146	−78.5%
La Mesa	400	842	−52.5%
Lemon Grove	32	316	−89.9%
National City	3,350	4,770	−29.8%
Oceanside	15,303	7,595	101.5%
Poway	0	0	--
San Diego	1,831,752	2,059,507	−11.1%
San Marcos	13,831	21,574	−35.9%
Santee	682	1,450	−53.0%
Solana Beach	1,446	928	55.8%
⁻ta	1,609	1,166	38.0%
⁻alance of county	303,530	283,345	7.1%
County undistributed	(370)	370	−200.0%
SAN DIEGO COUNTY	$2,254,254	$2,463,024	−8.5%

Source: U.S. Department of Commerce, Bureau of the Census; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

PROCUREMENT CONTRACT AWARDS
DEPARTMENT OF DEFENSE

Rank	County, State	Total Contracts (000s) FY 1991	FY 1990	Change '91/'90
1	Los Angeles, CA	$10,034,250	$8,840,050	13.5%
2	St. Louis city area	5,512,111	5,377,196	2.5%
3	Tarrant, TX	3,777,871	3,419,754	10.5%
4	Washington, D.C.	3,655,136	1,246,092	193.3%
5	Santa Clara, CA	3,534,546	3,214,928	9.9%
6	Middlesex, MA	3,251,387	4,224,560	−23.0%
7	Essex, MA	3,251,387	1,724,240	88.6%
8	Nassau, NY	3,111,444	3,241,856	−4.0%
9	Orange, CA	2,663,288	2,316,558	15.0%
10	Dallas, TX	2,573,543	1,605,473	60.3%
11	Essex, MA	2,517,268	1,724,240	46.0%
12	New London, CN	2,334,509	1,285,255	81.6%
13	SAN DIEGO, CA	2,254,254	2,463,024	−8.5%
14	Fairfax, VA	2,175,700	1,579,331	37.8%
15	Denver city and county area, CO	1,754,886	2,214,707	−20.8%
	UNITED STATES	$139,570,721	$135,259,039	3.2%

Source: U.S. Department of Commerce, Bureau of the Census; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

San Diego's procurement contracts fell 8.5 percent in value during 1991 according to the Commerce Department.[4] The County of San Diego fell from seventh highest in the nation for these contracts to 13th. San Diego was one of the counties absorbing a decrease in award despite a 3.2 percent increase of total contracts awarded over the year by the DOD.

San Diego's civilian employment declined by 21,600 in 1991, partly because of the reduction in defense expenditures. Manufacturing employment decreased by 3,300 positions, many of these jobs were in aerospace, electronics, computer, and instrument manufacturing highly oriented to defense work.

Other San Diego jobs were affected as well. Studies show that for each 100 manufacturing jobs lost (or gained) another 66 nonmanufacturing jobs are affected. The cutback of defense expenditures, consequently, impacted additional jobs in retail, construction, finance, real estate and other local industries.

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[3]Office of the Actuary, Department of Defense, *DOD Statistical Report on the Military Retirement System*, FY 1990.

[4]U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report, Fiscal Year 1991*, Volume I, (Washington D.C., U.S. Government Printing Office).

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SDECC Testimony-Attachm

The Eight Key Elements of High Performance Work Systems

Excerpted from Dr. Ray Marshall's Keynote Address
AFL-CIO Human Resource Development Institute Conference on
High Performance Work and Learning Systems
September, 1991

The most successful "high performance" workplaces are characterized by the following eight elements, all functioning together as an integrated and mutually supportive system.

1. Effective use of all company resources, especially the insights and experience of front-line workers, in order to achieve continuous improvements in productivity.

2. Acute concern for the quality of products and services in order to satisfy the demands of a consumer-driven marketplace.

3. Participative and non-authoritarian management style in which workers - both at the point of production and the point of customer contact - are empowered to make significant decisions by a) using their individual discretion, experience and creativity, and b) cooperating with their peers in a mutually supportive atmosphere.

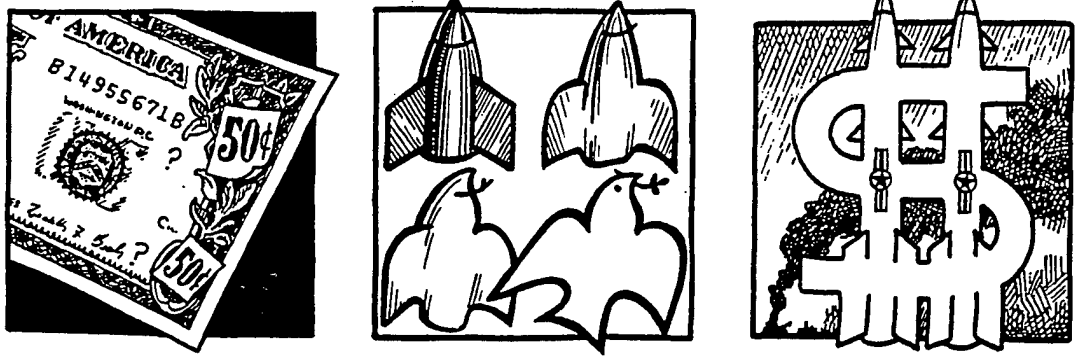
4. Internal and external flexibility in order to a) rapidly adjust internal production processes to produce a variety of goods or services; and b) accurately comprehend the external environment and adjust to changing economic and social trends.

5. A positive incentive structure that includes: employment security; rewards for effectively working in groups; decent pay and working conditions; and policies that promote an appreciation for how the company functions as an integrated whole.

6. Leading edge technology deployed in a manner that extends human capabilities and builds upon the skills, knowledge and insights of personnel at all levels of the company.

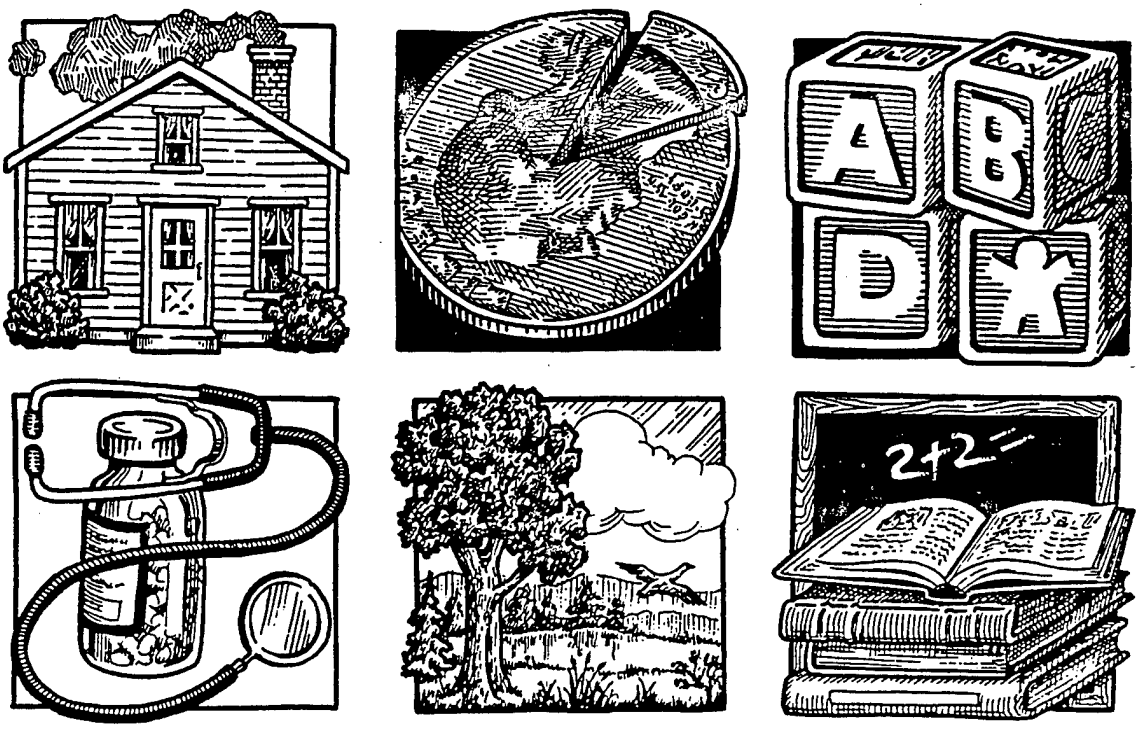
7. A well-trained and educated workforce capable of: improving a company's work organization and production processes; adapting existing machine technology and selecting new equipment; developing new and improved products or services; and engaging in continuous learning, both on-the-job and in the classroom.

8. An independent source of power for workers - a labor union and collective bargaining agreement - that protects employee interests in the workplace; helps equalize power relations with management; and provides mechanisms to resolve disagreements that arise because of the inherently adversarial nature of labor-management relations



REINVEST IN CALIFORNIA

Put Our Federal Tax Dollars To Work

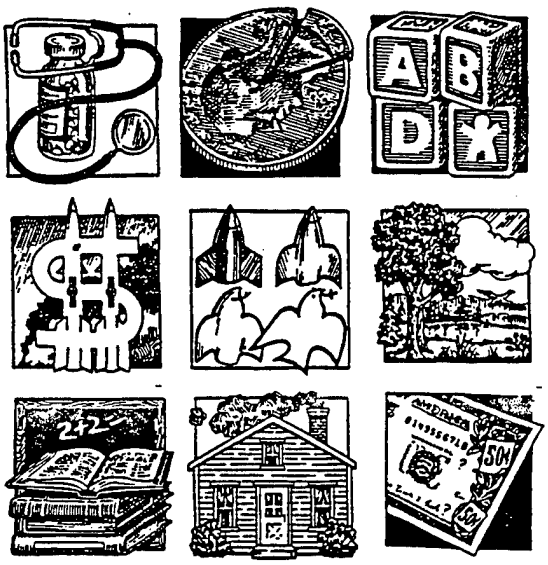


NATIONAL PRIORITIES PROJECT & CITIZENS BUDGET CAMPAIGN
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REINVEST IN CALIFORNIA

Put Our Federal Tax Dollars To Work



THE NATIONAL PRIORITIES PROJECT
&
THE CITIZENS BUDGET CAMPAIGN

1992

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This report was prepared by the:

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June 1992

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REINVEST IN CALIFORNIA

Put Our Federal Tax Dollars To Work

Reinvest in Our Communities Campaign

The Reinvest in Our Communities Campaign is a collaboration involving the California SANE/ Freeze, the Washington-based Citizens Budget Campaign, a national coalition representing over 100 state and national organizations, and the National Priorities Project, a national community education and research organization. Our goal is to call attention to pressing domestic issues during the up-coming 1992 national elections.

Combining national, state and community-based research with media outreach and education, the Reinvest Campaign involves over 100 housing, health, child welfare, environmental, peace, religious, and community development organizations in local, state and federal research projects. Beginning with New Hampshire, the National Priorities Project and the Citizens Budget Campaign have coordinated and produced a number of customized state reports.

The National Priorities Project

The National Priorities Project, Inc. (NPP) is a community education, research and training organization dedicated to making our nation's budget priorities something ordinary citizens can understand and shape. Based in Northampton, MA, NPP began in 1982, working with local grass-roots groups to analyze what cuts in federal social programs and increases in military spending meant at the local level.

Since then it has worked with national, state and local organizations to produce unique locally-based reports on how federal policies affect citizens, communities and states. It has recently worked with the Child Welfare League of America to produce *Our Children Deserve More*, a state-by-state analysis of the major children's needs and how federal policies have affected those needs; the National Low Income Housing Coalition to produce *Housing Crisis* reports in 27 cities across the nation; the National Common Agenda Coalition to produce 4 page *Community Fact Sheets* on 140 cities, illustrating the impacts of federal policies on those communities; and, Clean Water Action to put out *Reinvesting in Our Coastal Communities*, which describe the impact of changing federal sewage treatment funding policies on coastal states. It also has published the *National Priorities Action Packet*, a 160 page local activist's guide to the federal budget.

NPP Staff - Director: Greg Speeter, (Introduction, Taxes, Military Spending); Research Coordinator: Daria Fisk (Housing); Researchers: Phebe Conrey (Children & Families, Health), Thomas Hutchenson (Military Spending, Economic Conversion), Barry Bergman (Environment, Economic Development), Sue Thrasher (Education); Research Assistants: Tess Bagherpour, Jonah Gelbach, Gieo Fanotto; Production Staff: Kay Pfeiffer and Brett Miller. Graphic Design: Patricia Greene (and Leslie Fraser), Page & Screen Design, Shelburne Falls, MA. Illustrations: Richard DiMatteo

The Citizens Budget Campaign, Washington, D.C.

Formed in 1989, the Citizens Budget Campaign (CBC) is a national coalition of peace groups, domestic human needs groups, and religious organizations. CBC coordinates systematic campaigns and the development of local coalitions of human service, social justice, education and labor interests to make certain the voice of their collective constituencies will have an impact on members of Congress to:

- Increase investment in programs that address human and community needs.
- Significantly cut military spending.
- Responsibily reduce the deficit.
- Generate additional revenues through progressive taxation.

CBC National Steering Committee: Ruth Flower (Friends Committee on National Legislation), Ira Shorr (SANE/Freeze), Nancy Sylvester (NETWORK, A National Catholic Social Justice Lobby), Sally Timmel (Church Women United), Rich West (National Low Income Housing Coalition).

This report and other state reports are made possible due to generous support from the following foundations:

Warner Fund, Winston Foundation for World Peace, Joint Foundation Support, Beldon Fund, Oshun Fund, Ploughshares Fund, Ruth Mott Fund, Town Creek Foundation, CarEth Foundation, Partnership For Democracy



An Open Letter to the Candidates:

Reinvest in California Communities!

As the nation enters the 1992 election season, it is imperative that incumbents and political candidates of all parties recognize the historic challenges -- *and opportunities* -- now facing the federal government. The challenges sometimes seem overwhelming, and they affect more of us each day. They include threat of job loss, unaffordable housing and health care, inadequate education, environmental degradation, and an increasing number of our children living in poverty. **For many, this nation isn't working the way it used to.**

But we also have an unprecedented opportunity to do something about these challenges, for with the end of the Cold War comes the opportunity to refocus our great federal resources. We have the vision, the technology, the scientific and medical knowledge, the immense economic power already in place; they need only to be directed to meet the needs. **We can rebuild our nation. We have only to decide clearly what our priorities should be.**

Much of the economic foundation of California is in disrepair. Unless we build a strong federal-state partnership, we will be ill-equipped for the increasingly competitive world economy of the future. Among our most critical problems:

- **Our manufacturing base is threatened. In California, between 1979 and 1991, only 1% of all new jobs created were in manufacturing.**
- **1 in every 8 people in California lives in poverty, this adds up to 3.7 million people.**
- **Our infrastructure is crumbling. 66% of our roads and 30% of our bridges are in need of repair. Over $7 billion is required if California is to bring its water quality up to Clean Water Act standards.**
- **The $638 million that Washington is commiting to L.A. in response to the riots is only a fraction of the billions in federal economic development aid lost to L.A. since 1980.**

This report consists of nine issue papers on education, health care, housing, environment, children, taxes, military spending, economic conversion and economic development. It provides an analysis of the challenges and opportunities that affect the 29,760,021 residents of this state in each of these areas.

In each issue paper we first document key economic and social needs in the state, paying special attention to trends over the past 10 or 12 years. Next we examine how changes in federal policies over that period have affected these needs, and catalog how the federal funds to aid state and local governments have been cut back. Finally, we suggest strategies through which our leaders can use this historic moment to free up federal resources to reinvest in and revitalize our state and the nation.

Building an America that works will take leadership which sees the importance of a healthy, well educated workforce, investment in new communications and transportation technologies, and adequate housing and economic opportunity for all citizens. This report lays out the choices such leadership must confront.

We Are Running Out Of Resources ...

Our state and local governments have run out of money. While Proposition 13 limits the amount we can raise locally, state government has been overwhelmed in trying to respond to a state whose population has increased 25% in the last decade. Our state budge deficit last year was $14.3 billion; this year it is expected to be at least $11 billion. The Department of Finance says state-funded programs may be cut as much as 17%-33%

Our education system is failing. The number of K-12 students will double by the year 2000. To house these students, we'll have to build a school a day for the next 5 years. Our student/teacher ratio is the worst in the nation, and quality education is a statewide concern. Yet, the state has cut back in education funding in recent years and will most likely do so again this year.

Housing has become too expensive. Shelter in California is by far the most expensive on the continental U.S. The average cost of a home is almost a quarter million dollars. Rents have increased 273%. Last year almost 300,000 people on AFDC found themselves homeless and had to seek emergency shelter assistance.

Health care is becoming too expensive to afford. Health insurance is 73% higher than it was in 1980 (adjusted for inflation). Incredibly, 6 million Californians are uninsured, and another 6 million underinsured. One of every three people living in L.A. has no health insurance.

The environment is devastated. 91% of the population lives in a community contaminated by ozone. 23% of all U.S. toxic waste sites are in our state; and, California releases about a half a million pounds of toxics a day into the environment.

Our children, our most valuable resources, suffer the most from these crises. Child poverty has increased 41% since 1979. 1.3 million children in our state are in poverty. An estimated 1 of every 8 children under the age of 12 is hungry, and an additional 1 out of 7 is at risk of hunger. Yet two of the nation's most respected federal anti-poverty and nutrition programs, Head Start and the WIC feeding program, serve only 34% and 24%, respectively, of those eligible.

International Rankings: U.S., Germany, Japan

	U.S.	Germany	Japan
Military Expenditures per Capita (1988)	$1,250	$576	$235
Military as % of GNP (1988)	6.3%	2.9%	1.0%
Military % of Total R&D (1988)	31%	6.9%	0.0%
Health Insurance: % not covered (1989)	14.0%	2.0%	0.0%
Infant Mortality Rank (1990)	14	10	1
Education Expenditures as % of GNP: Rank	14	9	5
Science Scores: Rank	14	9	n.a.
Math Scores: Rank	13	2	n.a.
Infrastructure Expenditures as % of GNP	2.4%	4.0%	n.a.
Poverty Rate	16.6%	4.9%	n.a.
Trade Surplus/Deficit (1989)	-$110B	+$72B	+$64B

Chart 1 - Source: *U.S. Statistical Abstract*, National Science Foundation, Health Care Financing Administration. Note: All expenditures are public sector.

The Opportunity for Investment is Here

We can respond to all these needs. For 40 years this nation has channelled the lion's share of federal tax dollars - $12 trillion dollars - into the Cold War effort. We have established hundreds of major military bases, and developed a massive military force all over the world.

As recently as this year, even with the Cold War ending, most of our gigantic $300 billion a year military budget was aimed at holding the Soviet Union at bay around the world. Half of this was devoted to NATO, to help European allies defend against a surprise Soviet attack.

Now we have the opportunity to recapture some if this wealth. As president Bush said in September 1991: ``The prospect of a Soviet invasion into Western Europe, launched with little or no warning, is no longer a realistic threat. The Warsaw Pact has crumbled.'' *Still, California taxpayers' share of defending Western Europe last year was enormous:$20.8 billion, over 35% of our entire state budget.*

A growing number of military experts, including officials who served as Secretary of Defense and Director of the C.I.A., have called for massive cuts in our forces in Europe and around the world, and believe we could cut our military budget in half in the next 5 to 10 years.

For our nation, our states and our communities, these times offer an opportunity to reinvest vast national resources that have been locked up for 40 years into our schools, roads, and economy.

High military spending has cost the U.S. and California more than money. While we financed the Cold War, other nations that we have chosen to defend have invested their resources in their economies. As the chart above shows, our economy and quality of life have fallen behind those nations. **To compete, we must do here at home what they've been doing for years. Invest in our own nation!**

Where Does Our Tax Dollar Go?

Most of our taxes go to Washington. Citizens of California spend or borrow more to run the federal government than we do for state and local governments combined. In 1991, the 29.7 million residents of our state spent or borrowed:

- **$47.1 billion on local government (including education)**
- **$56.4 billion on state government**
- **$190.4 billion on the federal government.**

Most of the federal funds were raised through income taxes and social security taxes. Because of the deficit, 25% was raised by borrowing. (See the chart on the next page.)

But since 1980, because of federal cutbacks, fewer of these federal dollars came back to our communities. As a result, the burden of paying for services has increasingly shifted to state and local government. (See Chart 3.)

In 1980 Washington provided 20.5% of all government funds spent to finance federal, state and local governments in California. By 1990 the figure was cut to 16.4%, despite severe economic and so-

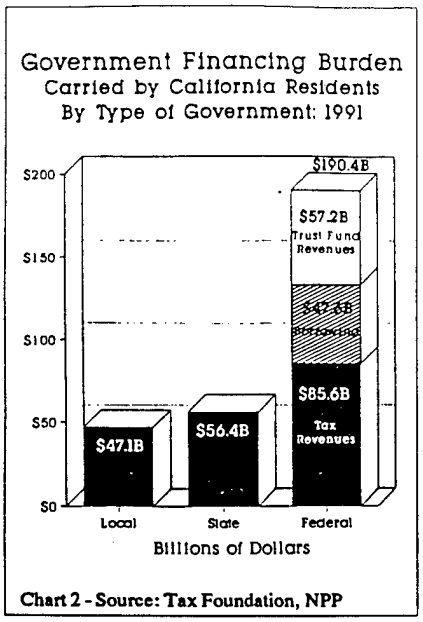


Chart 2 - Source: Tax Foundation, NPP

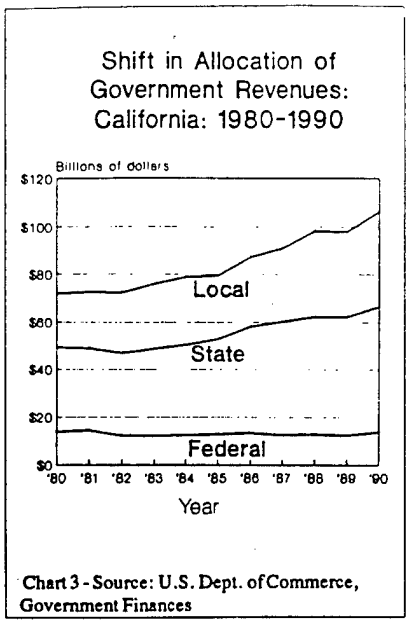
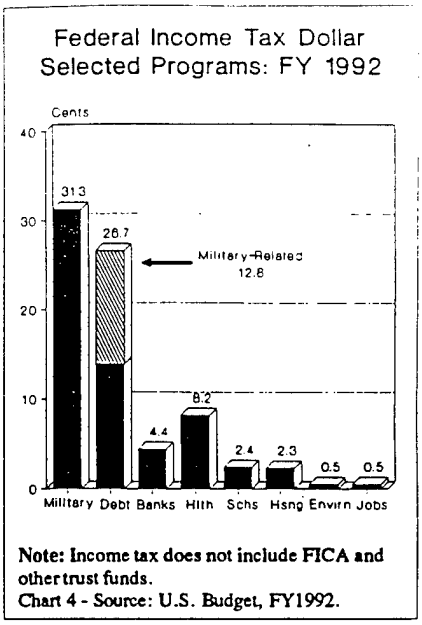


Chart 3 - Source: U.S. Dept. of Commerce, Government Finances



Note: Income tax does not include FICA and other trust funds.

Chart 4 - Source: U.S. Budget, FY1992.

cial problems. To make up for this cut in federal funds and respond to the state's growing and critical needs, state government spending increased by $74 billion and local government spending increased by $77 billion.

Why do we pay so much in federal taxes and what do we get for it? Chart 4 shows how our federal income tax dollars are spent.

- **28.3% goes for current military spending.**
- 3% goes for Veteran's benefits.
- **12.8% goes for interest on the debt of previous military expenditures.**
- **13.9% goes for non-military debt.**

Another major expenditure is the savings and loan banking crisis. This national banking debacle cost the nation an estimated $89 billion in 1991, and $115 billion in 1992. California's share this year of the bailout is $14.7 billion, which is $494 for every single person!

This year Washington is spending 62.4 cents of your tax dollar on the military, the debt and the banking crisis. That leaves only 37.6 cents for other government spending. Washington will spend only 18.2 cents on key reinvestment programs: 0.5 cents on job training and economic development; 0.5 cents on the environment; 2.4 cents on education; 8.2 cents for health care; 2.3 cents for housing; 4.3 cents for children's programs.

NEW FEDERAL PRIORITIES

The Impact On California: 1980-1990

This country has gone through the largest shift in federal priorities from social to military spending in peacetime history. In the last decade, over $200 billion was cut from economic development and other community programs. Meanwhile, military spending increased by a cumulative $923 billion. Coupled with massive tax cuts for the wealthy, which have taken over a trillion dollars from the U.S. Treasury, this shift has caused a dramatic increase in the national debt, increasing the bite that interest payments take out of every tax dollar.

1. COMMUNITY INVESTMENT DROPS

California lost a cumulative $27.6 billion in funding for key programs over the past decade. Even with increases in some categories of federal social spending, especially Medicaid, the state has lost billions in federal spending. The most significant cuts were in housing, economic development, children's services and the environment. Chart 5 summarizes the cuts.

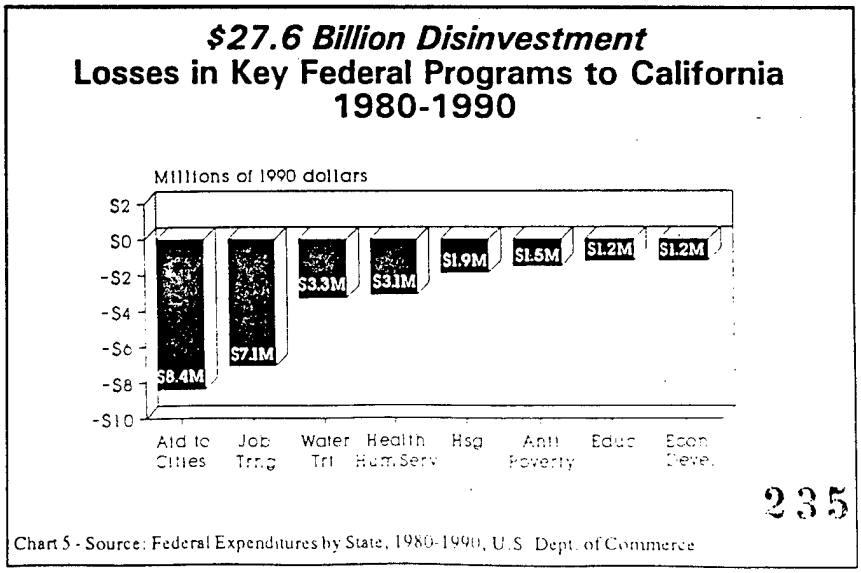


Chart 5 - Source: Federal Expenditures by State, 1980-1990, U.S. Dept. of Commerce

Where California's Military Tax Goes

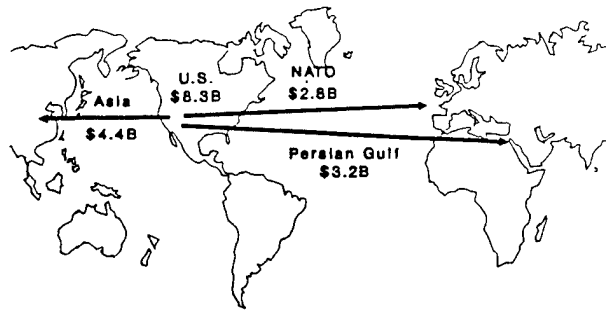


Chart 6 - Prepared by NPP, 1992.

Tax Cuts Benefit the Rich

Changes in 1992 taxes owed due to tax policy changes since 1977.

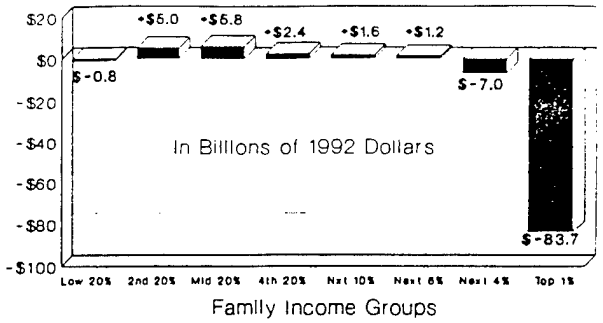


Chart 7 - Source: Citizens for Tax Justice, 1991.

. MILITARY SPENDING INCREASES

California contributes 36.7 billion a ear to the Department of Defense spending. The cuts in social investment rechanelled money to finance the $923 billion 34%) increase in military spending. Algether the nation spent $2.6 trillion in ational defense and related activities. California's share, paid in federal income axes, was $343 billion over the 11 year eriod.

. TAX BREAKS FOR THE WEALTHY

Tax breaks and loopholes for the rich re a major cause of the nation's defiit. In our state and the rest of the country, the richest 1 percent of our citizens reeived huge tax breaks. The next 4 percent got some tax breaks. Almost everyne else received virtually no tax break, r paid more in taxes than they did in the 970's. Had the richest 1 percent not been iven these special tax breaks, there would e $1.1 trillion more in the U.S. Treasury, nd our deficit would be cut in half.

. TAX INCREASES FOR THE MIDDLE CLASS

n 1983, Social Security taxes were raised o an amount higher than needed to pay urrent costs in order to build up funds for he future. However, the surplus has not een invested or saved; it has been used or current spending in order to decrease he deficit. This 15.3% combined emloyee/employer tax took in $23.4 billion n surplus funds in 1990 alone, in a sense reating an extra tax paid mainly by the niddle class and working poor.

WHERE DO WE GO FROM HERE?

Reinvest in CALIFORNIA

While California finances $141.3 billion of the federal General Operating Budget, it gets back little more than 9 percent of that in economic and social programs.

Changing times require reordered policies. For decades our federal budget centered around a military threat that today has been vastly reduced. At the same time, new economic and social threats have emerged. We are increasingly unable to meet the needs of citizens and communities, and we are becoming less competitive in the world markets.

The policies of the 80's of disinvestment at home, high military spending abroad and tax breaks for the wealthy have not produced a healthy economy and society. We need a partnership with the federal government to reinvest our tax dollars to strengthen our economy, protect our environment and help our communities.

We therefore call upon the federal government to:

1. Invest in a productive society by helping to rebuild our economic and social infrastructure.

We must be allowed to invest our resources, our talents and our ideas in our children: their education, their health, and their development. We need jobs and a competitive economy. We need federal tax dollars to help rebuild decaying roads, bridges and public buildings, and to train workers, to keep commerce strong. We need federal resources to help us reduce toxic wastes, clean up our polluted water and air and handle our enormous solid waste burden. We need to reaffirm the American Dream of home ownership and fund programs that turn the dream into reality for the people of California.

2. Finance the investment at home by cutting excessive military spending.

Help our industries convert military production to civilian use, and expand and strengthen the U.N. and other international peacekeeping efforts.

Our military budget should match the level of threat, and the burden of international peacekeeping should be shared with other nations. Cutting military spending in this way would free up hundreds of billions of U.S. dollars over the next decade to reinvest in our communities and people.

At the same time we need to take care of the workers, military personnel, industries and communities that would be hurt by military cuts. We need to provide job retraining, help plants retool and assist the development of new businesses and industries to meet new needs, such as the need for energy conserving technologies and products.

3. Eliminate tax breaks for the very wealthy and end unproductive tax breaks for corporations.

4. Reduce the deficit.

Cut unneeded military spending, make productive investments that strengthen and enrich the nation, and restore fairer taxation to provide new sources of revenue that will cut our federal deficit.

5. Provide vision and a comprehensive plan, not piecemeal promises.

Reinvesting in America must be our number one national priority. It must be a comprehensive plan in which economic and social investment, military cuts and conversion and tax reform are all integral parts. The plan must include a vision of where we want to be as we enter into the 21st century, and specific, measurable steps to get there. Anything short of a vision and plan does injustice to the gravity of the crises we face. Stopgap quick fixes that only address part of the problem will ultimately only quicken the crises and increase the public's dissatisfaction with Washington.

A full listing of reference materials for these issue papers is at the end of the whole report. Partial listings appear at the end of each individual report.

Unless otherwise cited, all figures are in 1990 dollars.

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REINVEST IN AMERICA, REINVEST IN CALIFORNIA is an effort to work with California's community leaders and citizens and with national leaders of all political parties to create a vision of a revitalized America. It shows what a federal commitment and careful, people-centered planning would do for our state.

Military experts believe that we could cut military spending in half in five years, at a cumulative savings of $220 billion in 1990 dollars. We believe that money should be reinvested in America, and in California. We have asked the National Commission for Economic Conversion and Disarmament to provide us with an assessment of what that would mean to California. The impact, illustrated in the chart below, is impressive indeed. Over the next five years, California would receive **$20 billion** in economic development, education, environmental protection, housing , health care, child care and family development monies.

While California currently loses thousands of jobs a year due to existing military cuts, **Reinvesting in California** would create 81,000 jobs in the civilian sector to help offset 102,000 losses, especially in the military sector, that would come with a 50% cut in military spending over five years. And, while Washington is virtually ignoring the question of economic conversion, spending less than $67 million a year on this issue, a **Reinvestment in America** would put $4 billion a year into economic conversion nationwide, and **$2.7 billion** over five years in California, to provide economic planning, retraining and other assistance, including a G.I. Bill of Rights, to help those military dependent families, industries, and communities affected by military cuts to convert and adjust to a civilian economy.

What Reinvestment in California Could Mean - *$22.7 Billion*

CA's Share of Federal Reinvestment	(in millions of $) 1993	1994	1995	1996	1997
Economic Development	141.	388.	752.	1160.	1559.
Environment	71.	194.	376.	580.	779.
Education	162.	446.	865.	1334.	1792.
Housing	162.	446.	865.	1334.	1792.
Children	170.	465.	902.	1393.	1870.
Economic Conversion	95.	262.	508.	783.	1052.
Total	**801.**	**2201.**	**4268.**	**6584.**	**8844.**

Chart 8 - Source: National Priorities Project, 1992

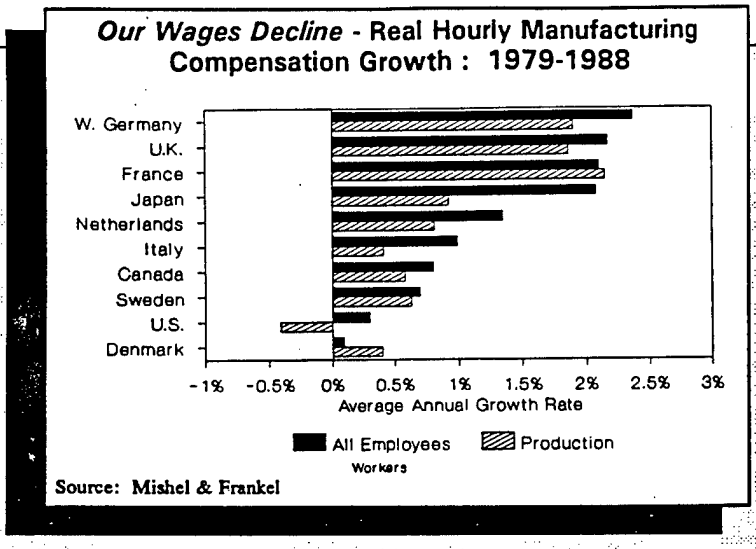
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ECONOMIC DEVELOPMENT

Disinvestment and Decline



THE VISION

Reinvestment and Sustainable Growth. Imagine the United States as an economic leader in the 21st century. A strong workforce with a first-rate education and high technical skills brings its best to a vast and growing world market. We compete successfully in leading industries. Our strong economy and scientific breakthroughs make major contributions to reduce poverty, strengthen our environment, and improve standards of living. Our quality production attracts much needed capital, part of which we reinvest in better schools, transportation, research and development, and new communications systems. The reinvestment, both public and private, is most visible at the local level. With industry once again flourishing in our communities, well-paying jobs become more plentiful and the local tax base grows, allowing for more investment in our schools, fire departments, and police. Other services improve: health care and social services for the elderly, preschool development, youth activities, libraries, and the arts. Teamed with a quality workforce, reinvestment in our communities encourages even more industry to reestablish locally. A local growth cycle is established.

- As California's population has grown since 1979, so has the number of jobs, but less than 1% of these have been high-paying manufacturing jobs, while the number of low-paying service and retail jobs have increased dramatically.
- 12.5% of the state's residents -- over 3.7 million people -- live below the federal poverty line; in some cities the poverty rates range up over 20 percent.
- In the face of California's pressing needs, Washington cut a cumulative $21 billion from the state's infrastructure and economic development programs in the 1980's.



Reinvest in California

THE CHALLENGE

Disinvestment and Decline. Unfortunately, both the national and California economies are losing their grip on the growing international economic market. Nationally, we are losing our market share and leadership role in the major industries important to the U.S. and world economy. Because we are cutting back in federal reinvestment programs, we are weakening the infrastructure we need for a competitive and productive economy. As a result, we fall farther and farther behind, and our living standard begins a long-term decline.

How productive we are as a nation determines how much we earn. As Chart 1 shows, our performance in recent years has been poor. The only reason growth in wages was positive at all is because of higher pay for supervisors and managers. Hourly pay for everyone else in manufacturing actually fell during this period. Most people are working just as hard as ever and getting less for their efforts.

THE PROBLEMS

California Economy in Crisis

California lost 333,000 jobs last year, 2.6% of the state's total. But headlines about the numbers of jobs lost or gained can distract us from the issue of what kinds of jobs we have, and whether they can provide a foundation for healthy communities, high quality public services, and a good quality of life. By this measure, California still faces significant problems.

The recent upheaval following the Rodney King verdict highlighted the fundamental problems in our economy, problems that extend far beyond the current recession. The 1980's saw a dramatic shift away from high-wage manufacturing jobs in California, as the workforce has become increasingly dominated by low-wage service and retail positions. Meanwhile, communities are increasingly unstable, as residents of impoverished areas -- especially minorities -- find themselves without access to the credit they need to start up businesses and buy homes in

their neighborhoods. With workers possessing outdated skills, high school dropout rates high, and the physical infrastructure in disrepair, there is little incentive for companies to relocate into these declining areas.

Countries and states with a high quality, skilled workforce, modern and well maintained transportation systems, and dynamic and responsive local governments will win the new investment and new jobs. Countries or states that ignore job quality will end up with low skill, low wage jobs, and a declining quality of services and life. Without a redirection of our federal tax dollars, California will increasingly find itself on the fringe of the increasingly competitive world economy.

Good Jobs Disappearing

California's job growth over the past decade masks a deterioration in the quality of our jobs. Retail and service jobs, which pay an average of $14,000-25,000 a year, accounted for over 65% of job growth between 1979 and 1991. Less than 1% of the state's new jobs were manufacturing jobs, which pay $7,000-17,000 more. In the Los Angeles area during this time, there was a gain of over 400,000 jobs overall, yet there was a loss of 128,000 high-paying manufacturing jobs.

As these skilled manufacturing jobs become scarcer, the need for new job training and education resources becomes more and more apparent. But instead of these programs, we have seen formerly high-paid workers having to compete for the low wage jobs. California workers continue to fall further and further behind, as revealed by a recent study showing that 14% of California workers with full-time jobs now live in poverty. Unless we make a commitment to invest in our future, our standard of living will continue to decline.

Poverty in Los Angeles

1/4 of all households earn less than $15,000/year

Annual Income Level	Number of Households
< $5,000	72,760
$5-$9,999	117,427
$10-$14,999	106,459
TOTAL < $15,000	296,646
Total L.A.	1,219,770

Chart 3 - Source: U.S. Dept. of Commerce, Bureau of the Census, 1992.

Urban Centers Mired in Poverty

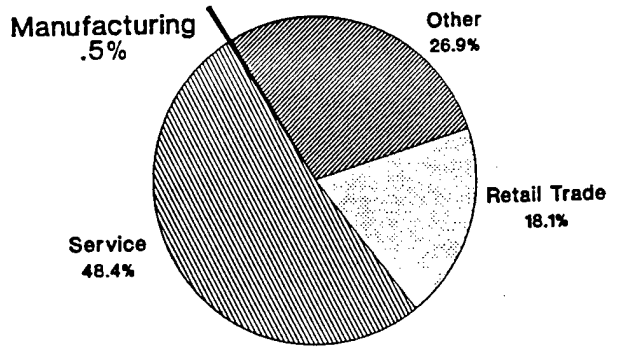
Even before the current recession (1989), 12.5% of Californians were poor, up from 11.4% ten years before. The portion of poor people was far higher in the cities: 18.9% in Los Angeles, 18.8% in Oakland, 17.2% in Sacramento, and 16.8% in Long Beach. And these rates actually understate the problem, as a family of four is defined as poor only if its income is below $12,674. Chart 3 indicates the depth of the problem in Los Angeles, where almost 300,000 households earn less than $15,000 a year.

While racial and poverty issues are clearly intertwined, poverty is affecting people of all races, especially in the Los Angeles area. Of the households in Los Angeles County earning less than $15,000 a year, over half are white (including white Hispanics).

Minorities Lack Access to Capital and Credit. Two keys to building strong, stable communities are locally-owned businesses and homeownership. But too often, banks have stifled new investment in poor areas by denying loans to local businesses and potential homebuyers, especially in nonwhite neighborhoods.

A *Wall St. Journal* poll of black business owners found that the lack of access to capital and credit is the major problem they face, and that 70% relied entirely on their own savings to start their businesses. Meanwhile, the Journal's study of lending practices of California banks found that blacks applying for mortgages are nearly twice as likely to be turned down as whites.

New Jobs in California Pay Less, 1979-1991



Source: CA Employment Development Dept., Labor Mkt. Information; U.S. Dept. of Labor, Bureau of Labor Statistics

Average Wages in California: 1989

Manufacturing	$30,199
Service	$23,473
Retail	$13,714

Source: *County Business Patterns*, Dept. of Commere

Chart 2

439

Infrastructure Crumbles, Undermining Business and Quality of Life

Good highways, bridges, public transit, sewage treatment plants, and related physical infrastructure are all critical for attracting and keeping industry and providing citizens with a decent quality of life. Yet in each of these areas, California has pressing needs.

While such large public works projects are expensive, they also will benefit the economy by creating new employment opportunities.

Roads: According to the Federal Highway Administration, in 1990 over 66% of California's roads were in poor or fair condition. That's over 37,000 miles of road that need work to help make California an attractive place to invest.

Bridges: 30% of all bridges in California are obsolete or structurally deficient. Poor roads and bridges make transportation slower and more expensive, increasing costs of everything produced in California and making the state less competitive.

Sewage Treatment Plants: The California EPA estimates that the state needs to invest $12.3 billion in sewage treatment plant construction to bring water quality in the state's cities and towns up to Clean Water Act standards.

California's Infrastructure Crumbles

Percent of Roads & Bridges in Disrepair

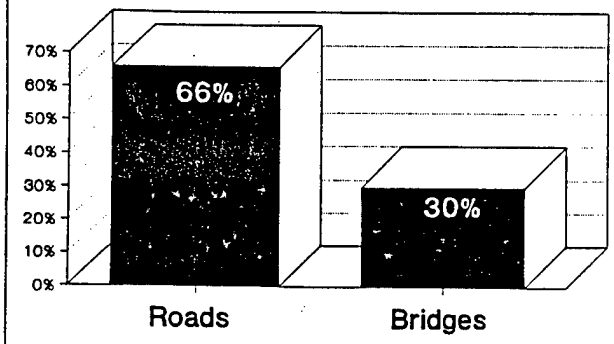


Chart 4 - Source: The Road Information Program, 1990.

State and Local Governments Stretched to the Breaking Point

Californians pioneered property tax limits with the passage of Proposition 13 in 1978. This has placed pressure on communities around the state, as services as have been cut to keep budgets in balance. The state's tremendous population growth, its shrinking economy, and the withdrawal of billions in federal funds during the 1980's have intensified pressures on local governments. At the state level the sales tax has been raised and services cut. The burden of these measures falls largely on the backs of the poor -- those who can least afford it.

Further attempts to compensate for federal cutbacks with state and local taxes risk throwing our communities further out of balance, making California even less attractive for new jobs and investment.

THE FEDERAL RESPONSE

Spending Policies 1980-91

Government spending policies play a major role in a nation's competitiveness, productivity, and healthy economic growth. Over 200 years ago, Adam Smith held that spending for public works and education was as important a function of government as national defense and provision of justice. Yet while other nations have been investing more in their infrastructure, we've done the opposite, setting the stage for further declines in living standards and competitiveness in the United States and California.

Cuts to California Since 1980

The federal decision to cut back in investment and economic development programs has contributed to the state's economic problems and has meant a ten year loss of nearly **$21.5 billion** to local communities when compared with 1980 funding levels (1990 dollars).

Cuts Cost California $21 Billion in Federal Economic Development Funds Since 1980

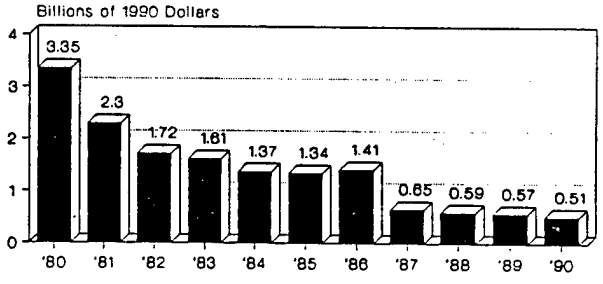


Chart 5 - Source: Federal Expenditures by State, U.S. Dept. of Commerce

General Revenue Sharing has been eliminated, resulting in a $8.4 billion loss of funds that helped each city, town and county in the state pay for fire, police, schools, and other infrastructure needs and essential services.

Wastewater Treatment Plant construction support to California was cut by $3.3 billion, although the state's needs rank second in the nation.

Job Training funding was cut by $7.1 billion, despite the state's labor force development needs.

Community Services Administration funding was cut by $1.5 billion, leaving local social service agencies even more strapped for resources.

Economic Development Administration funding was cut by $1.6 billion, hamstringing efforts to develop new industries.

Strategies for Change

Just as a business must continually reinvest in order to prosper, so must a nation, whether through its spending priorities or its tax policies. The United States reinvests less than other industrialized nations in its infrastructure. There are a number of ways in which we can reverse this trend.

Invest in Programs that Put America Back to Work

Rebuild America and California. In this state and throughout the nation, our public infrastructure is decaying. At the same time, we have large numbers of unemployed workers in the construction industry. We need ongoing federal investment in public transportation, airports, sewage treatment facilities, public schools, and other public infrastructure. This would substantially increase employment and make our businesses and industry more competitive.

Retrain for the 21st century. We spend only one half to one sixth what most other industrialized countries spend on job training, yet a flexible workforce needed to compete in today's market requires continuous training, retraining, and skill upgrading. Every one percent of people unemployed costs the nation tens of billions of dollars in needed services and uncollected taxes. It is estimated that U.S. job-training programs reach only six percent of those narrowly defined to be in need. We need an aggressive job-training program for both those with no marketable skills and for those skilled workers who need training in new technologies.

Research and development to meet our nation's needs and open up new markets. According to the National Science Foundation, the United States invests 30 to 35 percent less than Germany and Japan in nonmilitary research and development. An increase in this area could improve our international competitiveness and substantially enhance our quality of life.

Focus Tax Policies on Productive Economic Investment, Not Unproductive Private Gain

In the 1980's, tax policies that encourage leveraged buyouts -- exclusively to benefit the wealthy -- hurt the U.S. economy. Potentially productive economic resources were tied up in paper investments instead of productive investment in the nation's capital stock: industrial buildings and equipment. By leading to the break-up of many businesses and industries, leveraged buyouts caused widespread plant closings, eliminating jobs and destroying the ability of countless firms to produce real goods and services.

Sensible tax policies could reverse this dangerous trend and aid in the reinvestment in America in a number of ways:

Tax credits for productive investments -- keep jobs and industry at home. Investment tax credits should be provided for firms that reopen and modernize closed plants. Businesses that use environmentally sound production practices, such as energy conservation, solar energy, and other nonpolluting technologies, should also be eligible for tax credits.

Tax policies that discourage disinvestment. Tax policies should protect American workers and industry from leveraged buyouts and other dangers. For instance, high capital gains taxes on investment firms that buy up companies just to sell them off for a quick profit and on firms that close plants here in order to move them out of the country would discourage such actions.

Fund Innovative and Economically Sound Ventures

Commit to economic growth and development in disadvantaged communities. Community development corporations (CDCs) have a 20 year record of investing in small and medium-sized business ventures which target job opportunities for low- and middle-income citizens. Providing them with funds for revolving loans and local real estate projects would revitalize both urban and rural communities.

While the Community Reinvestment Act requires banks to meet local residents' legitimate credit needs, the banks' records have been spotty, so improved federal oversight of the CRA is needed to combat "redlining" practices. A more proactive approach could involve using federal dollars to fund development banks -- institutions established to finance projects in depressed areas -- an approach which has succeeded in Chicago.

Take an active federal role in promoting creativity in industry. This would be in striking contrast to the current federal strategy of waiting for the failure of larger companies, such as Chrysler, before providing support. This current policy promotes waste, inefficiency, and mediocrity.

A major pillar of a federal program aimed at innovation would be support for democratically owned firms. When workers own their company and have a substantial voice in running it, they have tremendous incentive to run it efficiently and to improve their products and services through innovation. Currently, such cooperative ventures can rarely get adequate financing. Why not make good on the rhetoric of creativity which is so often linked to U.S. capitalism?

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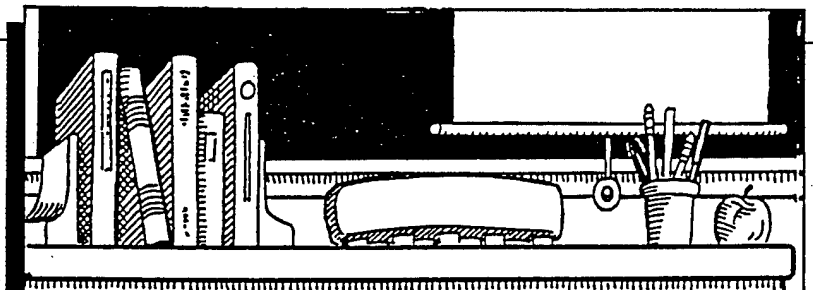
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EDUCATION
The Realities of Public Schooling in the 1990's



- California ranks dead last in the nation in teacher/student ratio.
- Nearly 100 languages are represented in California's schools, yet the state receives $38 million less in federal funds for bilingual education now than we received a decade ago.
- Only 10% of California's eligible children were served by a pre-school program in 1990.

THE VISION

Public schooling in the U.S. is built on the ideals of freedom and equality. We believe that all children should have access to an education that allows and encourages them to achieve their maximum potential. We want our children to have an education that fosters creativity, curiosity, and the desire to continue learning. And we want our children's education to prepare them for citizenship in the world of the future.

By the year 2000, our public school curricula must reflect the deep changes that are taking place here in California and the world. The graduating class for the year 2000 is now in the fourth grade. The education they receive now must teach them the skills necessary to lead productive lives in a technological age, and it must also help teach them how to live successfully with each other.

THE CHALLENGE

To make this vision a reality in California public schools is an enormous challenge. Compared to other nations, the U.S. has fallen behind educationally. Our students spend less time in school, study fewer hours, and test lower in math and science. Even with a high school degree, the chances of students being fully prepared as productive workers and citizens are dwindling. The U.S. Department of Education reports that 80% of 21 to 25 year olds tested were unable to use an ordinary bus schedule. Just 56 percent had the basic math skills to balance a checkbook. The National Alliance of Business reports that nationwide 24 percent of all new workers are completely unprepared to fill any available job.



Reinvest in California

THE PROBLEMS

California has the largest educational system in the country. It leads the nation in the number of students enrolled and total volume of instructional staff. The Los Angeles Unified School District is the second largest in the country. Another eight of the state's school districts are among the hundred largest in the country. Since the 1980's, there has been unprecedented growth in new students enrolling each year - now a quarter of a million new students are expected each year for the next 8 years.

Schools' Economic Resources Endangered

In 1991-92 the state suffered a $14.3 billion deficit. The state deficit for 1992-93 is projected to be at least $11 billion. Since taxes were raised to help meet last year's deficit, it is unlikely they will be raised again. That means more cuts for all state services. The Department of Finance expects state funded programs may be cut from 17-33%. The state educational system, already stretched at all levels, is gearing up for more reductions.

Traditionally, the state has received approximately 7% of its education budget from the federal government. Even as the recession rocks the state economy, however, these federal dollars exact a payback from the state. Each fiscal year, the state has to pony up funds from its unrestricted revenue to meet the requirements of federally mandated programs. These are described as ``encroachment'' funds, because they take away from general monies available to education. In fiscal 1990-91, encroachment dollars totalled over $760 million (4.32% of the state's available funds). Essentially, the state is matching by almost 50% the federal dollars it receives to run federally mandated programs.

To support its bilingual education program in 1991, the L.A. Unified School District had to allocate a total of $89 million to meet federal mandates and be eligible for federal funding. $19.3 million dollars was needed as up-front money to participate in the program; another $45.9 million was needed to meet student integration require-

nents, and yet another $23.9 million for support of programs such as continuing education and childcare. The story was similar in the district's Special Education funding. Almost $184 million was needed to fill the gap between federal requirements and federal funds. The L.A. Unified District estimates that 7.1% of its total budget is consumed by encroachment funds.

More Cuts in Store for Higher Education

Since 1983 California has made significant gains preparing secondary students for college and the workforce. More students are satisfying the requirements for entry into the state higher education system and scores on advanced placement tests have risen over 100%. However, the state's fiscal crisis is likely to have a chilling effect on California's system of higher education, already reeling from last year's budget cuts. The 1991-92 cuts resulted in a $28 million dollar cut to the University of California system, necessitating an early retirement plan for faculty and staff. The California State University system lost $50 million, causing the loss of part-time faculty and layoffs to an additional 1000 faculty and staff. The domino effect of layoffs meant that 5000 core sections were not offered, and students unable to enroll in these courses will have to stay in school longer.

State financial aid to students was also cut by $6.8 million. There was little aid or comfort from the federal level. The National Education Association estimated that, adjusting for inflation, California students lost an additional $2.7 million in college work study and supplemental educational opportunity grants. NEA estimated that full funding for these programs would bring $335 million more into California than the FY91 federal allocation.

School Buildings Bursting at the Seams

Since the 1980's, California's public school population has grown incredibly. This explosion has already caused restructuring of the school year and promises more challenges in the immediate future. By 1996, K-12 public school enrollment is expected to increase by 23% and to double again by the year 2000, climbing to a total increase of 48% by the end of the decade. This means a total of 7 million students by the year 2000.

To keep up with the dramatic increase, California needs to build 22 classrooms -- tantamount to building one new school -- each day, including weekends and holidays for the next five years! Besides the need for new schools, a third of the state's schools are over thirty years old. Currently there is a $6 billion backlog of requests for state funds for school construction. The state will need an additional $17 billion to finance this expansion, an amount equal to the state annual educational budget.

With the crisis in school facilities, the state has increasingly moved to year-round programs. A million students in 135 school districts were in year-round programs in 1991, more than double the number in 1989. Under the full year, multi-track system, students typically attend school for 60 days and are off for twenty. One fourth of the student body is ``on vacation'' at any given time. The State Department of Education maintains there are benefits to the system, such as teacher training, but students suffer constantly interrupted learning cycles and, all too often, stifling, inner city summer classrooms without air conditioning.

Facing a Multi-Cultural Future

Nearly one million (20%) of California's public school children are classified as Limited English Proficient (LEP). Since 1985, the rate of growth of LEP students has been four times that of state enrollment growth overall. One in four students in grades K - 3 were classified as LEP in 1990. While the majority of these students are Spanish speaking, nearly 100 languages are represented in California's schools. A state report recently noted that special services and programs for LEP students can result in additional costs ranging from 2-20% over those of English speaking students.

While the numbers are fewer at the secondary level, the educational challenge is greater. The tendency is to lump all LEP students together with little or no regard for their diverse learning backgrounds or even academic skills. To compound the problem, their access to core curriculum courses is limited, often preventing them from meeting graduation requirements.

While the state has made admirable attempts to address the needs of its LEP students, 25% across the state are not served by any ESL or specially designed language programs. In some areas, the lack of programs is more severe. Fresno is unable to offer services to 71% of its LEP students, and 46% of Oakland's students are without special programs. Los Angeles County with nearly half a million LEP students, is unable to offer special programs to 24% of them.

Chart 1 shows the changing demographics of California's school system. Clearly there is a need for a strong bilingual education program. However, California received $38 million less in federal funds for bilingual education in 1991 than in 1980!

California Schools Changing Ethnic Makeup

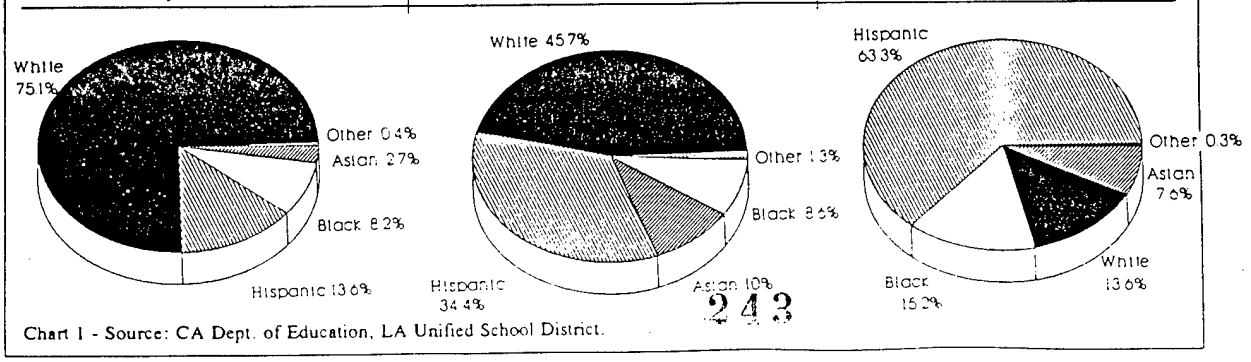


Chart 1 - Source: CA Dept. of Education, LA Unified School District.

California's Youngest Nipped in the Bud

Early childhood education has proven to be highly effective in preparing children for later achievement. The National Governor's Task Force on Readiness reported that early childhood programs such as pre-school or kindergarten can improve a child's academic performance and dramatically reduce the odds of a child repeating grades or requiring remedial or special education.

The payoff for investing in early childhood education is impressive. Studies show that for every $5000 invested in preschool programs per year, as a society we save:

- **$3,000/child in costs for crime;**
- **$16,000/child in public assistance;**
- **$5,000/child in remedial or special education programs.**

In other words, every dollar invested in quality pre-school education saves nearly $5.00 in social costs.

Yet this country has a smaller proportion of four year old children in preschool programs than most other industrialized countries. In France, for example, 97% of children between the ages of 3-5 are in some kind of pre-school program.

Despite these obvious benefits, California's pre-school population is not well served. In 1990-91, California provided services to 100,000 children. Yet the California Department of Education estimates that less than ten percent of those eligible are being served.

Equity and the Inner City

The Los Angeles Unified District is the largest school district in the state, and the second largest in the U.S. - so big that it receives 13% of all state education funding. The district is 64.4% Hispanic; 14.8% black, 13.1% white, and 5.2% Asian. Fifty percent of its students have limited English proficiency. Fifty percent are below the poverty line, and the drop out rate is 40%.

There are 42 other school districts in Los Angeles County, but the majority of minority students are in the Unified District. More than 400 of the district's 700 schools serve predominantly minority students. Even here, there is little diversity. One school may be 72% black, while another may be 85% Asian, and another overwhelmingly Hispanic. The inner city of Los Angeles mirrors inner city America; nationally, two thirds of blacks and 70% of Latinos attend schools where minority students comprise more than half the student body.

What little integration there is depends on the magnet schools. However, for every student admitted to a magnet school three others are turned down. Administrators in the magnet schools also note that magnet schools tend to attract the most committed parents and the most committed students -- thus robbing neighborhood schools of those most likely to help create a better school.

Segregation is also maintained through academic tracking. Low income students are three times less likely than high income students to be enrolled in academic tracks, as opposed to vocational tracks. UCLA researchers report that nationally they can ``with virtual certainty predict whether a math or science course was on a high or low track by looking at the color of faces in the classroom.'' (*Boston Globe*, 1/6/92)

Each day the district buses 80-100,000 students, primarily to deal with overcrowding. Few students are bused for the purposes of integration and special education. The severe shortage of schools has led to all schools in the district being placed on the full year plan. Each year, the district has to find places for 15,000 new students.

If we continue to let children who are born in poverty fail to get the kind of education that will allow them to participate in our economy and our society productively, then some time in the 21st century, this nation will cease to be a peaceful, prosperous democracy.

-- Brad Butler,
former Chairman, Proctor and Gamble

Washington's Role in California's Education

In its America 2000 Plan, Washington has put forth a vision of an educated America that will:

- **Support pre-schoolers so that they are physically and mentally ready to learn;**
- **Increase high school graduation rates to 90 percent;**
- **Insure high levels of proficiency in English, math, science, history, and citizenship;**
- **Insure that U.S. students are ``first in the world'' in math and science.**
- **Achieve a 100 percent rate of literacy and enable all adults to compete in a global economy;**
- **Make all schools drug free and offer an environment conducive to learning.**

All of these goals are admirable. Perhaps they could even be reached by the 21st century. They cannot be reached, however, in an economy suffering from recession and a federal response long on rhetoric and stingy with real dollars.

A key federal objective for education has been to insure equality in public schooling. Federal education programs have included: upgrading math and reading skills of disadvantaged and needy students (ECIA Chapter 1); state block grants for upgrading equipment and teacher training; low interest loans and work study grants for college students; vocational, adult and literacy training; and financial assistance to local districts for special education.

Research indicates that an increased federal effort now would save money in the future. An investment of $600 in compensatory education can save another $4000 in the costs of a repeated grade. Yet in 1990, California received $12 million less in federal Chapter I remedial education funds than a decade ago.

Since 1980, the federal role in education has consisted of rhetoric, not action. In virtually each of the last 11 years, California has seen significant cuts in state block grants, aid for disadvantaged students, bilingual education, adult and vocational education, and higher education. Cumulatively, the state has lost over $1.216 billion in federal aid to education since 1980.

STRATEGIES FOR THE FUTURE

Taking a long hard look at our educational system in the middle of a national recession is not heartening. As this report indicates, California and the nation have tremendous problems to overcome as we seek to be accountable to the nation's children. We must begin by acknowledging the costs of inaction. Already generations of young people have been shortchanged in their preparation for the future. Yet California's history of commitment to education provides an excellent building block for future efforts – efforts that will require creative solutions, resourceful funding strategies, and a collaborative partnership with the federal government.

The President and Congress must provide the national leadership needed for reinvesting in America's education. This can best be demonstrated by policies that:

Bring funding levels for all federal programs for education back to 1980 levels and gradually increase to full funding. As Chart 2 indicates, restoration of federal funding to 1980 levels would significantly increase the ability of the State Department of Education to provide services. While much of the federal funding is geared toward special needs students (such as Chapter I funds, handicapped, impacted area funds, etc.) all students would benefit from restored funding since this would allow state and local systems to concentrate their efforts on issues of quality education for all.

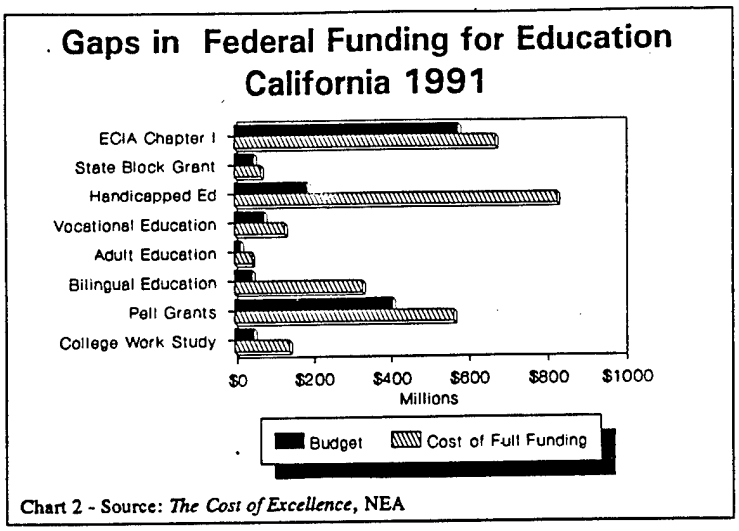


Chart 2 - Source: *The Cost of Excellence*, NEA

Increase investments at all levels. Significant additional federal resources must be allocated to education by the end of the century. The U.S. spends less on elementary and secondary education than thirteen other industrialized countries and has more students per teacher than eighteen other countries. California students score slightly lower than the U.S. average on math scores, and the U.S. lags behind eleven other countries. To fully cooperate in creating a new world order, U.S. students need a national investment insuring them of developing the skills and competencies they need. Additional funding for current programs such as early childhood education, compensatory education, special education, higher education, and bilingual education is a good beginning. In addition, new programs must be created that anticipate future needs in numbers and diversity of students.

Strengthen the educational profession by investing in teacher training and other initiatives that will insure a talented and committed pool of educators. Enhancing the skills of classroom teachers and investing in programs that will encourage them to stay in the profession is essential. More minority teachers and more bilingual teachers are needed immediately. Special training and support programs also need to be developed for administrative personnel such as principals and superintendents.

While a national investment is needed in education, primary support will still need to continue from the state and local districts.

Insure equal access to quality education programs for all students. States must play a role in equalizing educational opportunity. The students in South Central L.A. deserve the same kind of educational facilities and teachers as those in Beverly Hills.

Provide support programs for learners at all levels. Children are often in need of a wide range of support services in order to fully engage in learning. The same is also true for adult learners, particularly single mothers, who wish to return to school in order to better the future. State and local communities should work in collaboration to provide programs such as health care, counseling, and childcare.

Build partnerships with the business community, parents, and community agencies. The schools cannot go it alone. Investment in the future means cooperation and commitment at all levels.

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ENVIRONMENT
Learning To Protect Our Land, Water and Air



THE VISION

America demands a clean, healthy environment. Since 1970, when we celebrated the first Earth Day, the environmental movement has become one of the strongest grassroots movements in the nation. Today millions of families are involved in recycling efforts. Toxic waste and global warming have become household words. Recent polls show that 81 percent of Americans consider themselves environmentalists, and 71 percent say they would pay more in taxes to clean up the environment. Small wonder that in 1989 TIME magazine named our endangered planet ``person of the year''.

The federal government has initiated laws and programs designed to protect and clean up our precious natural resources. These initiatives–preventing raw sewage from being dumped into our rivers, limiting industry's release of toxics into the air and water, and cleaning up hazardous waste sites, to name a few–are essential for protecting the planet for our children. We must urge leadership in Washington not only to vigorously enforce these regulations, but to find ways to prevent pollution in the first place.

THE CHALLENGE

In California:

- 168.8 million pounds of toxic chemicals were reported released in 1989 alone.
- $12.3 billion is needed to meet federal sewage treatment standards.
- 91% of residents are breathing air that violates federal ozone standards.

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THE PROBLEMS

Toxics Pollute California's Air, Land and Water

Local industry releases **at least 462,000 pounds of toxic chemicals a day** (168.8 million lbs./year) into California's air, land and water, according to the Environmental Protection Agency's Toxic Release Inventory (TRI).

This pollution is fed into the state's environment by smokestacks (81.2 million lbs./year), is dumped into landfills (6.3 million lbs./year) and is released into surface water both directly and through sewage treatment plants (57.7 million lbs./year). These chemicals are extremely dangerous and have been known to cause brain damage, cancer, birth defects, and infertility.

The five facilities in the state with the largest releases in 1989 were:

Filtrol Corp.	(Vernon)	29,595,850 lbs.
Union Oil Co.	(Brea) ..	5,756,919 lbs.
Louisiana Pacif.	(Samoa)	5,480,200 lbs.
Simpson Paper	(Eureka)	5,060,500 lbs.
Molycorp Inc.	(Mt.Pass)	3,577,700 lbs.

The 168.8 million lbs. of reported releases in the state is a very conservative figure. The TRI does not require reports from small employers, non-manufacturing businesses (such as utilities) or federal facilities, and does not account for motor vehicle pollution. According to a recent study, **actual production and use of toxics in California is 5 to 50 times the amount reported.**

Hazardous Waste Sites Threaten California

The groundwater supply in many communities is seriously threatened by hazardous waste sites, many of them in existence for years. These are only the most visible result of widespread toxic chemical use. California EPA is currently overseeing

The Toxic Ten



71% of California residents live in counties that release 88% of California's toxics: **Los Angeles, Orange Humboldt, San Bernardino, Contra Costa, San Diego, Alameda, Santa Clara, Sacramento, Riverside.**
Chart 1 - Source: Citizens Fund, 1991

5 CA Cities' Sewage Treatment Needs

San Diego	$3.2M
San Francisco	$1.8M
Los Angeles	$1.6M
Carson	$0.6M
San Jose	$0.4M

Chart 2 - Source: CA EPA, State Water Resources Control Board, 1990.

Who's At Risk

California residents living in ozone-polluted areas whose health is seriously threatened by ozone pollution:

Children < 13 yrs.	**5,102,723**
Adult > 65 yrs.	**2,625,673**
Asthma patients	**905,799**

Chart 3 -American Lung Association, 1989.

the cleanup of 257 hazardous waste sites, and 95 of these sites are so dangerous that they are on or awaiting approval for the National Priorities List (NPL). Cleanup costs will be ``in the billions'' of dollars, according to one state official. EPA estimates that, nationwide, NPL sites will cost an average of $27-29 million each to clean up.

The toxic waste crisis is just beginning to be understood. The General Accounting Office has estimated that there are from 100,000 to 396,000 hazardous waste sites nationwide that have not been formally identified because adequate resources do not exist.

Sewage Threatens California Waters

In 1984, 1.2 billion gallons of raw or inadequately treated sewage were dumped into California coastal waters each day, more than half the nation's total of such dumping, wreaking ecological havoc and threatening human health. Organisms which normally make up 60-70% of the biomass of healthy ecosystems have vanished or are seriously depleted. Sewage pollution also poses a health risk to humans, mainly through the exposure of swimmers and surfers to contaminants. In 1990 alone, there were over 300 beach closings reported in 8 coastal counties, largely due to sewage pollution.

It has been estimated that it would cost the state and its communities **$12.3 billion** to bring water quality up to Clean Water Act standards. The project costs for five California cities are listed in the box above.

Ozone Pollution Poisons the State's Air

Ozone cannot be seen or smelled, yet it blankets much of the state, posing a major health threat to millions of California residents. Although the state's ozone levels have decreased significantly since the 1960's, they remain dangerously high. Over 90% of California residents live in areas that violate the federal ozone standard, and this standard is less strict than the one the state uses.

Ozone is formed when automobile and industrial emissions react with oxygen, heat and sunlight, and is frequently found hundreds of miles from where the pollutants are released. Clearly it is not just a local issue. Some of the costs of ozone pollution are:

Respiratory Ailments - Chart 3 indicates the millions of California residents that are especially vulnerable to ozone pollution, but everyone is at risk. A 1988 study of 15-25 year olds in L.A. who died of various causes found that half had lesions on their lungs, a symptom of lung disease.

Deaths - A review of six studies found that motor vehicle pollution, including ozone, causes 50,000 to 120,000 deaths in the U.S. each year.

Crop Loss - California's $1 billion a year cotton crop suffers sharply reduced yields -- as high as 44% -- due to ozone pollution.

California Trash Problem Serious

California generates about 130,000 tons of garbage each day. 87% of this is landfilled. According to EPA, even lined landfills do not safely dispose of waste, as all liners will eventually leak, leaching hazardous materials and potentially contaminating our water supplies. Landfills will remain hazardous for many thousands of years.

Incineration is no solution, as all it does is convert solid waste into toxic ash and air pollution. Along with industrial processes, incinerators are the largest source of lead emissions into the environment. They are also the second largest source of mercury, which is toxic to the nervous system in minute amounts. While only 2% of California's solid waste is incinerated, incinerators emit an estimated 1,748 pounds of mercury each year.

Experts agree that recycling can be the cornerstone of a cost-effective and environmentally sound solid waste strategy. Unfortunately, lack of government investment in market development of recycled materials has helped to limit these efforts to 11% of the state's solid waste, yet a pilot project has shown that 84% can be recycled.

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From $621 Million to $0
California Loses its Federal Sewage Treatment Grants

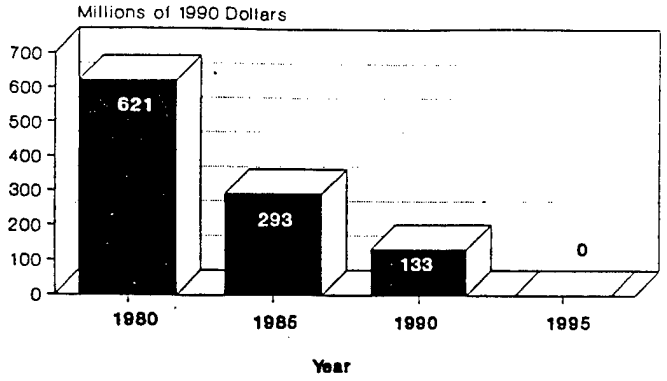


Chart 4 - Source: Federal Expenditures by State, Dept. of Commerce

Government Pushes Ozone Deadlines Back 35 Years

1970: Congress sets a 1975 compliance deadline for ozone.

1970's - 80's: Congress extends deadlines numerous times.

1990: Congress again sets new deadlines, requiring the four California counties with "extreme" ozone pollution to comply by 2010.

Chart 5

THE FEDERAL RESPONSE

Since the establishment of the EPA in 1970, the federal government has recognized its responsibility to protect our environment and our health. However, EPA's reliance on regulating pollution rather than preventing it has undermined its mission from the start. In addition, the EPA has never received adequate funding and has not demonstrated the will to enforce existing legislation.

EPA: Regulation Over Prevention

The EPA's historic focus on regulation rather than pollution prevention has often served only to move pollution from our water to our air, or from one community to another. Without a proactive strategy, focusing on preventing pollution by phasing out dangerous production processes and promoting the development of safer alternatives, the EPA has not been able to fulfill its mandate.

While the EPA has begun to implement pollution prevention programs, they make up only a small fraction of the agency's budget. Pollution prevention is a proven strategy. One of the government's few efforts at pollution prevention--phasing out of lead gasoline--was a huge success, resulting in the elimination of 96% of lead emissions from transportation sources.

Toxic Chemical Releases - The federal government currently requires large polluters to limit their toxic releases of very few chemicals, and the standards they have developed are fairly arbitrary. In fact, the National Academy of Sciences recently concluded that so little is known about most of the 63,000 chemicals being released that not even a partial assessment can be made of the health hazards. The EPA has been given the task of regulating chemicals they know very little about.

Hazardous Waste Sites - Current technology is incapable of safely disposing of toxic chemicals. The continued use and release of these chemicals will result in increasing numbers of waste sites, threats to the health of workers and the general public, and continuing cleanup and monitoring costs to industries and taxpayers.

Solid Waste - The federal government has consistently favored incineration over recycling. Incinerators can be financed with federally tax exempt government bonds while recycling centers cannot, making incineration more affordable and recycling less financially attractive.

Air Pollution - Ozone pollution, created largely by automotive exhaust, could be reduced by expanding mass transit, increasing fuel efficiency, and increasing our reliance on renewable energy sources.

EPA Funding Cut

The EPA has been consistently underfunded throughout its history, and this problem has only gotten worse since 1979: while the agency's responsibilities have increased dramatically, its operating budget has gone up only 5 percent over the last 12 years. The resulting problems can be seen in numerous programs.

Toxic Chemical Releases - The EPA's 1992 air toxics budget request was only 16 percent of the amount needed to implement the program. The EPA has already missed its initial deadline to regulate incinerator emissions of lead, dioxin, and mercury. The facilities will now operate without federal standards until at least 1993.

Sewage Pollution - The 1972 Clean Water Act requires all communities to provide at least secondary wastewater treatment, which removes 85% of pollutants. During the 1980s the funding needed to accomplish this was cut back sharply: if 1980 funding levels had remained constant through 1990, California would have received an additional $3.3 billion in federal funds (1990 dollars). In 1991, grants to communities to build treatment plants were eliminated, and EPA instead offers grants to capitalize state loan funds to be used for plant construction. But after 1994 these federal funds will also dry up, shifting the entire burden to the state and communities (see Chart 4 above).

EPA Enforcement Inadequate

The EPA has consistently missed Congressional deadlines and has failed to adequately monitor pollution sources in our communities.

Sewage Pollution - A government study found that federal enforcement of clean water laws is ``weak and sporadic'' and rarely amounts to more than ``mild, informal slaps on the wrist''.

Solid Waste - The Resource Conservation and Recovery Act contains provisions to prevent recyclable paper from being incinerated, yet the EPA has never issued any regulations to carry them out.

Air Pollution - As noted in the box on the previous page, the deadlines for meeting the ozone standard have been pushed back again and again.

WHERE DO WE GO FROM HERE?

It is critical that the federal government devote significant new resources to pollution prevention. What cannot be eliminated by prevention must then be carefully regulated. Of course, any effort will be doomed to failure without the political will to enforce it.

Some policies that will help:

Phase out the most hazardous chemicals and reduce the use of other toxic chemicals as much as possible. Not only will this reduction limit the public's exposure to these chemicals, it will prevent the continuing creation of hazardous waste sites and will result in significant savings for industry. Offer technical assistance to industries to facilitate this process.

Increase research and development of clean production technologies and safe alternatives to toxic chemicals; increase testing of chemicals currently in use.

Provide federal funds to retrain workers whose jobs are lost through new regulations.

Broaden the public's right to know about the production, use and release of toxic chemicals by adding new chemicals and facilities to the existing Toxic Release Inventory requirements.

Increase EPA's enforcement budget to allow them to carry out existing regulations. Underfunded and understaffed, EPA has too often attempted to bargain with polluters instead of holding them to the letter of the law.

Promote recycling by requiring products to contain a minimum percentage of recycled or recyclable materials; take advantage of the buying power of the federal government to mandate the use of recycled products in its agencies; enable local governments and businesses to develop markets by creating a federal planning grants program. Promote source reduction strategies through federal grants, investment tax credits, and technical assistance.

Invest federal resources to enable communities to meet the goals of the Clean Water Act. Significant new funding is needed to upgrade existing sewage treatment plants and correct combined sewer systems.

Provide federal funds to purchase coastal land in areas destroyed by flooding. This will help protect coastal areas against damaging development.

Authorize additional funds for mass transit and its promotion. Using mass transit instead of driving reduces hydrocarbon emissions by 90% and nitrogen oxide emissions by 15-75%, which could help significantly in reducing ozone levels.

Provide significant new funding for renewable energy research and development. The introduction of new technologies will reduce our dependence on fossil fuels, which are a major source of air pollution.

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California E.P.A.

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REINVEST IN AMERICA

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Impossible to Afford Anymore

Reinvest in California

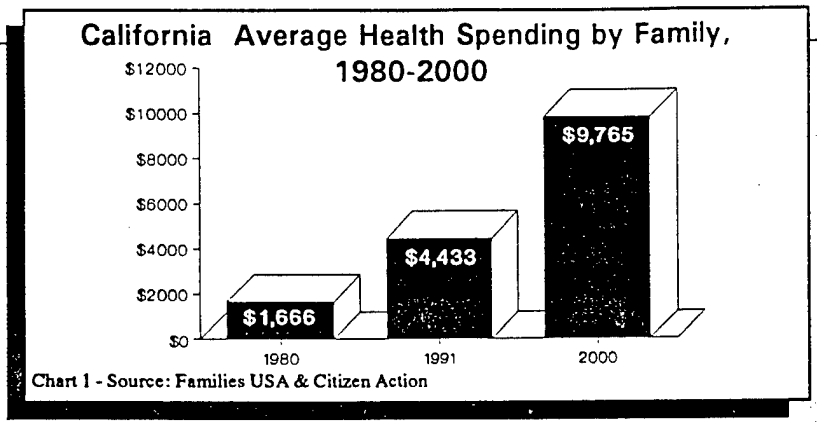


Chart 1 - Source: Families USA & Citizen Action

THE VISION

A recent poll found that 85 percent of all Americans favor dramatic reform of the current health care system. As a nation, we are no longer willing to put up with a health care system which leaves 37 million uninsured and threatens every one of us with rising costs. A new vision for health care is forming in America today calling for affordable quality medical care for all of us, no matter what our financial circumstances or health status. What Americans may not know is that this vision is already a reality for most countries in the industrialized world, including Canada, Britain, France, Germany and Japan. All of these countries have lower infant mortality rates, higher life expectancies than we do and a more equitable and efficient system. Given that we spend more on health care per capita than any other nation, there is no reason why every American cannot be guaranteed quality health care.

THE CHALLENGE

The challenge in the U.S. today is to reduce health care costs, and to provide quality health care to all people. The first step in meeting that challenge is to recognize where and why health care dollars are being wasted. In California alone it is estimated that $10 billion is wasted every year on inappropriate health care, exorbitant doctor and hospital fees, and excess administration.

- Dr. Louis Sullivan, Secretary of the Department of Health and Human Services, has stated that 25% of all health services per formed in the U.S. are unnecessary or inappropriate.
- More is spent per capita on physician services in California than any other state.
- From 1980 to 1988, health insurance premiums rose at an annual rate of 10.6%, twice the rate of wages and inflation. This means that if an individual policy cost $75.00/month in 1980, that same policy cost $185.00/month in 1988.

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THE PROBLEMS

Why Is Our Health Care So Expensive?

One reason why Americans can no longer afford to get sick is that 37 million of us have no health insurance. Most uninsured people receive little or no preventive or primary care and are forced to wait until an illness is severe before seeking help. At that point there is often little choice but to seek emergency room and hospital care which is much more costly than if the patient had received the proper primary and preventive care. While the average hospital occupancy rate in California hovers below 60%, emergency care is frequently overwhelmed. The cost of treating uninsured patients in California's hospitals amounted to $975 million during fiscal year 1985-86.

Administrative costs are the fastest growing area of health care costs in the U.S. Administration accounts for 11% of all health care costs in other countries, while in the U.S. it now makes up almost 24% of the total costs. At the current rate of growth, administrative costs will total half of all health care costs by the year 2020. Administrative waste is fostered by the many competing private insurance companies. Private insurance companies typically spend 15-35% of their total budgets on administration, as compared to federal and state health programs which typically spend only 3-4% of their budget on administration.

Doctors are highly vulnerable to **malpractice suits**, which in turn raise medical costs. To protect themselves against suits, doctors now routinely order numerous costly tests and often perform unnecessary procedures, and raise their fees accordingly, resulting in higher costs to patients.

Unnecessary duplication of medical technology also leads to unnecessary medical services delivered, and to high health care costs. There is no regulation on the distribution of medical equipment, and there is strong competition among doctors and hospitals for patients who desire and can afford the benefits of such equipment. The result is

U.S. Spends More for Health Care than any Other Nation

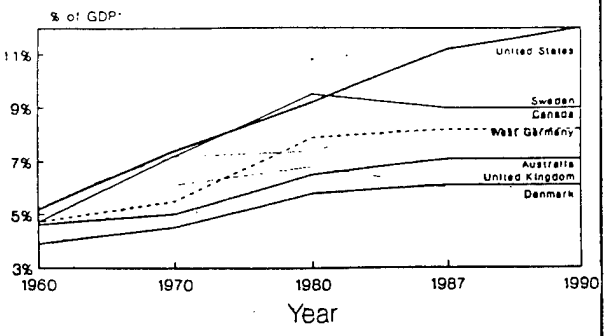


Chart 2

Decrease in Health Benefits 1979-1989

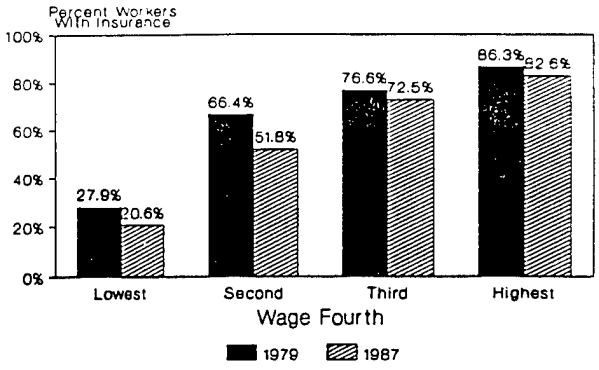


Chart 3 - Source: *The State of Working America*, Mischel & Frankel

that many regions, often the most wealthy, have an excess of medical equipment. If certain high tech and expensive equipment were purchased according to the need for it, not according to the ability to pay for it, much money could be saved.

Health Care Out of Reach in California

Approximately 6 million Californians are uninsured. This represents over 20% of the state population under 65, a rate which is one-third higher than the national average. The numbers of uninsured in California have grown dramatically even in the past few years; since 1988 more than 1 million people have joined the ranks of the uninsured. Children comprise a great many of the uninsured in California, 1.8 million children lack insurance, nearly 25% of all children in the state. Within California's urban areas the statistics become even more grim; Los Angeles County has the highest uninsured rate among the 30 largest metropolitan districts in the nation -- 33% of all people under 65 lack health insurance.

Even those with health insurance do not always receive adequate access to affordable or quality care. Besides the 6 million without any insurance, there are an additional 6 million people in California estimated to be underinsured, whose insurance provides them with insufficient coverage for their health care needs.

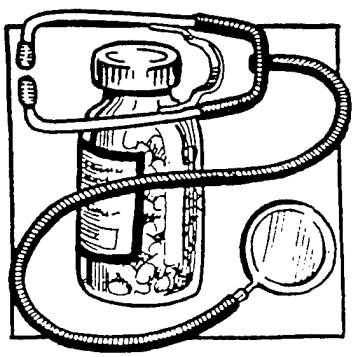
The National Association of Community Health Centers estimates that 21.5% of people in California are medically underserved, one of the top 10 most medically underserved states in the nation. This figure reflects the problem of attracting health care professionals to work in California's urban centers and poor rural counties. Per capita, Beverly Hills has 10 times the primary care physicians, 30 times the internists, 6 times the obstetricians and pediatricians, and 15 times the surgical specialists as does Compton. In Contra Costa County, 40% of the public hospital's patients live in Richmond, and many of these people must rely on public transportation. Public transportation to the hospital requires that a patient catch a bus, then a train, then another bus -- usually a 2-3 hour trip to and from the hospital.

Businesses, Strapped by Rising Costs, Cutting Back Coverage. Californians are less likely than most Americans to have employment based health insurance coverage. Of all uninsured people in California, 90% are employed, or family members of an employed head of household. Businesses nationwide now spend 25 to 50 cents of every dollar of profit on health care benefits for their employees. In 1986 72% of employees working for medium to large sized firms received complete health care coverage from their employers, by 1988 this number had declined to only 51%. If current trends continue, by the year 2000 employees will be spending 27% of their after-tax earnings on health insurance premiums.

According to a recent poll, 90% of large companies nationwide are planning to either raise employee contributions to health benefits, or decrease health care benefits. Even for those who are fortunate enough to find sound health benefits through their job, employer-based insurance offers little continuity of care. According to a *New York Times* survey, 35% of those surveyed have experienced or have known someone who has experienced ``job lock'' a situation where one is unable to leave a job which is otherwise undesirable because of fear of losing health benefits.

Individual Health Insurance Policies - Not an Option for Most Americans. The ability to purchase individual health insurance policy has symbolized choice and quality in health care insurance for many Americans in the past. But today few can afford it; currently only 8% of Americans purchase individual health insurance policies. For those who cannot afford unlimited premiums, individual policies often mean meager coverage, and many screening processes.

Individually purchased health insurance is often the only option for those who are self-employed or who work for small businesses. Many of these people do not have the option of a less expensive, group policy, and are often forced to go without health care insurance.



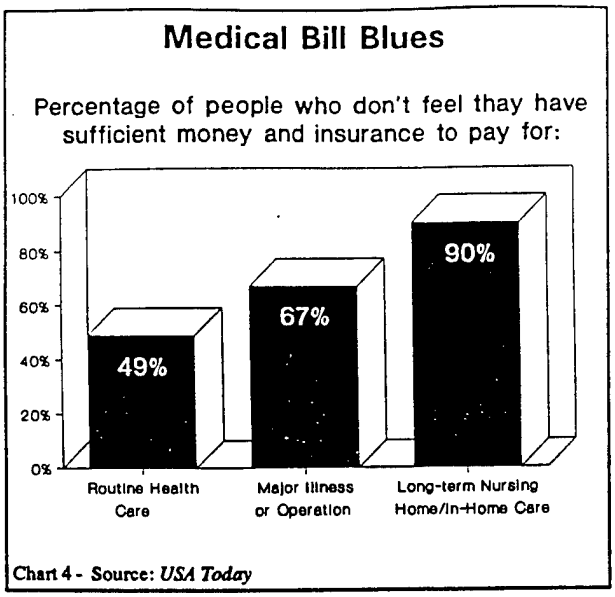


Chart 4 - Source: *USA Today*

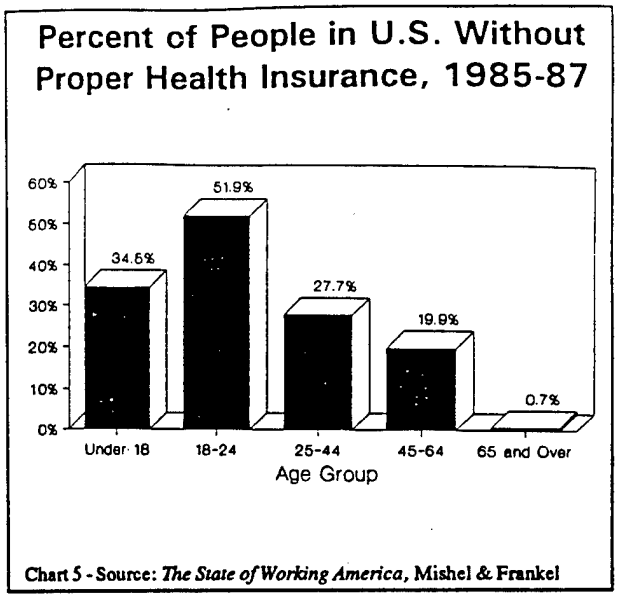


Chart 5 - Source: *The State of Working America*, Mishel & Frankel

THE FEDERAL RESPONSE

Medicaid and Medicare

Medicaid is a federal and state partnership created in 1964 as a safety net to assure that the few who could not obtain health care in the private sector, mostly poor children, and the disabled, were still covered by insurance.

But today there are not just a few for whom health care is out of reach, there are millions. Roughly 27 million people are covered by Medicaid. Another 37 million are not served by Medicaid, and cannot obtain insurance in the private sector. We have gone well past the original idea of a safety net. Medicaid currently only provides health care coverage for 38% of all people living below the poverty line. The Medicaid system is now so over burdened that it is losing its ability to assure quality health care for those who do qualify for coverage.

The Real Medicaid Budget Buster -- Long Term Care. Chronic illness or infirmity can befall anyone, yet the U.S. has no national policy for people in need of long term care. Medicaid has become the primary insurer of long term care -- a situation which does not do justice to those who need long term care, or to other Medicaid patients who are in competition for scarce Medicaid expenditures. Medicaid requires those in need of long term care to spend life savings and sell assets until they fall below the poverty level before they can claim any benefits. Clearly we must address the need for providing quality, affordable long term care, but the Medicaid program is not the answer.

The Federal Government Inadequately Funds Medicaid. States have estimated that they could lose millions of dollars in 1993 due to both federal and state cutbacks in the Medicaid program. The federal government continues to retreat from the Medicaid partnership, leaving states like California unable to provide adequate health care coverage.

States cannot afford to reimburse doctors and hospitals at a rate sufficient to cover costs of patient treatment. Only 10.2% of all Medicaid expenditures in California go toward physician services. The result is that many doctors cannot afford to treat Medicaid patients. In California at least 14,000 doctors won't even see patients covered by Medicaid, and many more doctors put limits on the number of Medicaid patients they will see.

Medicare is Federally Funded Health Insurance. All Americans over 65 do have access to national health insurance, regardless of income or health status. Despite the problems with Medicare, it provides at least a measure of coverage for everyone over 65. Unfortunately, however, as benefits decrease, co-payments increase, and as long-term care is not provided for, the elderly are increasingly at risk of being left without a means to pay for health care. Two-thirds of all Medicare recipients also pay for ``Medigap'' insurance to cover the increasing health care cost not covered by Medicare. During 1990 the cost for such ``Medigap'' policies rose by 19%. The elderly spend an average of 18% of their income on health care. This is almost double what is considered affordable, stretching the elderly past their financial limits. Many cannot pay for health care along with their daily living expenses. It becomes a question of buying food or buying medicine. Medical costs threaten to make paupers of generation after generation of the elderly.

The Great Health Care Debate: What You Should Know

As Americans we choose the health care system which works best for us. Unlike other issues in this report, the question here is not so much examining particular programs funded at the federal level, but rather taking a careful look at the entire system of health care financing in the country.

The chart on the next page compares three major alternatives being considered for the future of health care in this country.

1. The Status Quo -- Make only minor adjustments to the current system, do not require universal health insurance.

2. Employer Based Health Insurance -- Require employers to provide health insurance to their employees, extend Medicaid to cover the unemployed, keep Medicare for those over 65.

3. National Health Insurance -- Require the federal government to establish and oversee a single payer health insurance system, hospitals would remain privately owned and operated, medical professionals would continue to operate privately.

THE HEALTH CARE DEBATE: WHAT ARE OUR OPTIONS

What You Should Know About...	Status Quo	Employer-Based Health Insurance	National Health Insurance
Insurance coverage for the insured	Insurance companies will continue to restrict coverage, and screen subscribers for any pre-existing conditions. There will be no guarantee of comprehensive or continuous health care coverage	Insurance coverage will change as a person changes jobs, become unable to work or retire. Risk of losing coverage for pre-existing conditions when changing jobs. No major changes in what Medicaid and Medicare will cover.	Health insurance would be continuous and comprehensive. No one forced to change health care providers. Medicaid and Medicare incorporated into the single-payer system
Insurance coverage for the uninsured and underinsured	No improvement for the uninsured or underinsured. Most likely more and more people would find themselves in this category because of escalating costs.	Would not guarantee coverage for the self-employed or those employed by very small businesses. A significant number of people will still be underinsured.	Health insurance available to every citizen regardless of ability to pay or health status. National health insurance would cover currently uninsured and underinsured people.
Ability to obtain health care	Will continue to be directly dependent on the ability to pay for such care. As the quality of one's insurance coverage decreases, so will one's ability to obtain health care.	Will be largely dominated by high health care costs. It cannot be guaranteed that employers would or could indefinitely continue to pay the high costs of health care.	Every citizen entitled to a primary care physician. Access to health care never restricted due to lack of money. May be increased waiting for non-emergency procedures.
Containing health care costs	Costs will continue to skyrocket. Costs containment measures may be introduced but the system itself, relying on a multitude of private insurers, will continue to frustrate attempts at cost containment.	Costs will continue to skyrocket. Employer-based insurance will do nothing to change the costs associated with the private insurance industry, particularly administrative costs.	Containing costs is one of the most significant benefits of a single payer system. In California, potential administrative savings are estimated to be approximately $3.1 billion.
Paying for health care	Out-of-pocket expenses are expected to rise 600 percent from 1980 by the year 2000. People continue to pay for health care through a variety of premiums, co-payments and deductibles.	Direct out-of-pocket expenses may decrease for some and increase for others. Very possible that wages will go down as employers must spend more on health benefits.	Health care financed through a universal tax, such as social security. Because a single payer system will be able to contain the overall costs of care, individual expenses are expected to fall.

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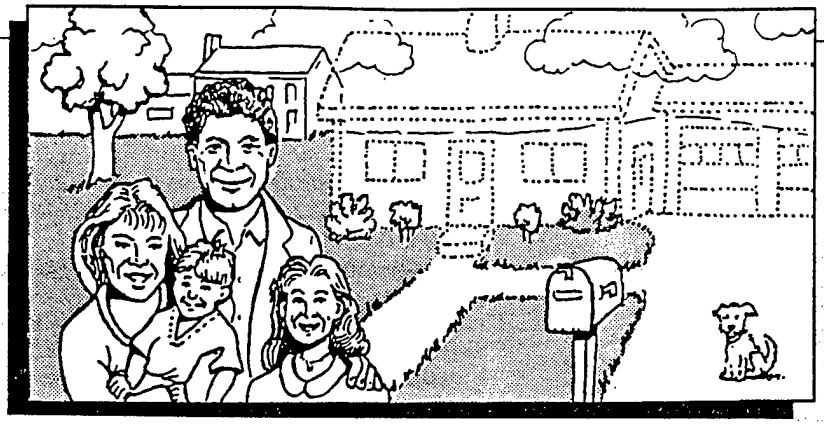
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HOUSING
The Vanishing American Dream



THE VISION

Since the 1930's America has been committed to the goals of homeownership and safe, affordable housing. Wide-ranging federal programs were put in place to make this possible: mortgage interest deductions; eliminating capital gains on certain home sales; Farmer's Home veterans and rural housing loans; first-time home-buyer programs; rent subsidies; fuel assistance; homeless shelters... the list goes on. And these are programs that work.

As a nation, we have achieved one of the highest levels of homeownership in the world. A home is one of the most important investments Americans can make, serving as a nest-egg for retirement, a source of equity for college and other loans, and a stepping-stone to an improved standard of living. Keeping housing affordable is a cornerstone for ongoing construction jobs and a healthy economy. A strong federal role in homeownership and affordable housing has been a key to the standard of living and well-being many of us have come to expect. And yet...

THE CHALLENGE

We must act quickly if we don't want the great American dream to turn into a nightmare! Over the last decade we have seen the gains of the last half century slip away. Housing is increasingly unaffordable. Construction of affordable housing has ground to a halt. Homelessness has become a fixture across the land. All over the nation, people's housing costs threaten to overwhelm them, cutting into available funds for food, clothing, and health care... Meanwhile, ironically, the federal government has steadily lowered its commitment to keep housing within reach. For the first time in the nation's history, children can look forward to being worse off than their parents.

- California has by far the highest home prices in the continental U.S. The median home price in the state is now close to a quarter of a million dollars.
- Across California, up to two-thirds of renters cannot find housing they can afford and are spending well over 30% of their incomes on housing.
- Last year almost 300,000 people on AFDC assistance in California found themselves homeless and had to seek emergency shelter assistance.

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Reinvest in California

THE CHALLENGES

Homeownership Costs Out of Sight

California home prices are notorious as the highest in the country (topped only by Hawaii). The median value of a California house rose a shocking 746% from 1970 to 1990, leaping from $23,100 to $195,000. Median household income was unable to keep up, increasing only 271% in the same period, when it went from $9,302 to $34,500.

California home prices are now over 50% higher than the median for the U.S. By the second quarter of 1991, the median sale price for an existing single family home in San Francisco was $265,200. In L.A. the price was $219,600. These prices are more than 50% higher than those in Boston or New York City, twice as much as in Chicago, and three times more than in Denver, Houston, or Portland, Oregon.

Now only about one in two Californians own a home, compared to close to two out of every three Americans who own their own homes on average in the U.S. In 1970 a median California house cost about two and a half times annual income. By 1980 it had risen to 4.6 times annual income, and by 1990 was 5.6 times income. This is at least twice as high as prudent banking policies

California's Home Values Skyrocket

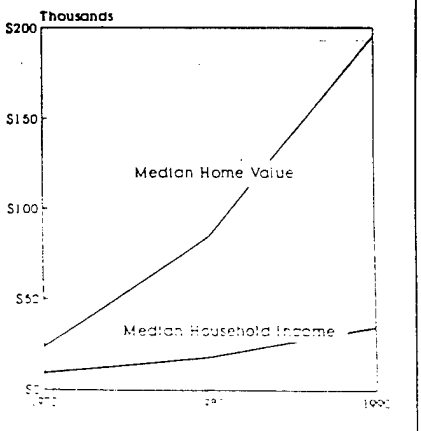


Chart 1 - Source: CA CHAS, Dept. of Community Development, 1991

would recommend financing. The result is that those who don't already own a home are increasingly priced out of the market.

High rental prices also prevent renters from having enough left over to save for homeownership. Nationwide, over 80% of renters say that they cannot save enough for a typical downpayment. Downpayment and closing costs alone in California can easily top $25,000 or $30,000.

People of color are a particularly underrepresented among homeowners. Between 1980 and 1990 homeownership among Whites in California increased slightly, from 59% to 59.9%, but for Blacks it dropped from an already low 40.2% in 1980 to an even lower 36.5% in 1990. For Hispanics it dropped from 43% in 1980 to 40.4% in 1990. A year-long study by the Federal Reserve Board found that in 1990, nationwide, Blacks were twice as likely as whites to have their mortgage applications rejected.

Renters Squeezed

In 1991 an estimated 59% of California's renters could not afford the HUD fair market rent for a two bedroom unit. This means that almost three out of every five California renters pay over 30% of their incomes for housing, an amount HUD calculates is more than they can afford, putting them in jeopardy of failing to meet other vital life costs for food, clothing, health care, etc.

From 1980 to 1990 household rents increased an average of 273% in California, so that by 1991 a California worker had to earn $14.42 an hour, or $30,000 a year, to afford the HUD fair market rent for a two bedroom unit. The renter squeeze varies across the state, as noted in the chart below. Those who do find rental housing they can afford often have no choice but to live in substandard conditions and dangerous neighborhoods as a result of lower price.

California Renters Squeezed in 1991

Location	% Who Can't Afford HUD Fair Market Rent for 2 Bedroom Unit
San Francisco	66%
Los Angeles	60%
Riverside/San Bernadino	58%
San Diego	57%
Sacramento	54%

Chart 2 - Source: *Out of Reach '91*

Who's Hit Hardest?

Low income people are hit hardest of all. A full 92% of very low income Californians (earning less than 50% of median income) pay over 35% of their incomes on housing. This puts them at extreme risk of being unable to meet their other life needs and of being highly vulnerable to evictions and homelessness. HUD fair market rents for two bedroom units average $780 in the state, ranging as high as $919 in San Francisco to $747 in L.A., to a low of $434 in Yuba City. Half of the state median income is $17,250. With that income, a full 63%. or $11,028 would go just for rent in San Francisco, leaving only $6,222 for all other family needs. In L.A. $8,964 would go for rent, or 52% of a $17,250 income. While the least expensive of California's cities, Yuba City, would seem to be more affordable, incomes also drop in the area, so the benefits are illusory.

Those on public assistance or fixed incomes are especially vulnerable. By September 1991 the maximum AFDC grant (Aid to Families with Dependent Children) was $663/month for a 3-person California household and $788 for a 4-person household. Only 9.2% of CA AFDC families receive any kind of housing subsidy. With fair market rents of $750 statewide, how can AFDC recipients possibly be expected to make ends meet or to even minimally cover basic needs? Besides rent, AFDC grants are expected to cover food, health care, transportation, clothing, etc., yet with rents as high as they are in California, this is virtually impossible! This untenable situation applies to over 2 million low income people in California, one and a half million of them children.

SSI grants (Supplemental Security Income) are a maximum in California of $630 for a single person, yet fair market rents alone, for a one-bedroom unit are $640. Again, the amount is inadequate even to cover rent, much less all other life costs.

Waiting for Assistance

The California Assembly Committee on Human Services cites California as having the lowest proportion of subsidized housing in the U.S. In 1983, for which the most recent data is available, 169,606 assisted housing units were available in the state through various housing authorities. With as many as 3.7 million people in poverty in California, available housing assistance only scratches the surface. To make matters worse, as many as 117,000 units of subsidized, low-income rental housing are eligible to have their low-income status expire within the next several years, reverting to market rates. Local agencies and non-profit groups will have a chance to prevent this by purchasing the units to keep them affordable, but most will be unable to do so without major additional funding.

> "California is experiencing its worst economic and fiscal situation since the '30's. While incomes of the rich have risen, the number of people in poverty has grown -- with that comes increased homelessness. The specter of reduced welfare grants looms and paying the rent becomes a questionable activity."
>
> Callie Hutchinson, Executive Director
> CA Homeless & Housing Coalition

Homelessness Rises

California state government estimates that there are from 50,000 to 75,000 homeless people in the state. Yet last year alone 99,763 families (meaning almost 300,000 individuals) receiving AFDC assistance experienced homelessness and sought official homeless assistance. As many as 200,000 of these were children. Countless others are homeless but remain uncounted, having not yet sought help, or being doubled up with relatives or friends, or sleeping in cars, parks, or abandoned buildings.

Those who are homeless are often quite different from accepted stereotypes. In Los Angeles, for example, in 1990, 40% of the homeless were families, as many as a third were employed, and over a third were veterans. In San Diego and San Francisco, veterans account for up to 40% of those who are homeless. People of color are also disproportionately homeless. In L.A. although Blacks make up only 12% of the population, they account for a full 40% of the city's homeless. Hispanics make up 21% of the L.A. population, yet they comprise 28% of the homeless.

Overall at last count California had 370 shelters with a total of almost 16,000 beds. Pressed with too few shelters to

meet the need and the possibility of people dying of hypothermia, in 1987 the state began to open armories for emergency winter shelter. Armory use increased over 200% by the next year and has climbed steadily since.

Yet there is still far greater need than there is shelter capacity. A San Francisco family homeless shelter was turning away an average of 62 requests for shelter a month in 1990. With public assistance cuts made last year, the number turned away rose over seven-fold to 460/month by Fall of 1991. Despite rising need, the state has slashed its AFDC family homeless assistance budget by 67% and now limits stays to 16 days, as opposed to the one month limit a year ago. Meanwhile, federal emergency shelter funds for California dropped by $1.1 million from 1989 to 1990, a 24% loss.

California Gets $2.9 Billion Less in 1990 than in 1981 for Key Federal Housing Programs

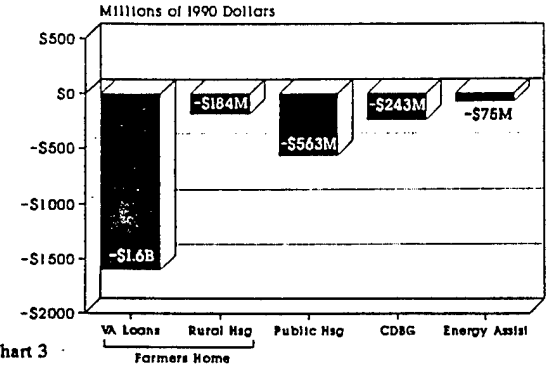


Chart 3

Tax Breaks Benefit the Rich

Property Tax and Mortgage Interest Deductions by Income, 1990

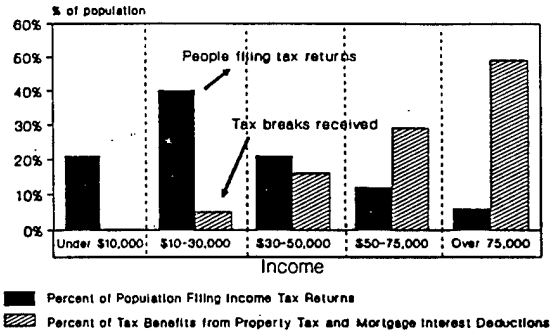


Chart 4

FEDERAL HOUSING POLICIES — Washington Abandons Its Role

Despite the dramatic rise in housing needs, federal housing programs have been dramatically cut back since 1980. For every tax dollar collected from us, less than 2 cents is spent for housing programs! Instead of providing leadership, the federal government has all but abandoned its traditional role of working to keep housing affordable for middle-class Americans.

Federal Housing and Urban Development funds dropped during the 80's from $35 billion to $11 billion, a 69% loss. Recent federal housing legislation raises funds to less than half the 1980 level, when adjusted for inflation. In California effective federal programs drastically cut during the 1980's include Low Income Energy Assistance (cut 62%), Community Development Block Grants (CBDG) (cut 40%), Public Housing (cut 86%) and Farmer's Home Veteran's Home Loans (cut 68%) and Rural Housing Loans (cut 77%). These five programs combined got $2.9 billion less in 1990 than in 1981 (in constant 1990 dollars) in California alone! Federal CDBG funds were $222 million less for California in 1991 than a decade ago, losses which directly impact cities and towns. Cumulative state CDBG losses year to year from 1981 levels totalled $1.87 billion by 1991. Samples of loses to several cities in '91 vs. '81 follow:

Community Development Block Grant Losses

Location	CDBG Losses 1991 vs. 1981
San Francisco	$22 million less, cut 55%
Los Angeles	$22 million less, cut 28%
Oakland	$9.5 million less, cut 56%
San Jose	$3.3 million less, cut 33%
Sacramento	$3.4 million less, cut 48%

In spite of all the tax money going to Washington from California, the federal message to the people of California desperately struggling to attain affordable housing is - **Give us your taxes, but then you're on your own!**

Federal Subsidies For The Rich

Although federal housing funds were slashed over the last decade, the largest federal subsidy is still intact - major housing tax breaks for the wealthy. Over 80 percent of tax payers are low to middle income or upper-middle income earners. One of the biggest benefits to homeowners is the property tax and mortgage interest deduction – an important taxpayer saving each year and a huge loss in federal revenues. Over the next four years, this deduction is expected to rise to a 4 year total of $231 billion.

But who really benefits from this deduction? Set up to encourage homeownership, this has now largely become a tax shelter for the wealthy. Those making $100,000 and up (only 3 percent of the population) claim a full third of the deduction, often for luxury second homes and mansions – a total of $11.6 billion in 1990.

Those earning the least need the most help affording homes, yet they claim very little of this benefit. The chart above shows this disparity, for the population as a whole and for each income level, with taxpayers in black and amount of tax breaks claimed in grey. Ironically, what is spent on subsidies for the wealthiest Americans almost equals the amount allocated for the entire 1990 federal housing budget.

"I have no objections when deductions go for homes. When they go for castles, I do!" -- Rep. Sam Gibbons (FL)

WHERE DO WE GO FROM HERE?

Affordable housing has been less available in the last decade than at any time since the Great Depression. It will not get significantly better until we insist on a federal budget that reflects a commitment to America's domestic agenda.

As a nation we must reaffirm housing as a priority. Helping people attain it will help the economy, bolster the failing construction industry, create jobs across the land and put homeowners and renters alike on more stable financial ground so that they can get their heads above water and begin to move ahead again; so that young people growing up and starting families will be able to afford to live in communities they grew up in; and so our grandchildren can look forward with hope rather than backward with regret.

Here are some of the things that can be done:

Reverse the unfair tax advantage to the rich of the mortgage interest and property tax deduction. Reserve tax breaks for those who really need them. This could be done by making this a tax credit for the poor and middle-class rather than an across the board deduction.

Fully fund programs for local initiatives so that local governments have the resources to tackle their own communities' affordable housing problems. One example is the HOME block grant to state and local governments. Funded at only 75 percent of the amount requested nationwide, HOME will get $1.5 billion, though $2 billion was intended. California's share



is expected to be $42.69 million -- enough to rehab from 1,000 to 2,000 units and to build from 150 to 250 new units. While these numbers may sound significant, compared to the need, they barely scratch the surface. Other strong programs deserving more support are Low Income Housing Tax Credits, creating incentives for community-based developers to build affordable housing and Mortgage Revenue Bonds, helping states provide low-interest mortgages to qualified buyers.

Restore funds to at least the 1980 level for some of the most successful government programs: Community Development Block Grants, Farmers Home loans, and Fuel Assistance have all been cut drastically, placing increasing burdens on those families and communities that can least afford it. It would take from 40% to 86% increases over current funding levels just to restore these programs to 1980 levels!

Nationwide, Rental Assistance covers only 1.4 million people of the 7.5 million who qualify. California's stock of assisted housing relative to need is the worst in the nation, according to the state survey.

Nationwide, 800,000 are on waiting lists for assistance. Yet public housing funds, cut 50% over the decade, are eliminated almost entirely under current federal budget proposals. The need is clear. The response should be renewed funds for strictly monitored, attractive, cost-efficient, and well maintained housing that promotes responsible tenant management and control.

Provide fully adequate funding for homelessness, both for shelters and for homelessness prevention programs. While the federal initiative on homelessness is laudable, the programs remain drastically underfunded. In fact, when inflation is calculated, Washington cut its emergency homeless shelter commitment to California by 24%, a $1.5 million loss from 1989 to 1990, making its share toward homeless shelters less than $50 for every person estimated to be homeless in the state. There are virtually no government funds in California allocated for homeless prevention, despite its obvious effectiveness.

Housing discrimination remains a serious problem in California. HUD fair housing money to work against housing discrimination is woefully inadequate to meet the need.

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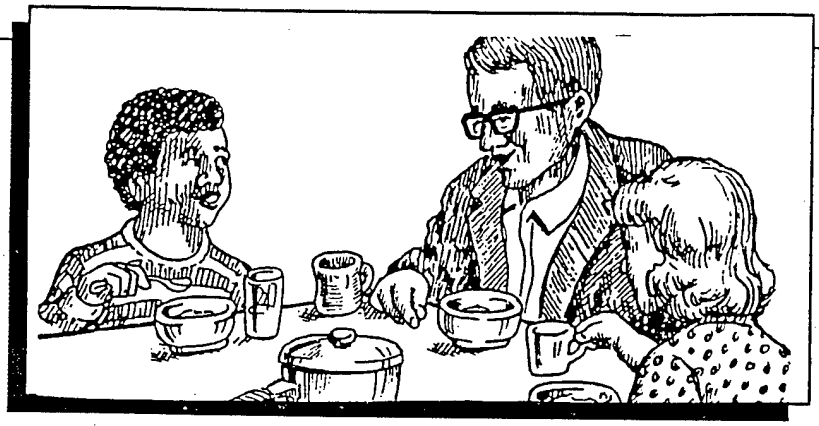
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REINVEST IN AMERICA

CHILDREN & FAMILIES
An Investment in the Future



THE VISION

Imagine a nation where children and families are given every opportunity to thrive and realize their fullest potential; where parents can work and still have plenty of time to spend with their children; where quality childcare and pre-school is readily available and affordable; where top-notch affordable health care is available to children and families; where educational and job opportunities abound for all young people; where teenagers grow up excited and challenged, with confidence in their developing skills and with commitment to the society we are all working to build together.

What we do now lays the groundwork for how productive, creative and resourceful our children will become as they grow into adults. Children are our best investment in the future -- our brightest hope. How well they will be prepared to meet the challenges of the next century will depend on how well we insure their health, education, safety and well-being now. Clearly, too, children and families go hand-in-hand, the health of one depends intimately on the strength of the other.

THE CHALLENGE

In California, the number of children is growing rapidly. In 1990 there were nearly 42,000 more babies born than in the previous year. All children in California face a seriously deteriorating quality of life, unless steps are taken to reverse the worsening trends of the 1980's.

During the 1980's in California:

- The child poverty rate rose by 40%, to 21% of all children.
- The number of uninsured children rose to over 1.8 million, 23% of children under 18 years of age.
- The juvenile incarceration rate rose by 82%.
- There were increases in childhood hunger and homelessness, child abuse reports, school class size, and the number of children in foster care.

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Reinvest in California

THE PROBLEMS

Children Are California's Poorest Citizens

Child poverty is often the most overwhelming indicator of the health and well-being of children, and their families. As a nation, *one in five* American children live in poverty, this is the highest child poverty rate in the developed world. Since 1980 the number of U.S. children living in poverty has increased by 2.5-3 million.

In California *more* than one in five children live in poverty, ranking it the 35th worst child poverty state in the nation. For children under 2 years, 1 in 4 is poor. In addition there are increasing numbers and percentages of children living in extreme poverty. These children live in households with annual incomes at least $2,000 below the poverty line, and are receiving public assistance. Since 1987, the number of very poor children in California has increased by at least 10% in 40 of the 58 counties. Counties with the greatest increases are Imperial (30%), Orange (28%), Santa Barbara (26%), Butte (23%), and Glenn (21%). The majority of poor children are concentrated in deteriorating inner cities and outlying rural areas where their access to quality health care and education is also limited.

Infant Mortality and Low Birthweight

Although we are a leading industrialized nation with unparalleled medical technology and enormous wealth, the United States ranks 24th in the world in infant mortality, and 28th in low birthweight. In California, infant mortality rates are better than national rates on average, but still only 6 of the 58 counties had infant death rates of 7.0 (per 1,000 live births) or lower, the rate set as a National Goal to be met by the year 2000. California will not meet this goal if the trends of the 1980's continue. In the inner cities and in rural counties, infant death rates remain much higher. Statewide in 1990, 4,828 babies in California died before they were a year old.

Over the past decade, low birthweight ates have increased. While medical tech- ology enables us to prevent more and nore babies from dying, a primary risk actor of infant death, low birthweight, emains a significant health threat to thou- ands of children. Low birthweight and remature birth are closely associated vith retardation, cerebral palsy, epilepsy, nd vision and hearing disabilities. State- vide in 1990, 35,475 babies, about 1 in very 17, were born with low birth- veight.

Over half of all infant deaths are con- idered preventable with proper and early ttention to prenatal care. In 1990, ap- roximately 30,103 women in California id not receive prenatal care during the irst three months of pregnancy; approxi- nately 12,450 of these babies received no renatal care at all. Little more than half f all teen mothers in California are likely o receive early prenatal care. Barriers to renatal care include ability to pay for are, lack of transportation, overcrowded ublic clinics, physician shortages, long pplication processes, and the fact that any doctors will not accept Medi-Cal atients.

California Infant Mortality & Low Birth-Weight Rates

County/ Major Pop. Cntr.	Infant Mortality*	Low Birth-Weight (%)**
Alameda	9.4	7.2%
Los Angeles	9.7	6.4%
Orange	7.3	5.1%
San Diego	8.6	5.7%
San Joaquin	9.1	6.7%
Santa Clara	7.9	5.3%

* per 1000 live births, 1985-88
** 1986-89
Chart 1 - Source: "What's Happening to Our Children", Children NOW, 1991.

Health Insurance

Across the state as many as 1.8 million children have no health insurance of y kind, many thousands more are inade- ately insured. Lack of health insurance n cause children to forego early or eventive medical attention. Pregnant omen who have no health insurance are ore likely than those with insurance to rego prenatal care, greatly increasing eir chances of giving birth to low birth- eight baby.

Those at highest risk of being unin- red are low income working families. orkers in California are more likely than the average American to be uninsured: 87% of all uninsured Californians are employed or family members of an employed head of household. Two parent families are only slightly less likely to have uninsured children: 27% of children in single parent households, and 24% of children in two parent households are uninsured.

Child Immunization Rates

Most life threatening childhood infectious diseases – measles, mumps, rubella, polio, pertussis– are preventable through proper immunization. After nearly 20 years of steady decline in all of these diseases, childhood diseases are once again threatening the lives of California's children. Statewide fewer than half of California's children have complete immunizations by the age of two. During the 1990 measles epidemic, California had over 40% of all cases reported in the U.S., including 37 measles deaths. These preventable diseases and deaths are also costly; 9 measles deaths in one Fresno hospital cost $700,000 in hospital bills.

Childhood Hunger

According to a recent study conducted by the Food Research Action Committee, five and a half million American children under the age of 12 are estimated to be hungry today. In California, it is estimated that 23.4% of all families with children under the age of 12 are either hungry or at risk of hunger: 647,000 hungry children. As part of a national study, families in 4 Central Valley counties were surveyed and it was found that as many as 65,900 children were hungry and an additional 53,900 children were at serious risk of hunger.

Emergency food distributors across California are reporting increases in requests for food, especially among families with children. In Contra Costa county, 73% of the persons served by food banks are families with children, and the number of them served has grown by 39% since 1990. In January of 1992 the Stockton Emergency Food Bank served 4,478 children, 1,192 of them infants.

Hunger and malnutrition can cause stunted growth, anemia, headaches, fatigue, and behavioral problems. Hungry children have also been shown to have a decreased ability to concentrate, and thus they retain less of what they are taught in school.

Lead Paint Poisoning

Nationally, lead paint is estimated to be a hazard in tens of millions of American homes, and one in every six American children suffers from lead poisoning. Even a low exposure to lead in childhood can damage the central nervous system, resulting in learning disabilities, low achievement in school, and even failure to graduate high school. Lead blood levels of over 10 micrograms is sufficient to cause serious neurological damage in children. It is also true that the concentration of lead in a child's blood is directly related to family income; that is, as family income decreases, levels of lead in a child's blood tends to increase.

In California there are an estimated 580,000 children under the age of 8 estimated to be at high risk of lead paint poisoning because they live in pre-1950 housing. Many more children are exposed to lead in the soil, while others are exposed to lead from smelters, and through the use of folk remedies and lead based pottery. The California Department of Health conducted lead screening in selected high risk areas – Oakland, L.A., and Sacramento. Lead blood levels of over 10 were found in 87% of the children surveyed in Oakland, 32% of the children in L.A., and 14% of the children in Sacramento.

Day Care and Pre-School

Quality, affordable child-care and preschool are key to a child's growth and development, as well as to a family's financial independence. Studies show that quality pre-school increases the child's chance of graduating from high school, and decreases a child's chances of teen pregnancy, criminal behavior, and welfare dependency. Without having the opportunity to develop educational and social skills at a young age, many children start behind and never catch up. The Carnegie Institute found last year that 38% of California's children were not ready to participate successfully in kindergarten, being educationally, emotionally, and socially unprepared to learn.

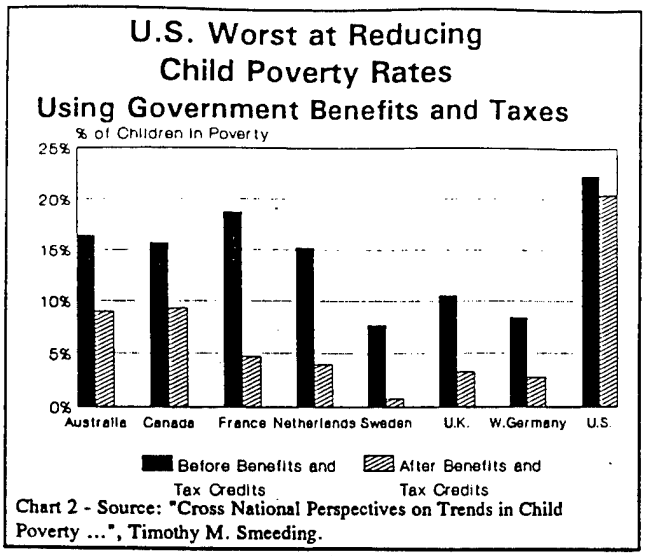


Chart 2 - Source: "Cross National Perspectives on Trends in Child Poverty ...", Timothy M. Smeeding.

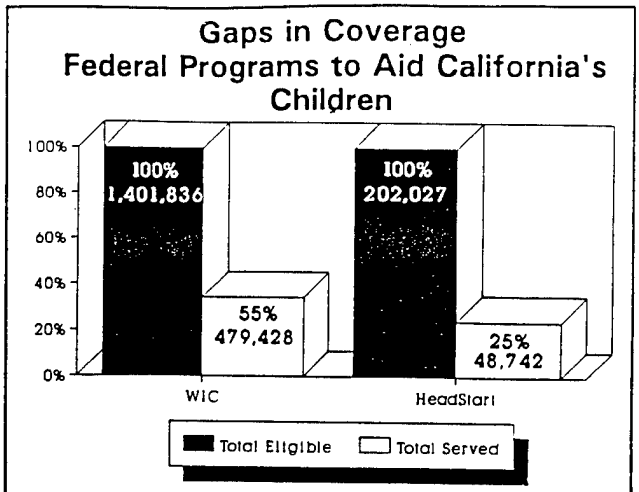


Chart 3 - Source: Children NOW, National Head Start Associaiton. 1991 Estimates.

THE FEDERAL RESPONSE

The U.S. Falls Way Behind at Reducing Poverty

The reasons for the increasing poverty rate among families with children has been determined to be three fold. The declining effectiveness of government programs in pulling families out of poverty accounts for 42% of the increase in child poverty rates, while economic changes account for 31%, and the rising population of female-headed households accounts for 27%. Even if there were no female-headed families in the U.S., we would still have one of the highest child poverty rates in the developed world. The effectiveness of the federal government's tax code, and child and family benefit programs fall well below most comparable European nations. As shown in the chart above, while most countries are able to reduce their child poverty rates by an average of 66%, the U.S, is only able to reduce its child poverty rates by 9%, reflecting at best a minimal commitment to children and families, and leaving the U.S. with the highest child poverty rates in the industrialized world.

Improving Children's Health

The Supplemental Food Program for Women, Infants, and Children (WIC) provides needed food and formula to pregnant women and children under the age of 5 at nutritional risk. In California approximately 34% of all eligible for WIC are actually served. Given that so few of all eligible for WIC may be served, priority is given to pregnant women, then infants, then children aged 1-5. Due to the increasing number of births and the increasing number of children born into poverty, it has been necessary to cut an increasing number of children over the age of 1. In Orange county alone, 3,000 children have been cut from the WIC program in the first 5 months of 1992.

Medi-Cal is the California Medicaid program; it serves children under the age of 6 who live below 133% of the poverty level and children under 21 who live at or below 100% of the poverty level. Medi-Cal is also provided for pregnant women and infants whose family income is at or below 185% of the poverty level. The number of children served by Medi-Cal has increased greatly in the past year, from January 1991 to January 1992, an additional 154,866 children enrolled in Medi-Cal - 62,866 were under the age of 6. Eligibility for Medi-Cal does not guarantee access as the number of providers for Medi-Cal decreases and those who still accept Medi-Cal limit the number of patients they will see.

Food Stamps are often considered a means of income support for families, but for children, the need for adequate nutrition is the primary benefit of receiving Food Stamps. In California approximately 60% of all Food Stamp recipients are children, as of August 1991 the number of children receiving Food Stamps approximated 1.4 million. From 1990 to 1991 the number of households receiving Food Stamps rose in every California county; in 10 counties the increase was greater than 20%, in 24 counties the increase was greater than 10%. Food Stamps are not only utilized by unemployed families, or those who receive public assistance. According to national estimates, a monthly allotment of Food Stamps lasts an average family about 2 1/2 weeks.

Income Support Systems

Unemployment benefits provide a safety net to workers who have been laid off. For families especially, unemployment benefits are often necessary to avoid going on welfare. In California, 47% of all unemployed workers received unemployment benefits in 1990. In addition, 332,000 workers exhausted all of their benefits during 1990.

The Dependent Deductible offers a tax break for families who have sufficient incomes to owe taxes. It was instituted in 1948 to ease the financial strain of raising children. Unfortunately, the deductible is of little or no value to low income working families, and is of decreasing value for all who claim it. The actual value of the deductible has decreased over 70%, so the deductible would have to be raised by approximately $5,700 to be worth what it was in 1948.

The Earned Income Credit provides families who earn less than $21,250 a year with a tax credit for up to two children. Unlike the dependent deductible, this tax credit is applied directly to the amount of taxes owed, and a refund of the credit is available to families who owe less in taxes than the amount of the credit. The credit provides low income working families with needed tax relief, and encourages

them to work. Unfortunately, families do not receive a tax credit for more than two children, and thus the credit is not as effective in relieving financial strain for larger working families.

Aid to Families with Dependent Children (AFDC), established as a central program of the War on Poverty, currently serves a significantly smaller percentage of all poor children than it did throughout the 1960's and 1970's and the real value of AFDC benefits in California has fallen 20% since 1973. The average family of three who receives AFDC in California is living on an income that it at least $2,000 below the poverty line. Families who receive AFDC often suffer from lack of job training opportunities, and the shortage of affordable day care. Approximately 70% of AFDC recipients are children, and one out of five children in California receive AFDC. The children who receive AFDC are more likely to have health problems, to be hungry, and to live in substandard housing.

It is virtually impossible for families to provide adequate housing, and food for their children with AFDC grants -- especially in California which has the highest housing costs in the U.S. and the lowest proportion of subsidized housing. AFDC was cut last year in California by 4.4%, and there is currently a ballot initiative to further cut AFDC by 10-25%. It is estimated that if AFDC benefits are cut by even 10%, an additional 50,000 children will immediately feel the effects of hunger. If AFDC benefits are cut by 15% hunger would increase among AFDC families by 24%, with an additional 120,000 children feeling the effects of hunger. Cost of living increases for AFDC were also eliminated last year, through 1994. Inflation reduces the buying power of AFDC grants every year; even without direct cuts to the program, AFDC benefits are constantly eroded by the cost of living.

Pre-School and Day Care

Head Start is the federal government's largest contribution to pre-school services, providing comprehensive educational, social and health services to low-income children. But, Head Start remains extremely underfunded. As shown in the chart on the previous page, in California only 24.1% of all eligible 3-5 year olds are estimated to be served by Head Start. Though allocated increased federal funding for 1991, the funding only increased participation by less than 2% over 1990 levels.

The Dependent Care Tax Credit is the federal government's largest contribution to helping families afford day-care, amounting to 68% of all federal funding for child care in 1987. But the tax credit is good only against taxable income, and thus is only of use to those families who earn enough to owe taxes, and can afford to pay money for day-care on a regular basis.

The Child Development Block Grant and the child care component of **Jobs Opportunities and Basic Skills Program** have significantly increased the federal money authorized to help low income families afford day-care. But the President's FY 1993 budget falls $75 million short of the program authorization levels.

Where Do We Go From Here?

Encourage and Expand Programs which Support Families

We do live in a world of limited resources but we do not live in a world of limited options. In allocating funds from the federal budget, choices must be made between military spending and domestic spending. The value we assign to the welfare of our children is apparent in the money we choose to spend on them.

Regardless of the commitment to families often expressed by its political leaders, the federal government has not made a clear commitment to the health and well-being of all American families and children. Poverty reduction programs have historically been stop-gap measures which frustrate families' efforts to work toward permanent solutions to their economic difficulties.

We must build on programs that strengthen the education and health of our children, respond to hunger and homelessness, and enable families to become economically independent.

Fund Federal Children's Programs that Work

Here are a few examples of the cost effectiveness of selected federal children's programs.

- **$1.00 invested in the prenatal component of WIC saves up to $3.00 in hospital costs during the child's first year.**
- **$1.00 invested in quality pre-school education such as Head Start returns $4.75 because of lower costs of special education, public assistance, and crime.**
- **$1.00 spent on Medicaid for prenatal costs lowers health care costs for the baby by over 10%.**
- **Child care reimbursement to low income families costs the public a small fraction of what monthly welfare payments to a family without a working parent would cost.**

Encourage New Initiatives in Child and Family Policy

The U.S. is the only western industrialized country not to offer a universal child benefit to all of its families, regardless of income or family size. The National Commission on Children, a Presidentially appointed board of child experts, has recommended that a universal child tax credit of $1,000 per child be enacted by the federal government. This credit would be available to all children, regardless of family income or size. Such a benefit would be a key step in forming an equitable and comprehensive child and family policy in the U.S..

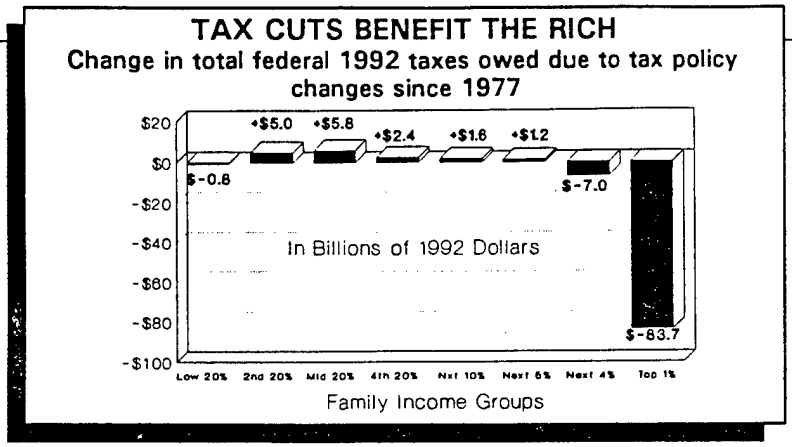
References: *Kids Count Data Book*, Center for Study of Social Policy, 1991; *Community Childhood Hunger Identification Project*, 1991; *What's Happening to Our Children*, Children NOW, 1991..

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TAXES
The Rich Get Richer, Everyone Else Gets Poorer



THE VISION

No one likes to pay federal taxes. However if taxes must be paid, most people agree that they should be raised in a *fair and equitable manner.* Polls show that Americans are willing to make sacrifices as long as they are convinced that everyone is making sacrifices on the same basis.

Studies also show that the public would be more willing to pay taxes if it knew taxes weren't being wasted through fraud, corruption and political waste. People would even be willing to pay higher federal taxes in order to remedy specific problems that require national action. Polls show that a majority would support taxes dedicated to fighting drugs, homelessness, or improving schools.

THE CHALLENGE

Unfortunately, tax policies of the late `70's and early `80's, based on supply-side economics, turned the concept of tax fairness on its head. They made the wealthy much wealthier and the rest of us poorer, and helped create the largest peace time federal deficit in history. The ``supply side'' investments did not go into increasing the manufacturing capacity of this nation, but into mergers, leveraged buyouts, junk bonds and other forms of repackaging corporate America. For California, this has contributed to skyrocketing taxes at the state level.

In the past 15 years, tax cuts for the richest 5% of American families raised government borrowing by more than $1 trillion.

In 1992, tax cuts enacted since 1977 for the richest 1% of families will cost the U.S. Treasury $159 billion.

75% of Americans pay higher effective federal tax rates now than in 1978.



Reinvest in California

THE PROBLEMS

Tax Breaks for the Wealthy

Supply-side economics is based on the premise that lower taxes on the wealthy and on corporations will lead to an economic boom that will trickle down to the rest of the nation. Supply-side tax policies enacted in 1978 and 1981 created loopholes and other breaks for the wealthy which brought benefits mostly to the richest 5 percent. In fact most of those benefits went to the top one percent income bracket.

The chart on this page breaks the U.S. population into income categories and illustrates the inequality. Except for a slight decrease for the very lowest 20 percent (those making an average of $8,130/yr) tax changes in the past 15 years have increased total federal taxes compared to what they would have been with the 1977 tax structure for everyone except the top 5 percent with average incomes of at least $130,000 a year.

Chart 2 shows that tax changes were a major source of income changes. The pre-tax income of 80 percent of Americans either declined or remained the same, while the big-time gainers in the top 1 percent more than doubled their pre-tax income from $314,000 to $676,000. Their after-tax income gain is even more dramatic -- a 136 percent increase from $203,000 to $478,000. The average tax savings for these families was $83,457, ten times the average income of the individual in the lowest 20 percent.

Income distribution is more uneven now than at any time since the end of World War II. During the 1980's the wealthy experienced the sharpest reduction in their taxes since the 1920's, while for the rest, income in the early 1980's was comparable to the early 1970's, the longest streak of *flat income* in the history of the European settlement of North America.

Changes in Income Before and After Federal Taxes: 1977 and 1992

(in 1992 dollars)

Income Group		1977 Pre-Tax Income	1992 Pre-Tax Income	% Change	1977 After Tax Income	1992 After Tax Income	% Change
Lowest 20%		$9,368	$8,132	-13%	$8,495	$7,434	-12%
Second 20%		22,333	20,094	-10%	18,885	16,955	-10%
Middle 20%		34,505	31,970	-7%	27,788	25,670	-8%
Fourth 20%		46,772	47,692	+2%	36,563	37,094	+1%
TOP 20%	Next 10%	60,073	65,719	+9%	45,660	49,509	+8%
	Next 5%	76,525	84,683	+11%	57,218	62,628	+9%
	Next 4%	107,945	132,446	+23%	78,820	96,560	+23%
	Top 1%	314,526	675,859	+115%	202,809	477,944	+136%
Average		**$40,065**	**$44,029**	**+10%**	**$30,948**	**$33,772**	**+9%**

Chart 2 - Source: *1991 Green Book*, House Ways and Means Committee.

Cost of Tax Breaks for Top 1% and Total Deficit

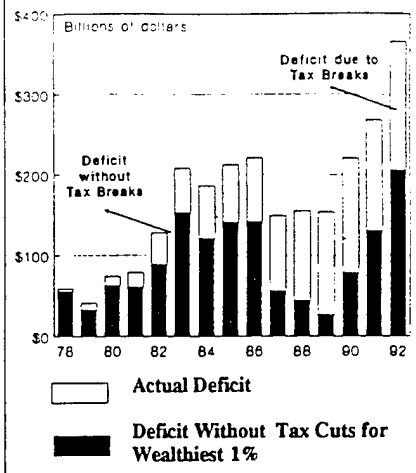


Chart 3 - Source: Citizens for Tax Justice.

Tax Cuts For The Wealthy Parallel Growth In Budget Deficit

The tax breaks for the wealthiest one percent over the last 15 years have been a major factor in the increase in the federal deficit during that period. If the government had not enacted upper income tax cuts, it could have borrowed a trillion dollars less than it did! The interest on this additional borrowing, combined with the continuing loss of revenues due to the cuts, totaled an estimated $159 billion in 1992, nearly half the 1992 deficit. The growing deficit has wreaked havoc throughout the nation, forcing Congress to cut innumerable education, job training, and other programs, and has been a major reason for our trade deficit and economic decline. All this has been done to benefit a privileged few.

Tax Breaks and California's Tax Crisis

The federal deficit, caused by tax breaks for the wealthy, has been the major motivation for cuts in federal funds to states and towns. Since the early 1980's this has meant a cut of approximately $27.6 billion for key community programs for California residents. To make up for these federal cuts, states and towns have had to raise more money through state and local taxes. Tax-wise this has been doubly painful. For, just as tax cuts for the wealthy were placing the burden of financing the federal government on the low and middle income residents, California raised sales taxes and fees which are especially regressive.

Chart 7 on the next page shows that in 1991, proportionally, the poorest 20% now pay 1 1/3 times what the top 1% pay in state and local taxes.

Who Benefits Most From Social Security Changes?

Not only have the richest one percent of our population benefited from changes in income tax policy; they have also profited from changes in the social insurance (FICA) taxes that pay for Social Security and part of Medicare.

Overall since 1977, social insurance taxes have increased from 6.5 percent of a family's income to 8.6 percent of a family's income. Chart 5 on page 33

International Comparisons

U.S. AT BOTTOM OF THE TAX LEAGUE

The U.S. does not compare well with other industrialized countries in a number of indicators of social and economic well-being. The chart to the right shows one big reason for this is that the U.S. raises less revenues to pay for programs that promote economic and social health than do other countries. But this chart doesn't tell the whole story. It doesn't say where the U.S. would rank if the richest 1 percent paid their fair share. If these people paid their share, we would clearly have many more resources to invest in job training, education, housing, etc..

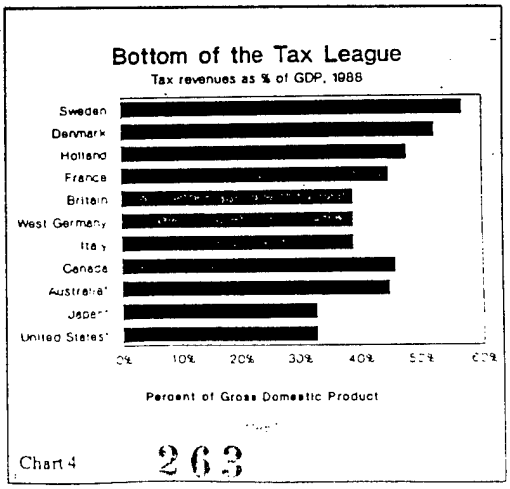


Chart 4

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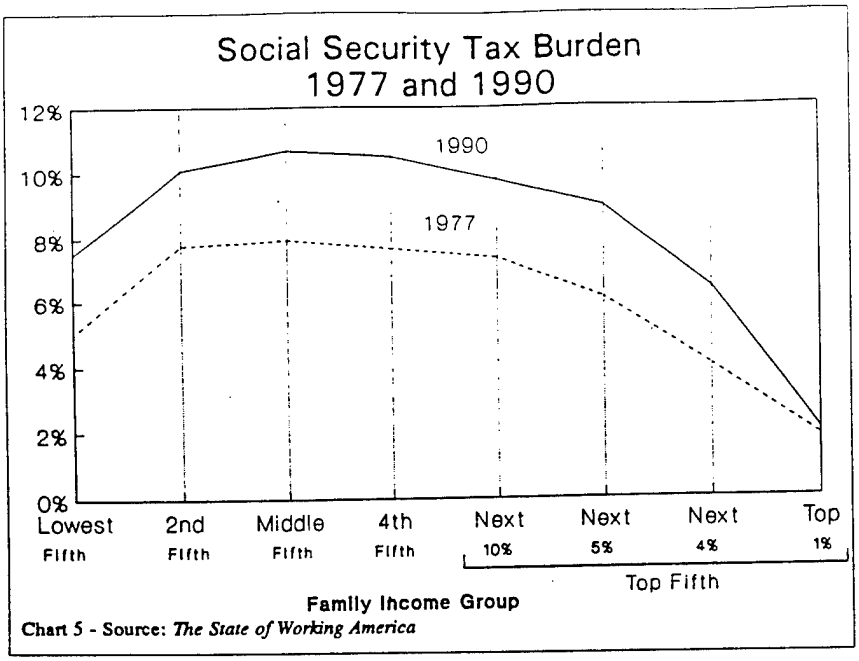


Chart 5 - Source: *The State of Working America*

shows the percent that Americans at different income levels paid in social insurance taxes in 1977 and 1990.

For the lowest 90 percent of the population the share of income being taken for social insurance is very high. The rate drops off dramatically after that. This is partly because the rich earn much of their income from their investments, which are not subject to social insurance taxes. Another reason is that these taxes are applied only to the first $51,300 of earnings.

The major increase in Social Security taxes came in 1983. Taxes were raised to an amount higher than what was needed to pay current Social Security costs in order to build up funds to pay benefits when the baby-boomers reach 65. But the surplus funds have not been invested or saved in any way that has kept funds available for future needs. Instead, these funds have been used to offset increases in the deficit caused by tax cuts for the wealthy. Therefore, the 1983 increase in social security deductions could be viewed as a covert way of shifting the tax burden from the wealthy to the rest of the people.

Who Owns America?

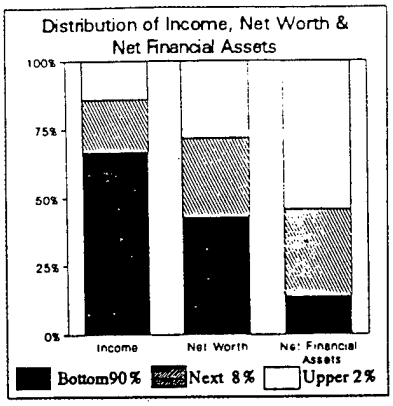


Chart 6

The wealthiest one percent, about 2.5 million Americans, together will make $678 billion before taxes this year, $92 billion more than the 100 million Americans with the lowest incomes. The $2.4 trillion of income made by the top 20 percent is greater than the total income of the remaining 80 percent.

Take into consideration net worth or the value of personal assets (house, car, bank account, etc.) minus debts (such as mortgages and credit cards), and the distribution is even more unequal. The richest 1 percent account for over 38 percent of net worth in the U.S., over one and one half times that of the ``lowest'' 90 percent of the public, which owns only a little over 24 percent of the nation's net worth.

Most unequal is the distribution of net financial assets, such as stocks, bonds and business assets. The richest 1 percent own 55 percent of these assets, and the ``lowest'' 90 percent own only 10%.

California Taxes in 1985 and 1991

As Shares of Income For Families of Four (before federal offsets)

	1985	1991
Lowest 20%	11.8%	14.1%
Second 20%	8.9%	9.5%
Middle 20%	8.4%	8.8%
Fourth 20%	8.5%	8.9%
Next 15%	9.1%	9.7%
Next 4%	9.9%	10.7%
TOP 1%	10.5%	10.6%

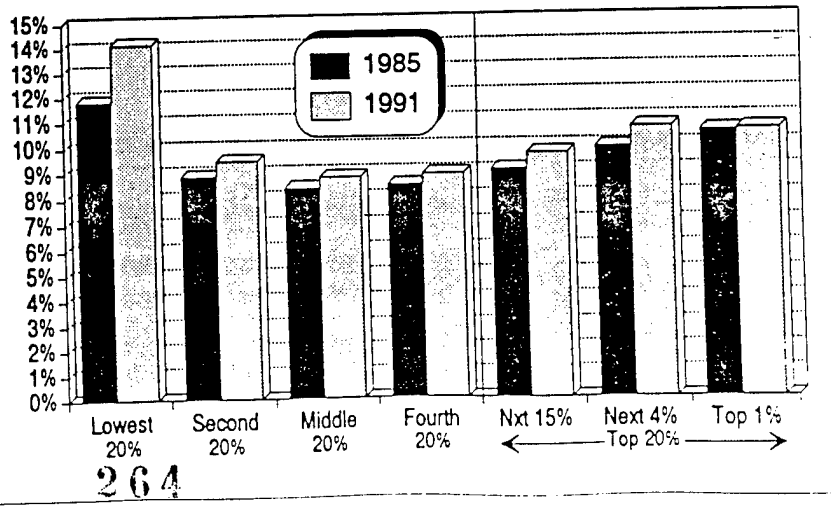
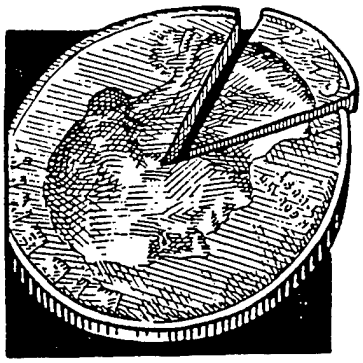


Chart 7 - Source: Citizens for Tax Justice

WHERE DO WE GO FROM HERE?

A major contributor to the federal deficit has been massive tax breaks to the richest Americans. It has not come from huge tax cuts for middle income families and the poor; by and large, they are paying more in federal taxes today than they did 15 years ago. Once we understand this, we can see that reversing the supply-side tax shift of the last decade is the fairest way to address the deficit issue.

According to the Citizens for Tax Justice, every one percent tax on the income of the wealthiest 10 percent will add $17 billion to government revenues. Every one percent tax on the poorest 20 percent adds only $1.7 billion. A fair tax-based deficit reduction strategy would include the following:



· **Take back tax giveaways to the wealthiest 1 percent.** Supply-side tax cuts for the richest 1 percent have added over a trillion dollars to the national debt. It's only fair to ask more from these people who have so much. For instance, asking the truly wealthy and corporations to pay a higher tax rate than the near rich, say 40 percent, would raise more than $40 billion a year.

· **Plug tax loopholes.** Business and investment tax breaks are expected to cost the U.S. Treasury $291 billion in corporate taxes and $285 billion in personal income taxes from fiscal 1992 - '96. Among the revenue-raising tax reforms would be repealing capital gains loopholes, curbing excessive depreciation write-offs, getting multinational corporations to pay their share of taxes, ending subsidy for leveraged buy-outs, and strengthening the Alternative Minimum Tax on corporations and high income people.

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This report was prepared by the:

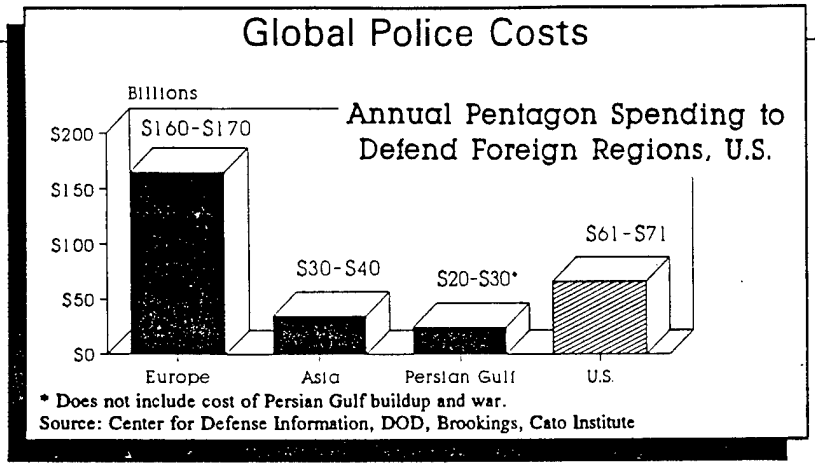
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REINVEST IN AMERICA

MILITARY SPENDING
Less is More for Everyone

Reinvest in California



THE VISION

The U.S. now has the opportunity to rid itself of a role that has burdened our economy for 40 years -- that of providing military protection from the perceived threat of Communism. With the disintegration of the Soviet Union and the Warsaw Pact, there is no longer a reason to commit an enormous share of our resources to hundreds of military bases in every corner of the globe. Without a Soviet Union, we no longer have the rationale to spend $65 billion a year on nuclear forces, or to finance dozens of dictatorships and military regimes to keep nations out of the Soviet bloc.

We can protect our shores and provide support for allies and other nations with a substantially smaller military force. Resources that for years have been tied up in fighting the Cold War can now be used to create economic security, job security, health and shelter security, and the security of an educational system that can really bring us into the 21st century. The economic strength of other industrialized nations, as well as recent successes in negotiating settlements and treaties in the Third World, give promise that we can work together to share the burdens and responsibilities of maintaining international order.

THE CHALLENGE

Only 22.6 percent of our military budget goes for the defense of U.S. shores. By 1996, given current policy, the majority of our military budget will still go toward protecting the borders of other nations.

- 56% ($165 billion) goes to protect NATO countries in Europe.
- 12% ($35 billion) goes to protect Japan and the Pacific Rim.
- 8.6% ($25 billion) goes to protect the Middle East.

Only $66 billion of our $291 billion Department of Defense budget goes to protect us here at home.

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THE PROBLEMS

Military Spending Excessive

We spend more on U.S. military forces in wealthy industrialized countries than they spend on their own forces. Chart 2 on the next page shows how much the U.S. spends per capita on the military compared to many major industrialized nations, proportions which have not changed significantly in 40 years. While we spend $165 billion a year to deter the Commonwealth of Independent States (formerly the USSR) from attacking the U.S. and to prevent another major land war in Europe, all the NATO countries together spend only $157 billion on their own defenses.

We spend more on the military than we do on any other priority. (See Chart 4 in the Introduction.) We spend 50 percent more defending Europe than we spend at home on economic development, the environment, housing, education and children combined.

In 1992, California residents will spend more for the military than we spend on our own communities. To illustrate how expensive our military burden has become, we can compare the local share of the Department of Defense budget to the cost of running our cities and towns. In California's cities, taxpayers have generally been sending much more money to Washington as their share of the DOD budget than they spend on federal, state and local taxes to operate their local government.

U.S. bases abroad divert significant resources from our economy. For instance, an estimated $15 billion yearly flows into the German economy from American military bases.

The $25 billion we spend to protect our access to Middle East oil amounts to an extra tax on the cost of oil, a tax not paid by our economic competitors. If we used that money to develop energy conservation and alternative energy sources, we could create new industries and jobs, help the environment and eliminate our need for Mid-East oil.

HOW MUCH DO WE SPEND ON THE MILITARY?

More than other countries ...

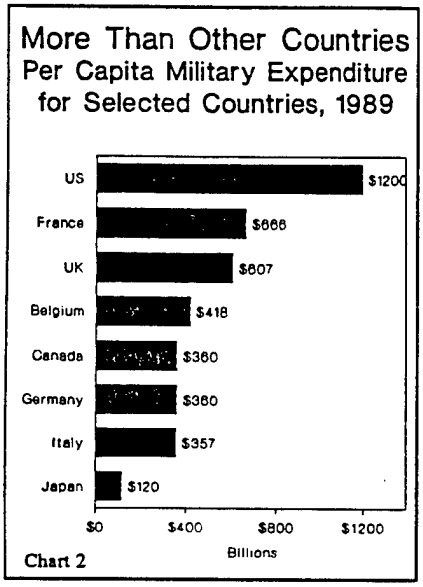


Chart 2

More than we spend on our own communities ...

Federal Taxes for Military Spending vs. Local Taxes for City Operations, 1991

DOD	NATO	City Revenues*
[in millions of dollars]		
Bakersfield		
$203.4	$115.3	$88.7
Sacramento		
$376.6	$213.5	$254.1
San Diego		
$1,400.0	$767.4	$927.4
San Francisco		
$875.1	$496.2	$1,700.0
San Jose		
$1,300.0	$741.4	$546.4
Los Angeles		
$3,900.0	$2,200.0	$3,200.0

* estimated

Chart 3

Military Spending Places Burden on Economy

Increased military spending without increased taxes made the deficit grow. In the 1980's, U.S. military spending went up 45 percent. Taxes were not increased but were lowered, mostly by sharp cuts on taxes paid by the wealthy. The result was a huge budget deficit each year and the tripling of the national debt from 1980 to 1990.

The result of the budget deficits were devastating. The U.S. government borrowed huge sums of money to cover the deficit each year. The increased demand for borrowed money was one cause of the big rise in interest rates. Many businesses could no longer afford to borrow money they needed to modernize and remain competitive in the world market. The enormous demand for military research diverted R&D money and talent away from civilian products. This also undermined the world competitiveness of U.S. firms.

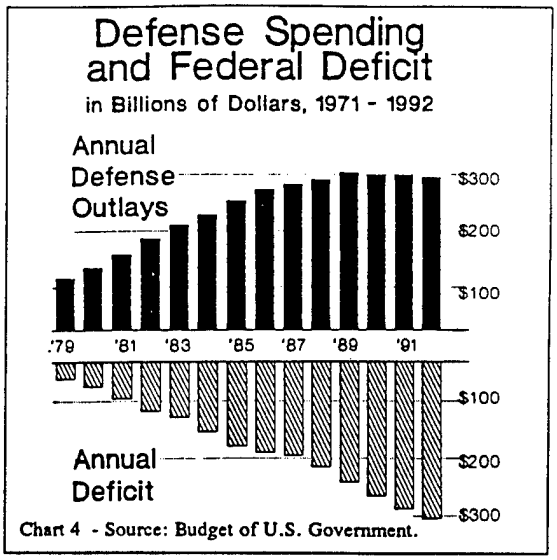


Chart 4 - Source: Budget of U.S. Government.

The jump in interest rates was at the root of the Savings and Loan disaster. As interest rates rose to 15-20 percent, S&L's were stuck holding long-term mortgages at 4-8 percent interest. They lost depositors because they could not pay them the high interest rates that other banks could pay. They pressed for more liberal regulations to permit them to use government-insured deposits to make higher risk loans at higher interest. Reckless speculation and over-building of real estate followed. After the boom came the crash. Many banks have failed, with more to come, and we taxpayers are paying the costs.

Federal funds for social needs were cut sharply during the 1980's in an attempt to minimize the deficit. Many expenses were shifted to states, cities and towns, causing agonizing budget shortages that in turn caused property taxes to rise astronomically.

Pentagon Plans for Spending Unnecessary and Wasteful

The current U.S. policy is designed to contain Soviet expansion. A military force was built up after World War II because U.S. policy-makers feared that the Soviet Union would use military force to conquer the countries of Western Europe and Asia. To contain this perceived threat, we set up a massive chain of bases in the NATO countries, the Pacific Rim and throughout the world. We are the only nation with a world-wide military structure: 481,000 military men and women plus 450,000 civilian employees and dependents at 375 bases and hundreds of smaller installations in 35 foreign countries. Along with this network of bases, we developed and produced tens of thousands of nuclear weapons with enough firepower to kill every Soviet citizen more than 40 times over.

In the mid to late 1980's, former Secretary of Defense McNamara and others began calling for a 50 percent cut in military spending. Since the fall of the Berlin Wall, Congressional leaders and other military experts have called for similar or even deeper military cuts.

Even Secretary of Defense Dick Cheney said in March, 1991: "*The Cold War is dead. I don't see any possibility for restructuring the Warsaw Pact... and that is the most significant change we can count upon affecting our military strategy.*"

Now there is nothing left to contain. With the dissolution of the Warsaw Pact, the break-up of the Soviet Union and the death of the Soviet Communist Party, much of our huge military force has nothing to do. It has become strategically obsolete. The dissipation of the threat is truly impressive:

· The end of the Warsaw Pact force means the elimination of integrated Soviet control over Eastern European forces

totalling 1.2 million soldiers, several thousand combat aircraft, and the withdrawal of the former Soviet troops by 1994.

· Recent treaties have resulted in the Soviet Republics committing to destroy 150,000 tanks and artillery pieces and over 1,000 helicopters and combat aircraft, as well as 4,000 strategic (long range) nuclear weapons and 6,000 tactical nuclear weapons.

Pentagon Proposals Show Cold War Spending Continues

Budget proposals from the Pentagon for the next decade show Cold War spending largely continued. Pentagon planning shows only a 20 percent cut from the high levels of the late 1980's to 1996, and allows for potential increases after that.

By 1995, we would still be spending more than we did in 1976 when the Warsaw Pact and the Soviets were at the peak of their expansionism. (See Chart 5.) We would be:

· still focusing 14 Army and Marine Corps divisions, six battle carrier groups, 220 other battle wings on former Soviet republics;

· maintaining most of our present military bases around the world;

· spending only 13 percent less for nuclear weapons.

The planning behind the DOD budget proposals for the next 10 years would maintain, at the same time:

· land and sea forces in Europe;

· land and sea forces in the Pacific;

· the capability to carry on two major regional wars on the scale of the Iraq crisis.

Critics consider Pentagon spending plans excessive. They point out that the Russians are most unlikely to attack the West; in 45 years we have never had two major regional wars at once; and in 1991 North and South Korea signed a treaty of reconciliation and non-aggression, greatly lessening the chance of a Pacific Rim confrontation.

Military policy analysts William Kaufmann and John D. Steinbruner, of the Brookings Institution, have provided a thorough analysis of the excesses in the Pentagon plan. Their report, released before the dissolution of the Soviet Union, lays out plans for carefully managed and phased cuts of 53 percent over the next decade. They criticized the DOD budget as a scaled down version of the Cold War.

The Center for Defense Information which includes high-ranking military officers, along with a host of other experts, from influential Senator Sam Nunn to former CIA Director William Colby, have also called for much deeper cuts than the Pentagon has proposed.

What Are The Military Threats Of The 1990's

Is instability resulting from the dissolution of the Soviet Union a threat? Military experts point out that it is inappropriate for the U.S. to confront the new Commonwealth of Independent States as potential aggressors and risk triggering a backlash of desperation by appearing to pursue advantage. Having achieved the satisfaction of independence and freedom, their predominant goal is to increase the quality and number of consumer goods available and raise their standard of living. The possibility of their attacking the nations of Western Europe is almost unthinkable. Clearly we have an opportunity to build bridges of friendship, trade and investment with these newly independent republics.

Is there a threat of regional wars? As critics have pointed out, planning for two major wars at once is excessive. Of nations that have had mixed or hostile relations with the U.S., pre-war Iraq was the strongest. Nevertheless, the U.S. defeated Iraq in six weeks using only about a third of its ground and air forces. The only Third World nation with forces stronger than pre-war Iraq is China, and China has not been considered a threat since the 1970's. In short, the nature and size of the threats has substantially subsided. As General Colin Powell has remarked, ``*Think hard about it, I'm running out of villains... I'm down to Castro in Cuba and Kim Il Sung in North Korea.*''

With the threat of Soviet domination of Third World nations gone, we are free to fully respect national self-determination, expecting each nation to find its way without our participation in their civil wars. We can reconsider, country by country, the military support we have been giving to repressive regimes and put more emphasis on support of human rights. A nation without human rights will always contain the threat of instability and revolt.

Can we still call the spread of nuclear weapons a threat? We can best prevent the nightmare of a third world nuclear arms race by supporting international agreements to: 1) end all nuclear testing; 2) enforce a ban on the exportation of nuclear weapons material and technology.

Highly effective systems of verifying adherence to a test ban have been developed. The nations of the world overwhelmingly support a test ban. At a United Nations vote in January 1991, only the U.S. and Great Britain opposed a test ban. The chief impetus for nations to develop nuclear weapons is the fear that potentially hostile nations will develop them. A test ban will reassure all nations.

Investment in a Star Wars type nuclear defense is costly and risky. The fallacy of making a huge investment in Star Wars is that it is much easier and cheaper for a potential foe to find a way to get through a defensive system than it is to build a defensive system. Billions can be spent for a ring of protection around a city, yet a few people could drive in with a pick-up truck and detonate tactical nuclear weapons. The Anti-Ballistic Missile Treaty,

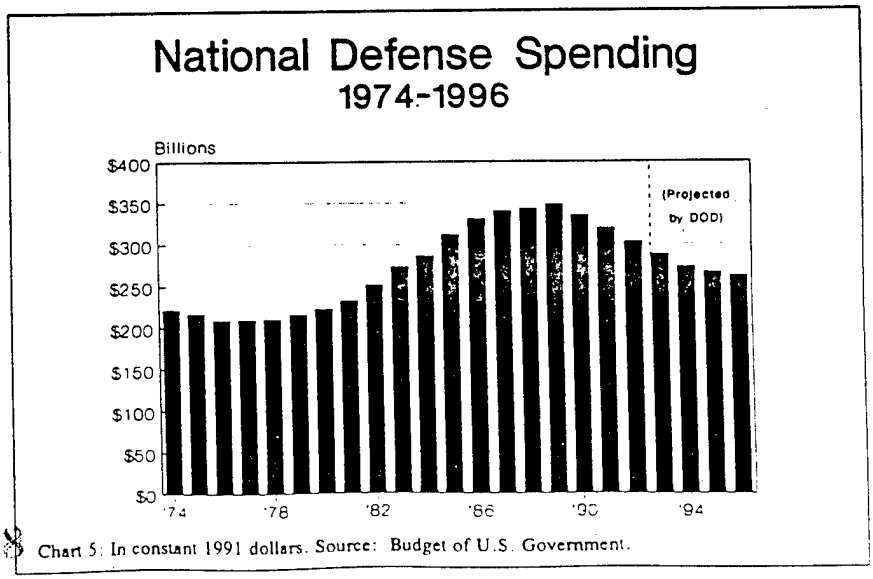


Chart 5: In constant 1991 dollars. Source: Budget of U.S. Government.

gned in 1972, was enacted to prevent asting money on a Star Wars type arms .ce.

n't international terrorism and the tak-g of hostages a threat? Massive mili-ry force has proven to be ineffective gainst human rights violations, hostage king, and terrorism.

Reduce Threats And Handle Them Differently

. Burden-Sharing

Many of the countries we are now pre-ared to defend are more than capable of roviding their own defenses. Europe, pan, South Korea and other countries ow relying on the U.S. troops have the ealth to provide themselves with the ilitary forces they deem necessary.

. Peace-keeping and Cooperative ecurity.

ntervention by the U.S. is becoming creasingly questionable. When military rce is required, the U.N. could offer a sitive alternative to U.S. intervention. has carried out peacekeeping duties in ch volatile regions as the Sinai, Cyprus d Namibia.

. Defensive military power, not of-nsive.

nalysts have suggested the option of anging from an offensive capability to purely defensive capability, where a untry is not prepared to attack others t could effectively defend itself. Were is shift accepted globally, all countries uld achieve better security at substan-ally lower costs.

. Stop arms traffic.

he U.S. is the world's top military sup-ier, providing 40 percent of the global ms market. The world would be much fer if we stopped trafficking in arms. nce World War II there have been 170 ars and conflicts, mostly involving untries such as Iraq and Iran which rely foreign suppliers for their military eeds. Weapons transfers remain an inte-al element of regional mistrust and nsion. By sharply reducing our weapons les to other countries and helping the N to establish an effective international ructure, we could render obsolete the eed for continued arms sales.

NO MORE IRAQS

No Third World Country is as strong as Iraq was at the start of the Gulf War. None is nearly as powerful as the U.S.

	Pre-War Iraq	Libya	Syria	Cuba	N. Korea	Iran	USA
Manpower*	1,000	85	404	181	1,111	504	2,050
Tanks	5,500	2,300	4,000	1,100	3,500	500	46,150
Aircraft	800	513	558	185	716	185	7,150

*Manpower in thousands.

Chart 6 - Source: Center for Defense Information.

Shaping A Needs-Based Military Policy

A military policy appropriate to our needs would have to:

- **Deter any nation from being tempted to attack the U.S. or its allies;**
- **Encourage the U.S. to work with other nations to establish international policies and structures that prevent aggression in other nations;**
- **Allow the U.S. to participate in international security forces to handle aggression where it does occur.**

What kind of weaponry, force structure and budget would it take to meet these criteria? We don't need over 300 major military bases all over the world. We can substantially cut back our almost 600 ship Navy. We can work with former Soviet Union nations to plan additional mutual reductions, we still have 10,000 long range nuclear weapons and 2,500 battlefield nuclear weapons.

Perhaps the most authoritative and in-depth analysis of military needs for the 1990's is Kaufman and Steinbruner's *Decisions For Defense*, released in September 1991. Their work provides a credible, moderate, alternative to the current Administration budget. They propose a cooperative security approach, which would cut spending by 47 percent, even while providing a military much stronger than any other country. Chart 9 provides a

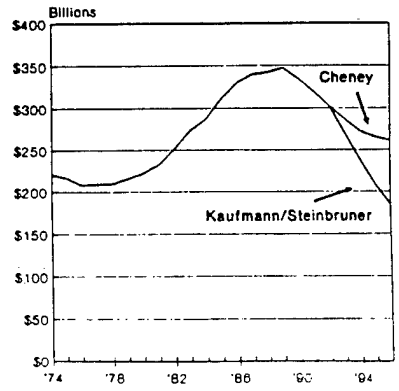
Foreign Countries with Largest Number of U.S. Bases and Troops

Country	U.S. Bases	U.S. Troops
Germany	224	239,900
Japan	31	47,400
South Korea	41	40,700
Britain	19	26,400
Phillipines	11	13,000
Italy	10	15,600

Chart 7 - Source: CDI

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Defense Spending Options
Cheney *vs.* Accelerated Kaufmann/Steinbruner Option



In constant 1991 dollars.
Chart 8 - Source: NPP

summary of what the authors envision. The National Commission for Economic Conversion and Disarmament has calculated that if this policy were implemented over a five year span, the U.S. could save $220 billion after the latest White House proposals for a $50 billion cut. We estimate that if money were put into economic development programs around the nation, California's share would be $22.4 billion over five years.

Redefining National Security

The collapse of the Soviet Union is testimony to the fact that military might alone cannot guarantee national security. A county whose economy is collapsing, whose people are disheartened and without motivation, cannot succeed.

Unfortunately we as a country are not heeding the warning. As page after page of the other sections of this report show, we too are neglecting our home front. In California, and throughout the nation, we are losing manufacturing jobs; we work more and get paid less; our education system is in crisis; health care and owning a home have become benefits only for the well-to-do. Our environment is filled with pollutants and our children live in poverty at rates two to four times that of other industrialized nations. For forty years we have defined our security in military terms. If we do not redefine our goals, if we ignore our overall productive and creative capacity in a single-minded emphasis on military power, we ignore our own real security.

Proposed Annual DOD Budget- Cooperative Security Approach, Kaufmann & Steinbruner

[in billions of dollars]

Item	Annual Cost
Strategic nuclear forces	
100 Minuteman III ICBM's	0.6
40 B-1Bs	2.6
800 advanced cruise missiles	0.4
120 KC-135 tankers	1.3
36 F-15s (Air Force Reserves)	0.3
240 Trident/C-4 SLBMs	4.6
Intelligence and communications	3.8
Strategic defense initiative	1.0
Tatical nuclear forces	0
Non-nuclear forces	
Land	
7 active Army divisions	21.4
3 active Marine divisions	2.2
4 reserve Army divisions	5.9
1 reserve Marine division	0.6
Tatical air	
3 active Marine air wings	8.0
1 reserve Marine air wing	0.6
10 active Air Force fighter wings	20.5
7 reserve Air Force fighter wings	2.9
Naval	
6 carrier battle groups (114 ships)	22.9
2 brigades of amphibious lift (41 ships)	5.5
1-ocean ASW capability (76 ships)	10.6
Airlift and sealift	
70 C-5As	3.1
40 C-5Bs	1.7
234 C-141s	3.1
57 KC-10s	1.1
450 C-130s	2.0
8 SL-7s	0.3
32 cargo ships	0.5
28 tankers	0.5
15 other ships	1.1
National intelligence and communications	17.6
Total	**146.8**

Chart 9 - Source: Kaufmann & Steinbruner, *Decisions for Defense*

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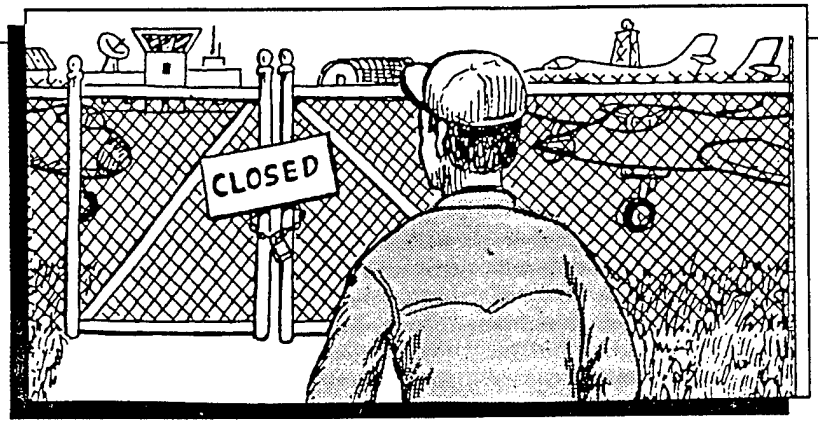
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ECONOMIC CONVERSION
Changing Our Military-Dependent Economy



Economic Conversion in California: Creating Appropriate Policy

Nowhere in the U.S. are military spending cuts being felt as strongly as they are in California, which received 13.5 cents of every military dollar in 1990. Manufacturing companies such as Lockheed, TRW, Litton, Rockwell, Douglas Aircraft, Northrop, General Dynamics, and Hughes are each announcing major lay-offs in the thousands. Three bases are planned for closure.

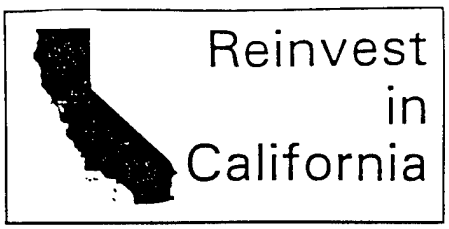
While these cuts are indeed dramatic, there is much that the federal government can do to minimize the economic danger these cuts pose, and maximize opportunities, by planning and helping to build a more productive civilian-based economy. Equally important in the long run for California is choosing a sustainable development path with an ecologically-sound economic base, including an emphasis on renewable energy sources, a comprehensive recycling program, and sustainable agriculture, with diverse manufacturing and service industries. Together these would lay the foundation for a strong state economy over the coming years.

To do this, federal resources and cooperation are needed. The federal government must redirect military spending to growth industries that anticipate future needs. It must provide resources both to help reorient the manufacturing sector towards sustainable development, and, as it did after World War II, it must provide retraining and economic assistance for those who will be dislocated by cuts in military spending.

THE VISION: Prosperity in America

For 40 years, much of our industry, a third of our scientists and over half of federal research and development money have been committed to building a vast military structure both at home and abroad. With the end of the Cold War, we can turn our great scientific and industrial knowledge and esources to strengthening the civilian economy.

Opportunities include more scientists and engineers working in civilian research and development; more efficient production of better quality civilian goods; and more jobs for American workers producing goods and services that can compete in the global marketplace.



THE CHALLENGE
Treating an Economy Addicted to Military Spending

1. Vulnerable California communities and industries need help.

Altogether the Department of Defense spent $35.9 billion in California in 1990. $22.3 billion of that was in prime military contracts. The top five contractors were Lockheed ($2.5 billion); General Motors ($2.1 billion); McDonnell Douglas ($1.8 billion); Rockwell International ($1.5 billion) and Gencorp ($1.1 billion).

Another $13.6 billion was spent on salaries, both military and civilian. California is home to 169,000 military personnel and provides jobs for 123,000 civilian DOD employees and 130,000 reservists. In 1988, an additional 657,900 workers were estimated to be employed in defense-dependent industries and services.

Chart 1 shows defense contractors, their main locations, and where most defense money (payroll and contracts) is spent. It is interesting to note that in 1990, Los Angeles County received over $8 billion a year in military contracts, more than the amount received by each of 48 states. In this county, one of every 3 manufacturing jobs is related to the aerospace industry.

Several other counties in California are also heavily dependent on military contracts (see Chart 4). Santa Clara County received $3.27 billion in 1990; San Diego County got $2.64 billion; Orange County got $2.2 billion. Each of these counties receives more than each of 34 states.

Even though California has a massive economy (the 6th largest in the world!), it cannot easily absorb all of the projected military cuts. According to the Council on Economic Priorities, California ranks relatively high in potential economic dislocation due to defense cuts, 10th in the nation. California clearly needs to implement an economic conversion plan to protect workers, families and businesses from severe economic disruption.

Largest Defense Companies and Dependent Cities (1990)

Company	Prime Contracts in CA
Lockheed	$2.5B
General Motors	$2.1B
McDonnell Douglas	$1.8B
Rockwell Int'l.	$1.5B
Gencorp	$1.1B

City	Total Payroll and Contracts
San Diego	$4.8B
Los Angeles	$2.5B
Sunnyvale	$2.3B
Long Beach	$2.1B
Sacramento	$1.1B

Chart 1

Defense Dependency in California (1990)

CA's share of the Defense budget	$38.5B
Total DOD expenditures in L.A.	$35.9B
Prime military contract dollars	$22.3B
Estimated (1988) provate-sector jobs dependent on military	657,900
State rank, Defense Dislocation Index	10

Chart 2

2. Federal resources are imperative to help plan for cuts in military spending.

The federal government must take responsibility for the transition from the military economy it has created. For instance, before any military sites can be converted to civilian use, environmental pollution must be cleaned up. According to the National Toxics Campaign, in 1991, California had over 1,674 toxic waste sites just at its military installations. Well-planned environmental restoration can be combined with training and manufacturing programs as part of a federal reinvestment strategy, benefitting communities in many different ways.

But so far, instead of gearing up to constructively confront these economic and environmental issues, Washington has not spent even the woefully small amount of money it has already approved for economic conversion. Last year Congress authorized $200 million for conversion, $150 million intended for the Department of Labor, and $50 million for the Economic Development Administration. Yet as of April of this year, only $14.5 million (less than 10%) of the DOL money had been committed, and only $145 thousand (less than 2/10 of 1%) of the EDA money had been spent.

Instead of working to help California deal with the disruption that will accompany military cuts, Washington is at best hiding its head in the sand, and at worst blackmailing California workers and communities in an effort to maintain military spending at levels that the global reality can no longer justify. This pathetic performance follows a decade during which both the EDA and the Department of Labor have been cut severely in California. Cumulatively the state has lost $8.275 billion in these two program areas. (See Chart 4).

3. Non-military spending means more jobs nationwide.

If, instead of continuing to pay for high military budgets, Washington were to shift spending from military to civilian uses, we would have a stronger national economy and more jobs would be created. There are two major reasons for this. First, a substantial share of U.S. military payroll and contracts go overseas. A shift in federal spending to civilian priorities would bring U.S. overseas military spending back to the domestic economy.

Civilian programs would purchase a greater share of domestically-produced goods and services. Moreover, when teachers, bus drivers, or construction workers are hired, most of their income is spent in the U.S. (in this case, in California) where it raises demand, employment, and income.

Second, the sectors stimulated by civilian spending are generally more labor intensive, as compared to the durable goods manufacturing sectors which are more capital intensive. Military procurement of weapons systems and other hardware is heavily concentrated in these capital-intensive durable goods industries.

Reinvesting in CALIFORNIA
Building a Strong Economy in the Long-Term

While the overall impact on the nation of reduced military spending is positive, the short term impact on California is not.

California is one of the few states that will almost certainly register a net job loss as the defense budget is cut, if the federal government continues to do nothing. According to data developed by the National Commission on Economic Conversion and Disarmament in Washington, D.C., if, as proposed in the previous chapter, military spending were to be cut in half over 5 years and the money reinvested in our infrastructure, California would lose 175,000 military-related jobs, but would gain another 142,000 jobs in civilian sectors, for a net loss of 33,000 jobs. (See Table on page 43.)

Major gain sectors include state and local government, with a net 46,327 jobs gained (22,739 from schools alone, meaning a substantial gain for our education system); services, with a net gain of 14,069 jobs, and construction, with a net gain of 11,035 jobs. Other gainers include non-durable goods, with a net 1,085 jobs gained, wholesale and retail, with a net 671 jobs gained, and finance and real estate, with a net 435 jobs gained.

Major losers include the federal government, with a 75,978 net job loss, mostly in military personnel, and the durable goods industries, with a net loss of 19,341 jobs, mostly in transportation equipment jobs, including aircraft production.

California needs to think in terms of growth. New investment will be needed to counteract even the job loss associated with the reinvest scenario. California needs to make an effort to plan for, and create, jobs in industries with growth potential geared to satisfying its citizens' future needs, and it needs federal help to make its strategy work.

What Economic Conversion Means to California

DIRECT JOB GAINS	+81,394	DIRECT JOB LOSSES	-102,754
INDIRECT JOB GAINS*	+16,659	INDIRECT JOB LOSSES*	-18,124
INDUCED JOB GAINS**	+44,159	INDUCED JOB LOSSES**	-54,738
TOTAL GAINS	**+142,212**	**TOTAL LOSSES**	**-175,616**

Industry	Jobs Lost From Military Spending Cuts	Jobs Gained From Civilian Spending Increases	Net Job Gain or Loss
NET GAIN INDUSTRIES			**74,797**
STATE & LOCAL GOV'T			**+23,588**
Housing	0	4000	4000
Transit	0	6980	6980
Municipal Solid Wste.	0	257	257
Social Services	0	4322	4322
Employment & Trng.	0	5682	5682
Environment	0	2347	2347
EDUCATION			**+22,739**
Teachers	0	22739	22739
SERVICES			**+14,069**
Personal Services	-71	170	99
Business Services	-982	1132	150
Health Services	-608	5515	4907
Misc. Services	-1093	10,006	8913
CONSTRUCTION			**+11,035**
New Construct.	-1098	5222	4124
Mainten. & Repair	-16	6927	6911
NON-DURABLE GOODS			**+1085**
Food	-116	222	106
Textiles	0	18	18
Clothing	-38	76	38
Paper	0	107	107
Printing & Publishing	0	621	621
Chem. & Petrol.	-115	133	18
Rubber & Leather	0	177	177
DURABLE GOODS			**+889**
Lumber & Furniture	0	119	119
Stone, Clay & Glass	0	103	103
Primary Metals	0	19	19
Machinery,exc..Elc.	-45	259	214
Motor Vehicles	-7	261	254
Instruments/Other	-53	233	180

Industry	Jobs Lost From Military Spending Cuts	Jobs Gained From Civilian Spending Increases	Net Job Gain or Loss
NET GAIN INDUSTRIES (Cont'd)			
WHOLESALE & RETAIL			**+671**
Wholesales	-547	749	202
Retail	0	469	469
FINANCE & REAL ESTATE			**+435**
Finance	0	191	191
Insurance	0	202	202
Real Estate	-2	44	42
TRANSPORTATION & UTILITIES			**+97**
Utilities	-39	136	97
AGRICULTURE, FORESTRY, FISHERIES			**+145**
Agriculture	0	145	145
MINING			**+44**
Mining	0	44	44
NET LOSS INDUSTRIES			**96,157**
SERVICES			**-173**
Hotels & Lodgings	-67	0	-67
Eating & Drinking	-106	0	-106
DURABLE GOODS			**-19,341**
Fabricated Metal	-1519	142	-1377
Elect. Equip.	-4345	253	-4092
Transpt. Equip.	-13377	200	-13177
Misc. Manfctng.	-798	103	-695
TRANSPORATION & UTILITIES			**-665**
Commun. (exc.TV)	-601	235	-366
Transport. Svcs.	-1133	834	-299
FEDERAL GOVERNMENT			**-75,978**
Uniform.(actv.)	-43303	0	-43303
Reserves***	-10708	0	-10708
Non-Uniform.	-21967	0	-21967

Prepared by the National Commission on Economic Conversion and Disarmament, Washington, D.C., 1992

* Created by subcontractors & suppliers for prime contractors.
** Created by consumer spending of wages.
*** Reserve jobs are not full-time jobs.

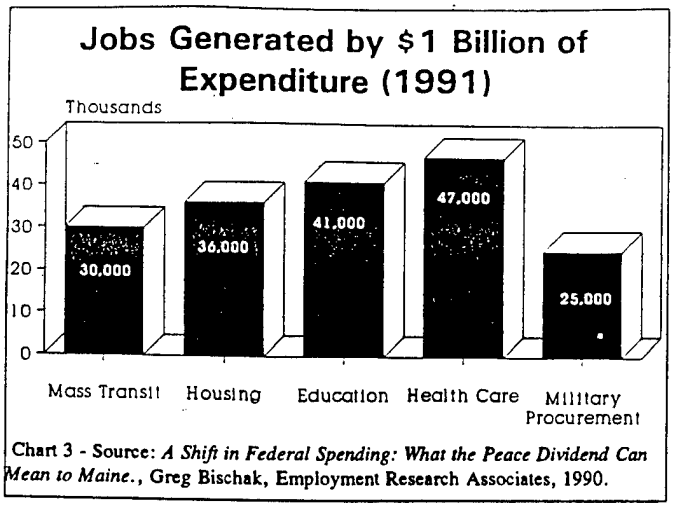


Chart 3 - Source: *A Shift in Federal Spending: What the Peace Dividend Can Mean to Maine.*, Greg Bischak, Employment Research Associates, 1990.

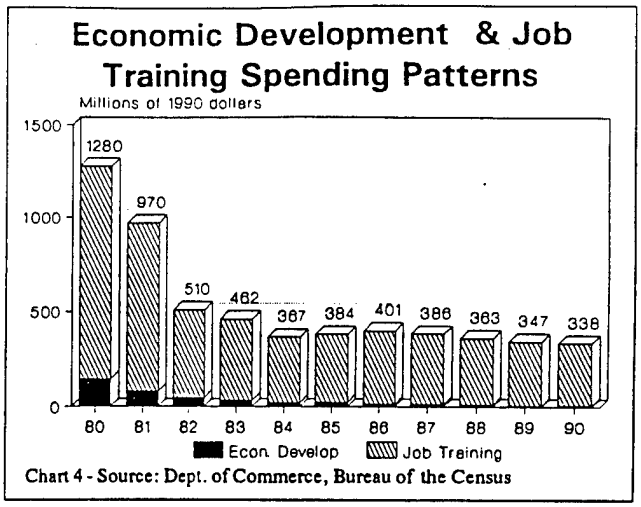


Chart 4 - Source: Dept. of Commerce, Bureau of the Census

What Are Californians Doing?

In the absence of appreciable federal funds, the state and several cities have started to work on the challenges of economic conversion. The efforts of the leading cities may well be taken as models by other communities.

In December of 1991, Governor Wilson directed the Office of Planning and Research to coordinate state-wide planning concerning base closures and to set up an environmental committee to oversee toxic waste clean-up.

The legislature has called for increased federal funding for conversion planning and for the state Department of Health to mandate clean-up standards for military installations slated for closure. Also, the Senate passed proposed legislation to create the California Defense Industry Conversion Local Assistance Program but included only $1 million in funds; the Assembly will consider the legislation next year for final passage.

The City of **Alameda's** Strategic Planning Committee is beginning to examine its relationship to its Naval Air Station.

With an emphasis on environmentally sound technologies, **Irvine** is in the midst of conversion planning, converting certain defense industries to electric vehicle development.

With about $2.7 billion of military funding coming into **Long Beach** annually (the fourth highest amount for any city in the U.S.), the city's Task Force on Economic Conversion is grappling with such high dependency on the Long Beach Naval Shipyard and on prime contracting.

Los Angeles County established the Aerospace Task Force in response to planned cutbacks. The Task Force has recently completed a report on military dependency and alternative industrial options, including regional mass transit systems.

San Diego has undergone a model process. Faced with the threat of economic decline, the city initiated a comprehensive economic development review, and included ``business development and economic conversion'' as one of six subcommittees. The subcommittee examined defense cutbacks, noting that California has lost 60,000 aerospace jobs since 1986, ``triggering an additional loss of 90,000 supplier, subcontractor, and service provider jobs'' (City of San Diego, 1991). Now the city has begun implementing task force recommendations through its Economic Conversion Program.

In **San Francisco**, the Arms Control Research Center's Base Closure and Conversion Campaign is working to increase public awareness and participation in Bay Area conversion, especially around environmental issues. In **Santa Barbara**, the Peace Resource Center's Peacetime Economy Project is facilitating coalition-building around conversion for appropriate community development.

Much of the work around economic conversion has been aided by the Center for Economic Conversion in Mountain View, the source for much of the above material, which for over a decade has been an international leader, resource center and clearinghouse for economic conversion efforts.

14 California Counties with the Greatest Amount of Military Prime Contracts, 1990:

County	Total Prime Contract
Los Angeles	$8.9B
Santa Clara	$3.3B
San Diego	$2.6B
Orange	$2.3B
Sacramento	$993.6M
San Bernardino	$904.6M
Santa Barbara	$595.3M
Ventura	$430.8M
Kern	$411.0M
Contra Costa	$350.2M
Alameda	$299.3M
Solano	$297.8M
San Mateo	$228.8M
San Francisco	$199.6M

Chart 5 - Source: *Dollar Summary of Prime Contracts and Awards by State, County, Contractor and Place*, DOD (DIOR), 1990

Next Steps: Economic Conversion for Sustainable Development

1. Increase Federal Commitment for Economic Conversion: Reinvest $2.7 Billion in California.

In fiscal years 1991 and 1992, almost 300,000 defense industry workers were laid off throughout the nation. According to the National Commission on Economic Conversion and Disarmament, an additional 120,000 workers have been laid off already in the current fiscal year.

In response, Congress passed last year a small $200 million, three-year conversion planning program (about five hours' worth of last year's military budget!). As has been mentioned earlier, little of that money has even been released. Were all the money to be released, and California to get a share equal to its share of defense spending, the state would get a paltry $9 million a year, literally several hundred dollars each for the thousands of workers and industries who would be affected by job loss.

The National Commission on Economic Conversion and Disarmament, on the other hand, has proposed a more ambitious $4 billion a year program for economic conversion and development. The following are the key elements of the program:

Economic incentives for advance planning to develop new or alternative products and to reorganize production, including grants and credits for retooling of production facilities and market research, especially in hard-hit areas;

Economic development assistance to help communities hard hit by loss of military contracting or base loss to reemploy workers and salvage small-medium size firms;

Retraining of laid-off workers, job relocation benefits, income maintenance and and planning and training assistance for managers, engineers and productions workers;

Small business assistance to help subcontractors and small-medium-sized businesses that are often the first affected by cutbacks;

A GI Bill of Rights for demobilizing military personnel, which would include income support for former troops to go to college or enter job training programs;

Were conversion work funded on this level, California could receive approximately $2.7 billion over a 5 year period, or $540 million a year, a much more realistic figure than the approximately $9 million/year under current legislation.

The National Commission proposes funding for the conversion program coming from the DoD's procurement and Research and Development budgets through a 4% set-aside to a dedicated trust fund for conversion and adjustment.

2. Build State and Local Research, Policy and Planning

California needs to analyze the nature and extent of its economic dependence on the military and defense industries. We need a plan to restructure California's economy to meet the needs of our citizens, and the plan must be based on community participation. We must redirect resources toward solving our problems and creating healthier and more stable local and regional economies.

The needs of the people of California need to be assessed together with the needs of industry and the needs of the environment. Well-planned environmental restoration can be combined with training and education as a way of reinvesting in local communities hit hard by plant and base closings and contamination. People need to be trained and equipment needs to be manufactured.

A state industrial policy which knits these strands together needs to be formulated. The state can then begin to rebuild in a sustainable manner, becoming the leader in new, globally-useful technologies and services.

3. Develop comprehensive economic conversion legislation that includes the following considerations:

Planning at all governmental levels for capital investment and alternative research and development, keeping in mind the principles of sustainable development;

Advance notification for workers of contract losses and layoffs;

A GI bill of rights, as outlined above;

Mandated participatory, decentralized alternative-use committees for private defense contractors, including blueprint-ready advance conversion planning (tax incentives are insufficient);

Tax incentives (necessary, though somewhat inefficient) for retooling and retraining toward sustainable development.

4. Encourage defense-dependent companies to begin long-term planning for their own participation in sustainable development. Steps they could take include:

Establishing alternative-use committees, consisting of representatives from both management and labor, representing all major constituencies within the company and community organizations;

Assessing the particular kind of defense dependency the company has, the skills and potential of the workforce, the physical resources of the company, etc.

Estimating the retraining costs for both management and labor, and,

Researching alternative products, services, and markets with an eye toward their use in a sustainable society.

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City of San Diego, California

Councilman Bob Filner

ECONOMIC CONVERSION PROGRAM

BACKGROUND

The defense industry in San Diego County accounts for almost 20% of the local Gross Regional Product, or about $10 billion. Defense is second only to manufacturing in bringing outside money into the local economy, and approximately one-fourth of local manufacturing is defense-related. Overall, San Diego accounts for approximately 18% of the defense spending in California.

The bulk of defense spending (approximately 80%) in San Diego is about evenly divided between military payrolls and defense contracting. The remaining 20% is distributed to retired personnel and for operations and construction.

PROJECTED DEPARTMENT OF DEFENSE BUDGET CUTS

Recent changes in the global political environment, the need to reassess national strategic assumptions, and federal budget deficits are contributing to significant reductions in defense expenditures. From 1985 to 1996, Department of Defense spending is projected to decline significantly.

Announced congressional reductions in defense spending of 12% from 1989 to 1995 would reduce San Diego's total active duty and civilian population on military payrolls by 20,500 workers--and would translate into a loss of $493 million in Gross Regional Product.

Based on a California Department of Finance study projecting DOD contract reductions between 22% and 36% over the same period, San Diego could lose between $758 millions and $1.24 billion in Gross Regional Product and experience a loss of 24,397 to 44,483 defense contracting and subcontracting jobs.

Using Department of Defense multipliers, which indicate that for each $1.00 of DOD spending, another $1.60 to $2.70 is generated in the region's economy, the total impact to San Diego's economy (military payrolls and DOD contracts plus multipliers) could approximate a loss of $3 to $6 billion in a total GRP of $52.4 billion.

From fiscal 1990 to fiscal 1992 alone, there was a real reduction in defense spending of 10 percent. Despite the costly conflict in the Middle East, the fiscal 1992 federal budget proposal also showed significant reductions.

EFFECT OF DEFENSE CUTBACKS

This overall trend towards major reductions in federal defense spending will create the following economic setbacks in San Diego:

* Layoffs of San Diego civilian employees of the military
* Reductions in military construction contracts and construction employment
* Loss of military procurement opportunities
* Layoffs at large aerospace companies as the volume of defense contracts is reduced
* A corresponding loss of subcontracting opportunities with prime defense contractors and resultant layoffs and closures of small companies
* Accompanying/ripple effects on other businesses, and local housing and retail markets

PRIME DEFENSE CONTRACT LAYOFFS

San Diego has already experienced the effects of DOD budget cuts. The San Diego Consortium and Private Industry Council records show that at least 1745 San Diego workers have been laid off since 1989 as a result of DOD cutbacks. These jobs are prime contract jobs and do not take into account the multiplier effect--or the jobs generated in other sectors of the economy as a result of prime defense contract employment. The 1978 Update of the Input/Output Model, prepared by the Copley International Corporation for the County of San Diego, determined that one prime defense contract job creates 1.66 total jobs--or an additional .66 jobs in other sectors of the economy. Thus, if 1745 workers have already been laid off in prime defense contracts, we can be fairly certain that at least 2900 workers have been laid off throughout the San Diego region.

The San Diego Consortium has received reports that another 1950 workers are scheduled to be laid off in the next year or two. Using the Input/Output model, this number could result in layoffs of up to 3237 workers.

SAN DIEGO CITY COUNCIL SUBCOMMITTEE ON ECONOMIC CONVERSION

Due to the severe impacts that these cuts are already having on the San Diego economy, a group of San Diegans rallied together and asked the City Council to begin planning for the reductions in defense spending. In response to this request, the City Council unanimously approved the formation of the San Diego Economic Conversion Subcommittee of the City Council. The Subcommittee then formed an advisory group consisting of representatives from the military, defense contract industries, such as General Dynamics, Rohr, Cubic, and NASSCO, labor unions, local universities, the County of San Diego, the San Diego Association of Governments, the Economic Development Corporation, San Diego Consortium and Private Industry Council, the City of San Diego's Economic Development Department, the Economic Conversion Council, and the Institute for Effective Action.

The charge of the advisory group was to develop a plan which allows our local economy to prepare for the current and impending cuts by diversifying and strengthening production in a way which reflects reduced levels of defense spending.

The advisory group has drafted the following program for presentation to the City Council. The group is requesting that the Council adopt the program and authorize the Economic Conversion Subcommittee's ongoing efforts to help implement the program over a period of two years.

ECONOMIC CONVERSION PROGRAM

PURPOSE

While San Diego's economy has proven remarkably strong during past defense budget cuts and national recessions, there is no question that current and future cuts in military spending have already affected, and will continue to affect our economy. Rather than continue to lose thousands of jobs and suffer a reduced Gross Regional Product, it is critical that we plan for these cuts to ensure that our local economy is not adversely affected by further reductions.

The purpose of this program is to diversify and strengthen our local economic base in order to decrease our vulnerability to military cuts. This objective will be accomplished by predicting the effects of planned reductions and redirecting resources, development activities, and employment training towards civilian production. Simultaneously, the program seeks to ensure the strength and growth of local industries in general.

PROGRAM

This program shall affect several areas of economic planning and will require the cooperation of several public and private agencies, such as those represented on the Economic Conversion Advisory Group (see section on San Diego City Council Subcommittee on Economic Conversion). Effective implementation of this program will require that we assess the impacts of proposed cuts, provide layoff assistance, develop programs to retain, replace, and expand existing employment, and provide and initiate legislative advocacy to aid in San Diego's economic adjustment efforts.

The following efforts shall be undertaken to assist San Diego's adjustment to military reductions:

1. Assessment of Impacts

It will be necessary to determine the extent and magnitude of the impacts of military reductions on the San Diego economy in order to identify the City's adjustment needs and to obtain resources for future planning.

a. The State Employment Development Department, in cooperation with the San Diego Consortium, the City's Economic Development Department, and the Economic Development Corporation, shall analyze existing information to determine the number of layoffs which have occurred as a result of military reductions. Additionally, the Consortium shall conduct interviews/surveys of the largest prime contractors in the area to determine the number of layoffs projected by these companies and the potential for assistance. This information shall be utilized to identify and interview subcontractors who might also be affected.

b. Representatives of local military facilities should be interviewed to obtain corresponding information on layoffs of local military personnel.

c. The City Council shall use these calculations to apply for economic planning assistance from the Federal Office of Economic Adjustment. If federal assistance is obtained, the City Council should consider using those planning resources to fund an economic adjustment position in the Economic Development Department and some of the various activities mentioned in this document. Regardless of whether this assistance is received, other federal and state funding should be pursued for the same purposes by the City Council, the City's Economic Development Department and the Department of Legislative Services.

d. The City Council shall also assist the San Diego Consortium to apply for additional funding which may be available from the Department of Labor, Job Training Partnership Act, Employment Training Panel, or any other local, state, or federal funding sources. These grants shall be used to finance employment and retraining activities to assist increasing numbers of displaced workers.

e. The City Council will assume a leadership role in encouraging representatives of the largest prime contractors to meet on a regular basis with a group of representatives from the Economic Development Department, the Economic Development Corporation, the San Diego Consortium, the San Diego Economic Conversion Council, and labor organizations. The purpose of these meetings shall be to discuss the status of employment at each facility. The City Council or the Economic Conversion Subcommittee shall consider forming an aerospace task force to perform the same function for industries involved specifically in the aerospace industry.

2. Layoff Assistance

a. Using the information from the survey/interview process, the San Diego Consortium and the Economic Development Corporation shall begin identifying the occupations and job skills of potentially displaced workers in order to create a profile of the employees most likely to need employment assistance. Companies which might need those displaced workers should also be identified.

b. The Consortium, the Economic Development Corporation, and the Chamber of Commerce shall encourage commitments from unaffected companies to consider hiring these displaced workers. Federal and State tax credits, such as those offered in the Enterprise Zone, should be considered as one method of encouraging employment of displaced workers.

c. The Consortium and the Employment Development Department shall assist workers already displaced with re-employment and retraining services, entrepreneurial training, business development assistance, and supportive service assistance programs.

d. The San Diego Consortium shall establish a communication hotline for layoffs/base closures and a complementary hotline should also be developed for companies needing employees in order to match supply with demand.

e. The State Employment Development Department, the San Diego Consortium, the Economic Development Corporation and the Economic Development Department shall cooperate with labor organizations to develop a public relations program to make affected workers aware of reemployment and retraining opportunities offered by the San Diego Consortium and the Employment Development Department.

3. Retention of Existing Employment

To the extent possible, affected businesses should be assisted to minimize or avoid layoffs and closures.

a. The Economic Development Department shall work with the City Manager, the Economic Development Corporation, SANDAG, MTDB, CALTRANS, the Port, the EPA, and other municipal, state, and federal agencies to identify public works and commercial opportunities for affected businesses. The Economic Development Corporation shall conduct surveys/interviews of local affected industries to match existing defense-related technologies with technologies required for planned public and private projects. Similarly, the survey/interview process should evaluate the extent to which comparable wages and benefits are offered for public works or private sector projects which adopt significant defense-related technologies.

Examples of public and private projects which require the kind of technology utilized by defense-related industries include:

*Transportation Control and Management Systems

-High Speed Rail Systems

-Light Rail Transit Systems

-Intelligent Vehicle Highway Systems

*Ship Repair

*Commercial Aircraft Production

*Environmental Information Systems

-Smart Irrigation Systems

-Low Power Electronic Lighting Ballasts

*Clean Water Act Facilities

-Water Reclamation Facilities

-Sewage Treatment and Plants

-Desalinization Plants

*Environmental Clean-up

-Alternative Energy Production

-Toxic Waste Clean-up

*Adaptive Technologies for the Physically Disabled

b. The City Council, the County, and other local jurisdictions shall encourage public agencies to contract with affected industries for technology needs. The City Manager shall review contracts which will be issued for municipal projects to determine whether any of these public works involve technology which could be provided by affected industries. Public officials and SANDAG shall encourage other San Diego County cities and public agencies such as MTDB, CALTRANS, and the Port to establish a similar review process.

c. Additionally, Federal Economic Adjustment planning assistance should be sought for specific demonstration conversion projects.

d. The City Council shall consider authorizing a Request for Proposals to local universities for a study to identify public works projects which could utilize technologies or adapted technologies provided by affected, local industries.

e. The Economic Conversion Subcommittee shall arrange a series of workshops/discussions with local educational institutions. The workshops will emphasize the changing condition of the San Diego economy and employment and educational opportunities. Career development departments of these institutions should be involved in Subcommittee's activities.

f. The Small Business and International Trade Center shall design and offer assistance programs to small and medium businesses to assist in transition to new markets and products. These programs should include one-on-one consultation and technical assistance to encourage businesses to gain entrance into international export fields, explanation of the mechanics of trade financing, and marketing assistance.

g. Local, state, and federal legislators shall work with the Legislative Services Department to advocate increased federal funding for Small Business Development Centers to target programs and financing for small businesses affected by military reductions.

h. The San Diego Consortium, the Economic Development Department and the Economic Development Corporation should also make businesses aware of the services offered by the San Diego Certified Development Corporation which assists viable businesses through the expansion, acquisition, remodeling, or rehabilitation of real property by providing long-term, low-interest, fixed-asset financing.

g. The City Council should also seek funding from the Office of Economic Adjustment to augment existing procurement programs for small businesses which lose a significant portion of their clientele as a result of defense cutbacks. This service would provide data on small defense contracts available and their specific contract requirements. This procurement service should be coordinated and organized as part of a larger, comprehensive procurement effort.

h. The City Council shall send a letter to local companies encouraging them to buy products manufactured and services provided by local companies. The Economic Development Corporation shall make available and distribute a list of local manufacturers, contractors, service providers, and their products and services.

i. The City Council shall request that the Port District review its leasing policy in regard to defense-related industries. If appropriate, the Port should be encouraged to offer reduced rents to affected industries--especially if those industries may be forced to relocate outside of the San Diego area.

4. Replacement of Existing Employment

To ensure the longevity of a vital and viable local economy, it will also be necessary to pursue actively the expansion of existing businesses and the attraction of new businesses to the San Diego area.

a. Consolidation and closure of military bases is occurring rapidly in other cities across the nation. A strong commitment by local officials to existing military facilities may ensure continued operations and may create an environment conducive to the location of expanded military operations from facilities closed elsewhere. Therefore, the City Council should be encouraged to send a letter to local military officials expressing support for existing operations and interest in the location of additional facilities in San Diego. A forum should be created for ongoing dialogue with the armed forces.

b. The Economic Development Department and the Economic Development Corporation shall target industrial attraction and expansion efforts to help replace firms affected by defense cutbacks and economic adjustment actions on a company specific basis. These agencies shall develop a program of replacement activities including facility re-use and employee buy-out.

c. In order to facilitate the expansion of existing facilities and the attraction of new industry, the City Manager and the Planning Department shall aggressively seek to improve permit processing. In order to achieve this objective, the City Manager and the Planning Department shall work with the Economic Development Corporation to reinstate the Development Coordinating Committee, a group assembled to help facilitate the approval of the planning and permitting process in an expedient and orderly fashion. The group will be comprised of representatives from various city departments including Water Utilities, Engineering and Development, the Planning Department, the Building Inspection Department, the City Attorney's office, the Property Department, the Fire Department, and representatives from the private sector. This coordinated approach to permit processing should reduce duplicative or conflicting requirements of the various city departments and expedite the issuance of permits.

d. The City Council shall direct the Economic Development Department to research and target federal and state tax credit programs towards eligible San Diego firms affected by cuts--and towards businesses who elect to hire workers displaced from the affected firms.

e. The City Council shall also consider deferring, reducing, reimbursing, or waiving permit fees and urban impact fees for affected industries, targeted replacement industries, or for certain new construction projects which provide significant new employment potential and tax revenue and have considered locating outside of San Diego.

f. The City Council shall consider backing performance bonds, Industrial Development Authority Bonds, California Pollution Control Financing Authority Bonds, or other financing mechanisms to attract new industries and/or assist local industries in their competition for large contracts, and in their efforts to expand or diversify existing facilities.

g. The City's economic agencies shall promote the use of state assistance in the areas of employment training, financing, and environmental regulations, to affected San Diego firms.

h. The City Council and the City's economic development agencies shall actively support applications for and expansion of the Foreign Trade Zone and the Enterprise Zone, which provide waivers of customs duties and tax incentives to stimulate international trade, business investment and employment opportunities.

i. The City's economic development agencies, in cooperation with the World Trade Association, the International Trade Center, and the International Trade Administration, will actively promote export assistance.

5. Legislative Initiatives and Advocacy

a. The Department of Legislative Services shall work with the Economic Development Department and the Economic Conversion Council to develop a program for tracking and providing advocacy for state and federal legislation supporting San Diego's economic adjustment efforts and employment development programs.

b. These same agencies shall monitor available grants closely and ensure timely applications for economic adjustment and employment development funding.

c. The Economic Conversion Advisory Group and Subcommittee should provide ongoing monitoring and support for the activities listed above and for initiation and advocacy of legislation benefitting such efforts.

d. The Economic Development Department, the Economic Development Corporation, and the San Diego Economic Conversion Council shall work with SANDAG to distribute and promote this program to other San Diego cities, the County, public agencies, and potentially affected industries.

Sources:

The statistics in this document were provided by:

1) The City of San Diego's Economic Development Department

2) The Economic Research Bureau of the Greater San Diego Chamber of Commerce

3) The San Diego Consortium and Private Industry Council

SAN DIEGO TRIBUNE

A Copley Newspaper

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San Diego, California, Wednesday, July 25, 1990 Telephone 299-3131 Page B-6

City must prepare for new economy

By BOB FILNER

SAN DIEGO

The federal government spends more than $200 billion in military dollars every year in cities and counties across the nation. Defense expenditures by the federal government in San Diego alone total nearly $10 billion annually, accounting for more than 20 percent of San Diego's economy. The military is San Diego's largest employer — with more than 170,000 active duty personnel and civilians on military payrolls.

Recent changes in Eastern Europe and the Soviet Union, combined with our huge federal deficit, should contribute to sharp cuts in U.S. military spending. Annual cuts of at least 2 percent and maybe much more are projected through 1995.

These cuts already are taking their toll on the American work force. Thousands of workers have been laid off in Southern California because of military cutbacks. Both McDonnel Douglas and Lockheed recently announced plans to lay-off more than 4,000 workers each from their aerospace plants in Long Beach and Palmdale. Several other military-related industries have announced similar cuts.

San Diego and all American cities and counties dependent on military spending must be protected from economic hardship as these cuts occur. Even cuts of 2 percent could mean a $400 million loss of jobs and industry in San Diego.

The "Dollar for Dollar" Act is envisioned as a framework for a national policy to protect communities like San Diego which will bear the immediate brunt of military-spending reductions.

The "Dollar for Dollar" Act would require that any cuts in defense spending in San Diego be returned to San Diego, dollar for dollar, to be spent on such "economic security" needs as job training and placement, neighborhood crime and drug prevention, health care, housing, environmental protection and sewage system costs.

These spending shifts also would include adjustment assistance to military related workers, including support services, retraining and relocation benefits.

The funds cut from military spending in San Diego would be deposited into a *local* Economic Security Fund and apportioned by *local* officials.

For the past decade, needed public and social investments have been squeezed out by rising military spending. Reinvesting defense cutbacks in public programs would bring both human and economic benefits. Investing in our human resources would give the next generation of Americans a fair chance to lead productive lives and reduce the need for expensive remedial programs.

At the same time, it has been shown that investment in social, educational, health, housing and environmental needs creates more jobs and a larger tax-base than equivalent investments in the military.

Another objective of this program is to assist military-related industry in the transition to alternative civilian production. With local assistance and federal financing, the possibilities for alternative uses of diverted employees and technology are almost limitless. Constructive civilian options for which military industries are well-suited include pollution control, toxic waste treatment and environmental clean-up, energy production, transportation systems, biotechnology, electronics and computer science.

Reinvesting military dollars in public and transition programs will guarantee that, in the midst of a rapidly changing world climate, military cuts will be welcomed rather than feared by those whose livelihoods depend on this sector of the nation's economy.

At my urging, my colleagues on the City Council recently voted to endorse the concepts embodied in the "Dollar for Dollar" Act. The council also approved the formation of an Economic Conversion Subcommittee, under my chairmanship, to prepare San Diego for a smooth and orderly transition to a more stable, diversified economy.

It is our responsibility to provide now for the future economic security, health and welfare of our residents. San Diegans deserve the opportunity for peace and prosperity. □

Bob Filner represents the 8th District on the San Diego City Council.

San Diego Daily Transcript

Economic development strategy

The San Diego economy has always had an impressive immunity to the effects of recessions and other economic downtrends. While other cities struggled with the impacts of recessions, San Diegans sat back and relaxed, knowing that our city would be protected. This traditional economic resiliency has allowed politicians and other decision makers to ignore the realities of planning for the future of our local economy.

We can no longer sit back and relax. Dramatic cuts in federal military spending are squeezing the defense industry, the second-largest sector of San Diego's economy behind manufacturing. This industry contraction is being compounded by powerful competitive forces that are leaving our city and state with declining share of the shrinking defense budget.

Viewpoint
by Bob Filner

At least 2,000 San Diegans have already lost their jobs as a result of this industry contraction. Another 2,000 are scheduled to be laid off within the next year, not counting the 5,000 General Dynamics workers who may lose their jobs as a result of a 30 percent reduction in GD's national work force. Many other defense industries such as Solar Turbines and Rohr have hinted they may move operations elsewhere where manufacturing is cheaper and regulations less cumbersome.

Why is San Diego losing its economic edge in this industry? Recent changes in the global political environment and federal budget deficits are contributing to 20-30 percent cuts in military spending between now and 1995. These reductions alone are enough to seriously affect San Diego's defense industry and workers. However, other powerful forces such as rising costs, weak political support, complex regulation and growing competition are accelerating the decline in the industry.

Local decision makers must begin to deal with this decline before our economy is further impacted. The City Council's Economic Conversion Subcommittee, which I chair, has just completed an economic conversion program which should help us begin to deal with some of these issues. The program attempts to assess the impacts of military cuts on our local economy, match affected workers and technologies with civilian opportunities, and strengthen and expand local industries.

During our efforts on the subcommittee, we became painfully aware of the lack of local support for this industry, and for other businesses in general. And, while we attempted to include in the program an emphasis on the need to create an atmosphere that encourages business growth and expansion, it is clear that more must be done to ensure the health of important local industries.

There are many steps that local legislators can take to bolster industry in San Diego. First, a comprehensive economic development strategy must be fashioned for the city. This strategy must acknowledge existing trends in business, such as the decline in the defense industry and the growth of manufacturing competition in other states. The strategy should identify areas where local decision makers can help correct past mistakes, and replace costly and complex regulations with incentives for growth and expansion. Finally, the strategy should include an attainable plan, direction and vision for our economic future.

Second, the city's Economic Development Department, always relegated to a back seat in the Property Department, should be given the independence and authority to implement such a strategy. Without an effective implementing agency, any visionary economic plan will be destined to sit on a shelf, gathering dust. With the help of the Economic Development Corp. and the Greater San Diego Chamber of Commerce, a more effective Economic Development Department could provide a powerful boost to the local economy.

Finally, a forum must be created for ongoing dialogue between government, business and industry leaders, labor and community representatives, and local colleges and universities. This partnership can help play a larger, more positive role in shaping the future of San Diego's economy.

These three steps, plus a commitment to economic conversion, will help keep San Diego's economic future bright.

Bob Filner is deputy mayor of the city and councilman representing District 8.

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THE TRIBUNE

APR 5 1990

Filner seeks dollar-for-dollar 'peace dividend' here

By Jeff Ristine
Tribune Staff Writer

The San Diego economy has thrived under the Reagan-era military buildup, and now a city councilman wants to make sure it benefits just as much from any Gorbachev-era "peace dividend."

Councilman Bob Filner, speaking amid workday activity at Campbell Shipyards, yesterday proposed that any future cuts in federal defense spending in San Diego be "returned" for job training, crime- and drug-prevention programs, housing and other local needs.

"The cities' needs have been neglected for some time," said Filner, who donned a white hard hat for the press conference. In a separate but related move, he added that San Diego must take steps to bring about a "transition to a more diversified, peace-based economy."

Filner was embracing a concept being called economic conversion, a movement associated with a variety of politically liberal causes that far predates the recent improvement in East-West relations. In its essence, it proposes a shift in funds from the military budget into social programs and other domestic needs.

As a practical route to that goal, Filner, said he is supporting a proposed "Dollar for Dollar Act" that would require the federal government to deposit all money cut from military spending into local "economic security funds" controlled by local governments.

Filner found some difference of opinion later in the day when he carried the proposals to a council Rules Committee meeting.

Councilman Ron Roberts refused to support the "Dollar for Dollar Act," even in concept, because it has not yet been drafted and because he said it "doesn't say anything about the deficit."

Roberts and Mayor O'Connor also declined to support Filner's call to create a council subcommittee devoted exclusively to the economic conversion issue. Roberts said the subject could be better tackled by experts from business, labor and the military who then would report back to the council.

Both proposals, however, were supported by other members of the Rules Committee: Wes Pratt, Abbe Wolfsheimer and Linda Bernhardt.

Filner said he got his ideas from a group called the San Diego Economic Conversion Council. "There's a need for military," said one of its board members, Crosby Milne, "but not nearly what's involved now."

With the fall last year of several hard-line Communist governments in Eastern Europe and the improvement in U.S.-Soviet relations, there has been considerable talk in Wash-

Please see FILNER: B-7, Col. 3



COUNCILMAN BOB FILNER
"Cities' needs neglected"

Continued From B-1

ington circles of a "peace dividend" that could be realized through reductions in the nation's $300 billion defense budget.

President Bush and others have suggested earmarking part of the savings for foreign aid to Eastern Europe, Panama and Nicaragua; others have looked forward to a reduction of the federal deficit.

But Filner said he agrees with those who would like much of the military money that has been spent locally reallocated to local needs such as public works, improvements to the public infrastructure, health care, environmental protection and housing.

Filner said he fears that as much as $400 million a year could be lost from the San Diego economy as a result of trimming of the Pentagon budget. However, Judith Bauer, acting director of the mayor's Department of Intergovernmental Relations, said in a report to the Rules Committee that "San Diego does not appear to be scheduled for significant reductions" and may actually get a boost by means of permanent ship transfers here.

To protect the region from the effects of any cuts, Filner said, the city should make plans to develop jobs in related fields for those who have benefited from the military economy.

"Campbell (Industries) is an example of just the thing that we need," he said. While the company does part of its work for the military, he said, "they have the plant here to do things that we need in the civilian economy."

Filner said he wants himself, Pratt and Wolfsheimer appointed to his proposed conversion subcommittee that would try to promote such changeovers.

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Council panel to prepare for peace

By Pat Flynn
Staff Writer

Anticipating a significant reduction in defense spending in San Diego as a result of waning superpower tensions, the City Council appointed a three-member subcommittee yesterday to oversee the city's transition to a "peace-based economy."

Councilman Bob Filner, who prepared the so-called "dollar-for-dollar" resolution, told his colleagues that military-related spending totals about $10 billion annually in the area. "That accounts for about 20 percent of our regional economy," and about 170,000 jobs, he said.

It seems likely that Congress is prepared to cut defense spending by 2 percent, Filner said.

"These cuts could and will seriously impact the city of San Diego," Filner said, urging lawmakers to support a resolution ensuring "any federal funds cut from the military would be returned to San Diego dollar for dollar" to ensure the city's "economic security."

The subcommittee, composed of Filner, Wes Pratt and Abbe Wolfsheimer, will meet occasionally, report on a quarterly basis to the council's Rules Committee and make a final report to the full council by next April 1. Its charge is to prepare for the "orderly and smooth transition of the San Diego economy to a peace-based economy."

The proposal was unanimously supported by the council, with Mayor Maureen O'Connor absent. Before casting his yes vote, however, Councilman Ron Roberts won a promise from Filner that the subcommittee's final report will address the federal government's need to reduce its budget deficit.

"There has to be some recognition in any resolution that this council puts forth (that) the Congress as a first order of business should address the deficit," Roberts said.

There was no mention during the debate of the city's own looming $60 million budget deficit.

City manager John Lockwood has warned the council that police, fire, park and library services will have to be cut unless more revenue is raised. Yet various council members have vowed that they will see to it that such important services are not eliminated, while failing to agree on new taxes.

Among those addressing the council was Dan Peoples, representing National Steel & Shipbuilding Co. (NASSCO). Peoples said that the shipyard currently is the city's 16th-largest employer and that 94 percent of its $300 million in revenue last year came from military contracts.

"We need to make the transition to building commercial ships for the world market," he said, adding that the company needs the support of the government to do so.

Councilman Bruce Henderson offered guarded support of Filner's plan, but warned his colleagues to be wary of the Soviet Union and cited current tensions between the Soviet Union and Lithuania.

"I believe very strongly that there's a great danger that the euphoria in Eastern Europe could quickly turn to disaster," Henderson said.

He went on to say that he believes former President Ronald Reagan waged "economic war" against the Soviet Union during his two terms. "I laud Ronald Reagan ... We won," Henderson said. "Thank God for Ronald Reagan."

Councilwoman Judy McCarty added her support to Filner's proposition while expressing doubt that the so-called "peace dividend" will materialize. "I support the motion," she said, "because I don't think it does any harm and it makes us feel good."

San Diego: A City In Search of the Peace Dividend

SAN DIEGO HAS ALWAYS BEEN THE KIND of city that makes the Pentagon swell with pride. Its harbors are crowded with Navy ships. Sailors (and their spending power) have always been welcome. But the San Diego City Council has seen the future, and it's brimming with military-spending cutbacks. As a result, councilmembers are trying to take a leadership role in planning for the nation's future by endorsing and promoting a concept called the "Dollar for Dollar Act."

San Diego Councilmember Bob Filner has led the council campaign that is urging Congress to adopt legislation mandating that cuts in military spending in America's cities be returned to those cities, dollar for dollar. These cuts would be spent on "economic security" needs such as job training and placement, neighborhood crime and drug prevention, health care, housing, environmental health, infrastructure and public works.

"Sharp reductions in U.S. military spending are coming," says Filner. "San Diego — and all American cities and counties — must be protected from economic hardship when such cuts occur."

The Dollar for Dollar Act was drafted by the Institute for Effective Action in San Diego. The institute took the concept to Filner, who introduced it to the city council, where it won unanimous support.

"Some councilmembers had questions about it, but no one could go on record as opposing money for the city," says Donald Cohen of the institute. "Everyone recognizes that the military budget is going to be dramatically reduced, and I would expect the councilmembers to support rebuilding their community, no matter what end of the political spectrum they are on."

As well as endorsing the Dollar for Dollar Act, the San Diego City Council voted to create a three-person economic conversion subcommittee, chaired by Filner. The function of the subcommittee will be to hold hearings on and prepare plans for the transition of San Diego to a peace-based economy.

Federal military expenditures in San Diego now total nearly $10 billion a year, accounting for more than 20 percent of the region's economy.

Meanwhile, California State Assembly Member Delaine Eastin introduced a resolution in her state's legislature, urging Congress and the President to enact the Dollar for Dollar Act. As described in the resolution, the proposed legislation would "require that, for 10 years from the time that any federal funds are cut from military spending in a county, these funds shall be shifted, dollar for dollar, into an Economic Security Fund for that county."

According to the resolution, "[F]or each base closing or weapons contract canceled, the dollars originally allocated to those projects would remain in the same county to retrain and place affected workers and to rebuild the community." It also states that funds "originally allocated to overseas projects would be shifted, dollar for dollar, into a National Economic Security Fund for national initiatives relating to job training and placement, health care, housing, environmental health, infrastructure, technology transfer, and public works projects."

Cohen hopes that the San Diego City Council and the California legislature represent just the beginning of widespread support for the Dollar for Dollar idea. "We're looking for people like Councilmember Filner in other parts of the country to take this concept and run with it, becoming organizers within their own constituencies," says Cohen.

SOURCES: Bob Filner, San Diego City Council, 202 C St., San Diego, CA 92101 (619-236-6688); Donald Cohen, Institute for Effective Action, 5380 El Cajon Blvd., San Diego, CA 92115 (619-582-3990); San Diego Economic Conversion Council, 405 W. Washington St., Suite 143, San Diego, CA 92103 (619-278-3730); California Assembly Member Delaine Eastin, State Capitol, Sacramento, CA 95814



San Diego Councilmember Bob Filner

"Sharp reductions in U.S. military spending are coming. San Diego, and all American cities and counties, must be protected from economic hardship when such cuts occur."

Testimony by
Deane Dana, Chairman
Los Angeles County Board of Supervisors
before the Defense Conversion Commission
August 6, 1992
Long Beach, California

Mr. Chairman and distinguished members, I appreciate the courtesy you are extending to Los Angeles County in giving me the privilege to present this testimony.

I am Deane Dana, Chairman of the Los Angeles County Board of Supervisors. Traditionally, ours has always been an area of great expectations. The County has a population larger than 43 states, excluding California. Its income is exceeded by only three states--California, New York and Texas.

Yet ours is a troubled area with an unemployment level reaching near 10 percent and the numerous problems related to unemployment. One of the primary reasons for a rate substantially higher than the rest of the nation is the downsizing in the defense industry. From 1989 to 1991 up to 126,000 jobs were lost either directly or indirectly due to defense downsizing. From 1992 to 2001 another 184,000 jobs will be lost. It might have been tempting to do as some suggested, namely, let the free market system make the necessary adjustments. But the downsizing was a political decision, not a market decision, and government at all levels should feel some responsibility for counteractive measures.

To that end, on May 22, 1990, the Los Angeles County Board of Supervisors requested the Economic Development Corporation of Los Angeles County, the EDC, to form the Aerospace Task Force to recommend an economic strategy for the County to mitigate problems created by aerospace downsizing. Subsequently, the Board of Supervisors authorized the Community Development Commission of Los Angeles County, the CDC, to apply for a grant from the Economic Development Administration of the U.S. Department of Commerce to support the formulation of the strategy of the Task Force. The Task Force attracted some 200 members from virtually all walks of life. The Economic Roundtable was selected by the Task Force to undertake the research and analysis required for development of the strategy.

On March 17, 1992, that strategy was presented to the Board of Supervisors and the

Economic Development Administration. The strategy called for a combined local, state and federal response. It compared the undertaking to relief efforts after a natural disaster.

The research revealed the following information:

Los Angeles County leads all of the counties in the U.S. as a recipient of defense funds by a wide margin. In Fiscal Year 1990, the Department of Defense reported that 1,284 Los Angeles firms received 4,184 defense contracts worth $8.881 billion.

A fall in defense expenditures within the County to a level of $4.9 billion in 1995 is projected. Such a defense expenditure reduction would have the following additional impacts, beyond the job loss, upon the County between 1992 through 2001:

- An increase of $362.8 million in unemployment insurance costs and $147.4 million in increased public assistance costs;
- Cumulative losses of $86.4 billion in personal income and $23.8 billion in retail trade;
- The construction of 122,000 fewer houses and $6.3 billion less in commercial construction;
- Cumulative losses of $2.27 billion in public sector revenues.

If defense expenditures in the County decline to a level of $3.5 billion resulting in projected direct and indirect employment loss of 420,000 by 1995, costs to the community will be much greater. In general, every eight dollars in lost defense revenue will cause a twenty-eight dollar loss for the County's economy.

The proposed closure of the Los Angeles Air Force Base in El Segundo would only worsen the situation. The operation of that base pumps $1 billion into the local economy and provides 17,000 jobs. In addition the base has $3.5 billion in contracts in Los Angeles County.

That is a mere snapshot of the devastation with which we are contending. But perhaps the impact can be more forcefully demonstrated by the words of just one person, a businessman worried about his company, his employees. Allow me to read to you a few paragraphs from a letter dated July 15, 1992, by William C. Grunau. He is president of Daico Industries, Inc., a

company reduced from 210 employees to 116 because of defense reductions.

"Food stamps, unemployment and the like may help an unemployed aerospace worker temporarily, but they do not prevent me from continuing to have layoffs as a result of a market in a free fall decline. The assistance I was hoping to find was something that would help me redirect the company towards commercial business.

"Daico is a 25 year old company that has always specialized in Rf/microwave components. More specifically, our company produces high performance, high reliability components that tend to be needed exclusively in military radar, countermeasures and communications systems. While we do sell some devices to commercial applications such as FAA radar, commercial communications, etc., this market has not proven large enough to absorb all of the displaced military suppliers. Consequently, competition is fierce, prices are tumbling, and our backlog and profitability continues to erode.

"Our production facility and our design abilities are very specialized, out of necessity, to meet the DoD's requirements. These special capabilities that have served our company so well over the past 25 years are now anchors around our necks. On the one hand, we must maintain these special capabilities to continue to get what little DoD business is left. On the other hand, this tends to prevent us from moving into commercial products.

"The assistance I am hoping to find is help in redirecting our company so that we can continue to provide jobs and contribute to the local economy rather than become a burden."

Stories similar to this are all too commonplace in Los Angeles County. Thus when the Board of Supervisors received the Aerospace Task Force strategy, the Board promptly acted, approving in April a series of actions which includes the following:

- Direct the CDC to submit an application on behalf of the County to the Economic Development Administration, the EDA, for $9.75 million in implementation funding.
- Direct the CDC to develop a County Business Loan Fund, a revolving loan fund focusing

on loans to businesses creating jobs for dislocated aerospace workers and establishing businesses in communities impacted by aerospace downsizing.

- Direct the CDC to keep the Board updated on the development and effectiveness of the West Altadena Technology Incubator, a proposed business incubator to be located in the West Altadena Redevelopment Project Area.
- Support the development of affordable housing and a temporary housing voucher program to keep the Air Force based in El Segundo.
- Direct the Chief Administrative Office, the CAO, to report on the Task Force's suggested offset policy.
- Support efforts to expedite the State's pass through of job training funds, enable those funds to be used more flexibly, mandate job training programs to meet the workers' needs, increase the level of funds, and ask the County Private Industry Council to examine longer term training programs as well as other training programs around the country.
- Continue to support workers' comp reform which protects the rights of worker and rewards for legitimate claims, yet recognizes and reduces costs for businesses of unwarranted claims.
- Support the Air Quality Management District's "New Directions" and "Marketable Permits".
- Endorse technology transfer and development programs such as the Showcase Electric Vehicle Program and CALSTART.
- Direct the EDC to recommend categories of candidates for a Los Angeles County Aerospace High Technology Council.
- Direct the EDC to establish a Los Angeles Technology Resource Center to provide consulting, training, and seed capital to firms trying to make transitions from aerospace into other industries.
- Direct the Treasurer/Tax Collector and the CAO to report back to the Board on the

feasibility of establishing a California Venture Capital Fund, aimed at lending money to transfer technology from aerospace and defense uses to commercial applications within California (i.e. the electric car).

Since the Board directive, the CDC was invited by the Deputy Secretary of Commerce, Rockwell A. Schnabel, to submit an application to the EDA totaling $5.575 million. The CDC, which will be the grant administrator, will commit $1,858,333 as a match to the EDA's $5,955,000.

The High Technology Council, using $675,000 in EDA funds, will be a collaboration of the public and private sectors to mitigate the impact of defense downsizing. That partnership will include labor; industry and business representatives; presidents of the University of California at Los Angeles, the University of Southern California, and the California Institute of Technology; Los Angeles County Private Industry Councils; the State legislature; the California Congressional delegation through its California Institute for Federal Policy; and the five supervisorial offices of Los Angeles County.

With $900,000 in EDA funds, the Los Angeles Technology Resource Center will provide consulting, training, and seed capital to small and medium-sized businesses. Seed capital will fund pilot projects upon in-depth evaluation and analysis of proposals. The Technology Resource Center may also create a venture capital entity to service the County's aerospace/high technology center.

The County Business Loan Fund, which will be administered by the CDC's Business Finance Center, is a revolving fund to make available long term, low down payment, reasonably priced financing for new and existing businesses. Initially the program is designed to create or retain jobs for dislocated aerospace workers or to help businesses in communities hardest hit by aerospace downsizing.

The County Business Loan Program will create a large investment capital pool through two-to-one leveraging: every dollar of loan program money will be matched by two dollars of private funds. The $4 million County Business Loan Fund will create a $12 million investment

pool to initially address aerospace industry restructuring. Over the course of 20 years, it is likely the loan fund will be loaned and repaid four times, with a total impact of $48 million.

I think it is apparent that county government is doing what it can in its limited capacity to mitigate the impact of downsizing. Yet the pain continues. More needs to be done at the federal level and so I recommend the following actions:

- Create a more formal, rational and well thought-out planning process for transition, with people like William C. Grunau and his employees uppermost in our thoughts;
- Retain the Los Angeles Air Force Base;
- Delay DoD manpower reductions until the recession ends;
- Urge the federal government to contract with aerospace/defense firms for specific non-military production and research projects that will benefit the nation's well being and assist the industry diversification process;
- Encourage significant and sustained funding of federal programs for technology transfer and use;
- Place the Manufacturing Technology Center in Los Angeles County;
- Request the California congressional delegation to ensure any cuts in federal military spending previously directed for Los Angeles are retained, dollar for dollar, for Los Angeles County;
- Commit additional federal funding for state and local economic development and retraining.
- Tear down the firewalls preventing the flow of federal funds to desperately needed domestic programs.

Thank you.

SYN. NO. _____

MOTION BY SUPERVISOR DEANE DANA

June 16, 1992

The House of Representatives has completed action on its version of the Defense Authorization Act for FY 1993 (H.R. 5006). That bill contains the Hunter Amendment, which prohibits the U.S. Navy from specifically using the Long Beach Naval Shipyard for short-term repair work on ships homeported in San Diego. This is a further clarification of the Navy's administrative rule prohibiting short-term ship repair work from being done further than 75 miles from that ship's homeport. Long Beach is 98 miles from San Diego, only 17 miles farther than the Navy's preference.

The issue here is jobs. The Long Beach Shipyard employs 4,100 people, an all-time low. Over half the employees are minorities and women. They live in Los Angeles, Long Beach, Compton, Carson, Lakewood, Bellflower, and other surrounding areas. These are skilled people who make relatively high wages and cannot easily find other jobs, given the decline of the maritime industry and the manufacturing base in the Los Angeles area.

(MORE)

MOTION

Molina _____

Hahn _____

Edelman _____

Antonovich _____

Dana _____

F6:2

I, THEREFORE, MOVE THAT THE LOS ANGELES COUNTY BOARD OF SUPERVISORS support the Long Beach Naval Shipyard and the City of Long Beach in their efforts to allow ship repair work to be done in Long Beach. Further, I direct the Chief Administrative Officer to forward this motion to the Senate Armed Services Committee and Congressional Members who represent the County of Los Angeles.

CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT TESTIMONY TO THE DEFENSE CONVERSION COMMISSION

August 6, 1992
Long Beach, California

Martha Lopez, Deputy Director
Employment and Training Branch

The California Employment Development Department (EDD) is responsible for administering and overseeing a wide variety of employment and training programs. EDD administers the Job Service (JS), including special services for veterans and disabled veterans; the Unemployment Insurance (UI) and Disability Insurance (DI) programs; and is the Governor's designee for oversight of the Job Training Partnership Act (JTPA). Within our administration of JTPA, EDD operates a Displaced Worker Unit through which JTPA Title III programs are administered. These Tittle III programs include those specifically designated to serve workers affected by military base closures and downsizing within the defense industry.

On behalf of Thomas P. Nagle, our Director, I would like to express our appreciation for the opportunity to provide comments to you regarding the impact of defense downsizing on California's economy and our experience in providing service to affected workers. We support the administration's efforts to create a strong dislocated worker program that addresses the severe impact that reductions in defense spending are having on military and defense industry workers.

Defense downsizing is creating significant job loss in California. California has received approximately 19 percent of the nation's defense contracts in the past, accounting for over 8 percent of the state's economy. Reductions in prime defense industry contracts have resulted in the loss of approximately 100,000 California jobs from 1988 to date. Total job losses due to downsizing in private defense industries are projected to directly affect between 200,000 to 400,000 California workers through 1995, while job losses due to military base closures are expected to result in the loss of 50,000 military jobs and 21,000 civilian jobs in California.

EDD's ROLE IN THE COORDINATION OF SERVICE

The downsizing of the defense industry and the closure of 17 military facilities by 1997, creates a major challenge to the state of California. Realizing that agencies and service providers must work together to minimize adverse impacts to the affected communities, EDD has placed a high priority on service coordination. Staff of EDD's Job Training Partnership Division (JTPD) have been pro-active in providing technical assistance in the planning and delivery of local responses to defense cuts. This includes working with JTPA Service Delivery Area's (SDA) and base closure councils established in affected communities throughout the state. Some of EDD's activity to date includes:

- Under the lead of the Governor's Office of Planning and Research, EDD is an active member of the Governor's Base Closure Coordinating Council. The Council is charged with providing a unified, statewide response to communities affected by base closures.

- In February 1992, EDD hosted a three-day, "Military Base Closure and Defense Industry Layoffs" conference in Burlingame. The purpose of the conference was to provide SDAs and service providers with planning guidelines and comprehensive instructions for planning services and obtaining dislocated worker assistance funds provided under the Defense Conversion Adjustment (DCA) program.

- On March 12, 1992, EDD conducted a briefing for the staff of California's Congressional delegation in Washington, D.C.. The purpose of the briefing was to provide information on the impact of defense downsizing on California's economy and the reemployment needs of dislocated workers. A copy of our briefing book is attached.

- EDD has established an internal "Defense Conversion Workgroup," coordinated by JTPD. This workgroup includes representatives from the various EDD branches and divisions which oversee services for defense-related, dislocated workers. The workgroup's objective is to establish a coordinated Department response to military base closures and defense industry downsizing.

- EDD has, over the past several years, provided "transition assistance workshops" for separating military personnel through the Department's Career Awareness Program (CAP). EDD now uses the Transition Assistance Program (TAP) as the primary vehicle in providing service to separating military personnel. The Tap program was specifically designed to assist those separating from the military to make a smooth transition into the civilian labor force. TAP provides a three day training course that emphasizes resume preparation, application completion, interviewing techniques and other transition assistance.

  In program year 1991, EDD conducted 150 TAP classes at 21 military installations and provided information to approximately 15,000 separatees. In program year 1992, EDD originally planned 250 classes for approximately 25,000 separatees. However, the demand for TAP classes has been so great that EDD has requested Federal funding that would allow us to increase our number of classes to 306 and serve approximately 30,000 separatees. For Program Year 1992-93, EDD plans to conduct 556 classes and serve approximately 65,000 military personnel.

- EDD staff have met with representatives from the Commission on State Finance and two outside research projects -- The RAND Corporation and Dr. Paul Ong from UCLA . Each is independently studying the impacts of defense cuts on the California economy. EDD is participating in these research projects and expects to obtain information that will enable us to better target our services to impacted workers.

FUNDING ASSISTANCE TO AFFECTED COMMUNITIES

The Job Training Partnership Act (JTPA) program provides an effective mechanism for assisting dislocated workers in their transition to new employment. EDD works closely with California's 52 JTPA Service Delivery Areas to provide timely assistance to the dislocated workers who need training or reemployment services. In addition to JTPA Title III resources directly allocated to SDAs, three other funding sources are available: Title III Governor's Reserve funds, Title III Secretary of Labor's National Reserve funds and the Defense Conversion Assistance funds. Attachmented is a detailed table of the funds provided to SDA's, from these sources, for defense related activities.

I. **Job Training Partnership Act - Title III 40 Percent Governor's Reserve**

SDAs which have exhausted their dislocated worker funds may request additional resources from the Governor's Title III 40 percent reserve. To date, SDAs in communities affected by military base closures and defense industry downsizing have received approximately $13.8 million in allocations from the Governor's Reserve for rapid response, readjustment and retraining services.

- $3.2 million has been awarded to SDAs in communities affected by military base closures to provide rapid response, readjustment and retraining services. It is anticipated that over 20,000 individuals in these communities will be affected.

- $10.6 million has been awarded to SDAs in communities affected by defense industry downsizing to provide rapid response, readjustment and retraining services. It is anticipated that over 63,000 individuals in these communities will be affected.

II. Job Training Partnership Act - Title III Secretary of Labor's National Reserve

California has been successful in obtaining $6.8 million in Secretary of Labor's National Reserve discretionary funds to assist workers displaced due to defense spending reductions. These funds have been allocated to SDAs in communities most heavily affected by aerospace layoffs.

III. Defense Conversion Adjustment

Under the "Economic Adjustment, Diversification, Conversion, and Stabilization Act of 1990," $150 million in Defense Conversion Adjustment funds has been made available to communities affected by defense downsizing. These funds are being allocated through the same mechanism as the Secretary of Labor's National Reserve Funds. Using the JTPA system ensures coordination of defense conversion services with existing employment and training programs and reduces administrative overhead. Overall, we support this process.

Of the $150 million available nationwide for DCA grants, EDD has obtained $6.5 million. It is estimated that over 12,000 individuals will be assisted through these allocations. DCA grant activity initiated by EDD in California includes:

- The Sacramento Employment and Training Agency (SETA) received approval for a $3.5 million DCA grant to provide services for workers displaced at Mather AFB, Sacramento Army Depot, and McClellan AFB.

- San Bernardino County received approval for a $1 million DCA grant to provide service for workers displaced at George AFB.

- The North Valley Job Training Consortium (NOVA) received approval for a $2 million DCA grant to provide services to workers displaced from Moffet AFB and three major defense contractors.

EDD is currently working with the following entities to develop and submit Defense Conversion Adjustment grant applications:

- Los Angeles County to finalize an application to serve workers affected by downsizing of 5 major defense contractors;

- Hughes Aircraft to develop an application that will serve Hughes workers in 3 states affected by downsizing;

- The City of San Bernardino to develop an application for workers at Norton AFB and at the TRW facility which is scheduled to close with the base;

- the City and County of San Francisco to develop an application for workers at the San Francisco Presidio; and

- Monterey County to develop an application for workers at Fort Ord.

The DCA program also provides for demonstration projects to test new and innovative approaches to provide assistance to communities and workers affected by Defense downsizing. $5 million was made available nationwide for demonstration projects; however, the time allowed for project development was very limited. DCA demonstration projects submitted by EDD, within the narrow window period include:

- An economic development proposal, developed by the Lockheed Corporation intended to utilize Lockheed's high-tech, design skills to create increased capacity in an emerging, non-defense industry.

- A community planning grant proposal, on behalf of the Merced County Department of Economic and Strategic Development, to develop of a community plan for job retention and job creation to mitigate the impact of the Castle AFB closure.

Both of these proposals are currently being reviewed by DOL.

EDD supports the concept of demonstration projects such as these and recommends that additional funds and broader window periods be made available so that innovative concepts still in development can be considered for funding.

LEGISLATIVE ISSUES

EDD's ability to provide assistance to communities and workers affected by defense downsizing is closely tied to federal legislation that provides funds and guidelines for this purpose. States must be provided the necessary flexibility to tailor programs to meet the needs of impacted workers and communities. Some of the issues that must be addressed in drafting defense conversion legislation include:

I. Funding Mechanism -- Discretionary Grants vs. State Allocation

Current programs and proposed legislation provide for discretionary grants as the sole method for funding defense conversion assistance programs. We have identified several problems with this method of allocating funds. The process is time consuming and cumbersome; it limits state flexibility in responding to new dislocations; and it does not ensure that funds are allocated in proportion to the number of workers affected.

EDD originally proposed and supported a formula driven allocation method to distribute DCA funds. This method would expedite access to funds and permit needed services to be rendered immediately to dislocated workers. The National Governor's Association has also explored several alternative formulas allocating DCA funds directly to the states. EDD would welcome and support an allocation formula which reflects California's proportionate share of military bases and defense industry spending, and the layoffs which will result from base closures and defense downsizing in our state.

II. Training restrictions

Current DCA regulations and proposed legislation do not allow for the retraining of workers in new, non-defense skills with their current employers. California's heavy concentration of defense industries, especially in Southern California, has resulted in large numbers of workers being displaced in a labor market with few emerging occupations in which to train these skilled workers. Retraining workers for new jobs with new employers is not necessarily the best or only method for economic recovery. Job creation, job retention through retraining, and the transference of skills to new industries must be explored.

One option for preserving jobs is to encourage defense contractors to diversify into emerging, non-defense markets which would enable them to retrain existing workers. However, existing programs do not permit the retraining of current workers to provide them with skills needed for new, non-defense operations. To enable defense contractors to diversify and retain or create jobs, we recommend the development of programs that would encourage this activity, including the ability to retrain current workers to facilitate conversion to new, emerging markets.

III. Prohibition of contracting rapid response activity to substate areas

One provision of proposed legislation to re-shape how services are provided to displaced workers would provide that State Dislocated Worker Units be the sole provider of rapid response activity and that this responsibility could not be delegated to substate areas through contract. California, and other states, have found that rapid response services are more effective when planned and administered within the

affected communities, rather than by a centralized unit unfamiliar with the local economy, service providers or labor market.

California received 59,691 Worker Adjustment and Retraining Notifications (WARN) during program year 1991/92. This number of notices and the geographic size of California would require a substantial increase in personnel, operating expense, and overhead costs to meet the federal requirement of a state level response within 48 hours. We currently have a system that meets the federal requirement by providing rapid response services through the state's network of 52 local SDAs. Eliminating our ability to contract with SDAs for rapid response services would not be cost effective or programatically efficient. EDD strongly urges that states be allowed to continue providing rapid response services through subgrants with SDAs.

IV. Limitations on eligibility

Proposed changes to DCA programs would limit eligibility for worker training programs to defense workers who have been employed by the impacted defense contractor for more than 5 years prior to layoff, and whose employers have had in excess of $500,000 in defense contracts. These arbitrary restrictions would deny service to thousands of dislocated workers. Given the mobility of workers between defense contractors, the length of time a worker has worked for a particular defense contractor or the size of the contractor may have little relationship to his or her need for training, or prospects for continued work in his or her current field. EDD urges that these arbitrary restrictions be eliminated.

EDD has submitted testimony on H.R. 5006, the Defense Authorization Act of Fiscal Year 1993. This bill would provide additional defense conversion funds and amend provisions of JTPA. A copy of the testimony is attached.

EDD thanks the Commission for the opportunity to address the issues of base closure and military downsizing and for the opportunity to describe some of the programs available through EDD. We strongly encourage the investment in U. S. industries and the enhancement of our competitive position through the application of advanced technologies. EDD also strongly urges increased program flexibility and the removal of constraints in providing effective service to dislocated workers.

TITLE III 40 PERCENT ERNOR'S RESERVE
ALLOCATED FOR MILITA DEFENSE LAYOFFS

MILITARY BASE CLOSURES

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES	#DISPLACED	#PLANNED TO SERVE
Alameda	Naval Aviation Depot	$1,035,540 **	Retraining & readjustment	7/91 to 12/92	453 from Naval Aviat. Depot	50 from Naval Aviat. Depot
Napa	Mare Island Naval Shipyard	$273,050 **	Retraining & readjustment	7/90 to 6/92	1,500	30
Merced	Castle Air Force Base	$46,014 **	Rapid response	7/91 to 6/92	1,164 civilians	NA
Monterey	Fort Ord	$214,500 **	Rapid reponse	7/92 to 6/93	2,276 from Fort Ord, 300 from DOD contractors, and 2,806 other non-defense layoffs	NA
Oakland	Navy Exchange	$20,000	Rapid response	10/91 to 2/92	166	NA
Sacramento Employment and Training Agency	Mather Air Force Base, McClellan Air Force Base & Sacramento Army Depot	$200,000 $92,317 $600,000	Rapid response, retraining & readjustment	10/90 to 6/91 9/91 to 6/92 9/91 to 3/93	5,600 civilians	300
Sacramento Employment and Training Agency	Secondary and tertiary businesses affected by the closure of Mather	$44,511	Rapid response	3/92 to 6/92	Unknown	NA
San Bernardino County	George Air Force Base	$173,975	Rapid response	1/92-6/92	506 civilians	NA
San Bernardino City	Norton Air Force Base	$50,000 **	Rapid response	1/90 to 6/90	2,133 civilians	NA
San Diego	North Island Naval Aviation Depot	$50,000 **	Rapid response	7/91 to 6/92	600	NA
San Francisco	Presidio	$130,602 ** $263,522 **	Rapid response Rapid response	7/91 to 6/92 7/92 to 6/93	3,000 civilians	NA
	Total Funding Received	**$3,194,000**				

Appendix O

4/5/92

DEFENSE INDUSTRY DOWNSIZING

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES	#DISPLACED	#PLANNED TO SERVE
Carson/Lomita/ Torrance	Douglas Aircraft, Hughes Aircraft, TRW & other non-defense layoffs	$50,000 $202,475 **	Rapid response	9/91 to 3/92 7/91 to 6/92	580 7,000	NA
Carson/Lomita/ Torrance	Ongoing defense layoffs & others	$266,875	Rapid response	7/92 to 6/93	Info not avail.	NA
Los Angeles City	Douglas Aircraft & other companies	$48,510 **	Rapid response	7/91 to 6/92	1,800 from Douglas Aircraft & 6,000 from other layoffs	NA
Los Angeles County	McDonnell Douglas, Rockwell, & other non-defense companies	$400,000 **	Rapid response	7/91 to 6/92	4,000	NA
Long Beach	McDonnell Douglas Corporation	$75,000	Rapid response	3/92 to 6/92	5,000	NA
Orange County	Hughes Aircraft, McConnell Douglas, & other companies	$69,250 **	Rapid response	7/92 to 6/93	5,000	NA
NOVA		$100,000	Rapid response	7/92 to 6/93		NA
San Diego	Rohr, General Dynamics, Loral Instruments & other non-defense companies	$100,000 ** $171,000 **	Rapid response	7/91 to 6/92 7/92 to 6/93	5,800	NA
San Diego & EDD field office	General Dynamics & Rohr	$2,300,000 $550,000 **	Retraining and readjustment	7/91 to 6/92	(See above)	1,000
South Bay	Northrop Corp.	$347,600	Retraining and readjustment	5/90 to 3/92	2,000	80
South Bay	TRW, Hughes Aircraft, Aerospace Corp., System One Corp., Fairchild Control System, Northrop & Rockwell	$750,000	Rapid response, retraining & readjustment	3/91 to 12/92	3,400	126
South Bay	Northrop Aircraft& Electronics Division, TRW, Hughes, Sargent Controls	$1,406,588	Retraining & readjustment	1/92 to 6/93	1,500	430
South Bay	Northrop Aircraft, TRW, Fairchld Controls	$180,504 **	Rapid response	7/92 to 6/93	1,600	NA
Ventura	Northrup	$150,000	Retraining & readjustment	7/91 to 6/93	800	50

DEFENSE INDUSTRY DOWNSIZING

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES	#DISPLACED	#PLANNED TO SERVE
Verdugo	Several defense companies & non-defense companies	$75,000 **	Rapid response	7/91 to 6/92	10,000	NA
Verdugo & EDD field office	Lockheed, Zero Corp. & Weber Aircraft	$1,973,000 $223,485	Retraining & readjustment	5/90 to 12/92	(see above)	705
Verdugo	Lockheed, Zero Corp, Weber & other non-defense	$1,200,000 **	Retraining & readjustment	7/91 to 6/93	9,100	500
	Total Funding Received	**$10,639,000**				

**Subgrant includes several other closures, non-defense related, so the amount of funds available for the defense facility is less than the total subgrant.

TITLE III SECRETARY OF LABOR'S DISCRETIONARY NATIONAL RESERVE
AEROSPACE INDUSTRY

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES	#DISPLACED	#PLANNED TO SERVE
Alameda County	Aerospace	$50,000	Retraining and readjustment	3/91 to 6/93	NA	NA
Carson/ Lomita/ Torrance	Aerospace	$700,282	Retraining and readjustment	3/91 to 6/93	NA	NA
Foothill	Aerospace	$126,602	Retraining and readjustment	3/91 to 6/93	NA	NA
Long Beach	Aerospace	$2,000,000	Retraining and readjustment	3/91 to 6/93	NA	NA
Los Angeles City	Aerospace	$375,486	Retraining and readjustment	3/91 to 6/93	NA	NA
Los Angeles County	Aerospace	$2,000,000	Retraining and readjustment	3/91 to 6/93	NA	NA
NOVA	Aerospace	$67,521	Retraining and readjustment	3/91 to 6/93	NA	NA
San Bernardino County	Aerospace	$800,841	Retraining and readjustment	3/91 to 6/93	NA	NA
San Diego	Aerospace	$94,951	Retraining and readjustment	3/91 to 6/93	NA	NA
Santa Clara	Aerospace	$69,259	Retraining and readjustment	3/91 to 6/93	NA	NA
South Bay	Aerospace	$153,203	Retraining and readjustment	3/91 to 6/93	NA	NA
Ventura	Aerospace	$65,680	Retraining and readjustment	3/91 to 6/93	NA	NA
Verdugo	Aerospace	$286,175	Retraining and readjustment	3/91 to 6/93	NA	NA
	Total Funding Received	**$6,790,000**				

TITLE III SECRETARY OF LABOR'S DISCRETIONARY NATIONAL RESERVE
DEFENSE CONVERSION ADJUSTMENT

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES	#DISPLACED	#PLANNED TO SERVE
Sacramento	Mather AFB, Army Depot Mc Clellan	$3,500,000	Retraining &Readjustment	7/92 to 12/93	2,293	1,400
San Bernardino	George AFB,	$1,000,000	Retraining & Readjustment	7/92 to 12/93	4,400	250
NOVA	Moffet Field Naval, AirFMC\Gound systems Div, GTE Gov. Systems Div, Westinghouse Elec.	$2,000,000	Retraining & Readjustment	7/92 to 12/93	3,676	1,114
Los Angeles County	Boeing, General Dynamics, Northrop,Lockheed, Rockwell.	Pending	Retraining & Readjustment	7/92 to 12/93	5,102	1,183
Hughes Aircraft	Hughes in: El Segundo, Torrance, Long Beach, Fullerton, Conoga Park, Santa Barbara, Arizona, Georgia.	Pending	Retraining	9/92 to 3/94	10,500	8,400
	Total Funding Received	**$6,500,000**				

TITLE III SECRETARY OF LABOR'S DISCRETIONARY NATIONAL RESERVE
DEFENSE CONVERSION ADJUSTMENT
DEMONSTRATION PROJECTS

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES	#DISPLACED	#PLANNED TO SERVE
Lockheed	Santa Clara	Pending	Economic Development	10/92 to 3/94	NA	NA
Merced	Castle AFB	Pending	Community Planning	10/92 to 3/94	NA	NA

EMPLOYMENT DEVELOPMENT DEPARTMENT
STATE OF CALIFORNIA

WRITTEN COMMENTS

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 1993
H.R. 5006

I. Funding Mechanism -- Discretionary Grants vs. State Allocation.

Proposal

H.R. 5006 proposes a system of discretionary grants as the sole basis for funding the defense conversion assistance programs established by the Job Training Partnership Act (JTPA).

Impact on California

Defense downsizing is creating significant job loss in California. California has received approximately 19 percent of the nation's defense contracts in the past, accounting for over 8 percent of the state economy. Reductions in prime defense industry contracts have resulted in the loss of approximately 100,000 California jobs from 1988 to date. Job losses due to downsizing in private defense industries are projected to directly affect over 200,000 California workers through 1995, while job losses due to military base closures are expected to directly affect approximately 21,000 civilian jobs in California.

The down-sizing process has been underway for several years in California, affording the Employment Development Department (EDD) experience in serving dislocated workers from both private industry and military bases. This experience indicates that assistance needs to be flexible enough to address the differing needs of both types of dislocated workers. EDD has found that discretionary grants are suitable only for addressing the needs of workers dislocated by base closures, not those dislocated by industry downsizing.

Base Closure

Military base closures are announced several years in advance. This advance information gives communities sufficient time to put together a grant application to address a given base closing. Although the complex Defense Conversion Act (DCA) grant process has many problems as implemented, discretionary grants are an appropriate mechanism to address base closures. (EDD would like to see a simpler DCA grant application process which allows the specific terms of the agreement to be negotiated after conditional approval.)

Defense Industry Reductions

Discretionary grants have been a very ineffective mechanism to address the service needs of defense industry dislocated workers. Defense industry layoffs do not occur on a set schedule, or at a single site, or on a pre-announced plan. Rather, service delivery areas, such as those in the Los Angeles area, may be working with dozens of defense contractors, all laying off staff at different times and with employers continually announcing new layoffs. Attempting to prepare a discretionary grant application to address these situations is like trying to hit a moving target. An article from the July 1, 1992, edition of the Los Angeles Times (attached) indicates the dynamics of layoffs at just a single Los Angeles-based defense contractor.

Recommendations

To better address the needs of dislocated workers in the defense industry, EDD agrees with the National Governor's Association that there should be a formula-related supplement to the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Governor's Reserve JTPA Title III (40 percent funds). The supplement should be allocated by a formula based on measurements of actual civilian and private defense industry job loss. These numbers are tangible, readily available, and represent the real need for services.

The supplement should be used for defense-related activities authorized under JTPA section 302(c)(1) including rapid response; regional, industry, or site specific projects; supplemental allocations to substate grantees; and coordination and technical assistance. This will allow for the expeditious allocation of needed funds; would better target funds to affected areas; and would provide the flexibility to respond to the needs created by continuing layoffs.

A mix of discretionary and formula-allocated funds would be an effective mechanism to address both situations. The mix should be based on the approximate number of workers affected by each type of defense-related dislocation. For example, if projections anticipate that 20 percent of the affected workers will be dislocated due to base closures and 80 percent will be dislocated due to defense industry layoffs, then 20 percent of the total funds should be made available for discretionary grants and 80 percent of the funds should be allocated to the states on a formula basis.

II. Priority System for Submission of Discretionary Grants.

Proposal

H.R. 5006 proposes a priority system to determine who can submit discretionary grants. The bill proposes that grants be submitted in the following priority order: by substate areas, labor-management committees, employer or employee groups, and finally, if none of the preceding groups apply, by state agencies.

Impact on California

The proposed priority structure, in which the state has the least standing, is contrary to California's practice and experience under EDWAA. California's preference has been for substate areas to prepare grants, which are in turn submitted by the state to the Department of Labor. EDD's experience indicates that this system provides for local planning and also ensures a coordinated response. On occasion, the state has developed grant applications on behalf of multiple substate areas to address common problems. When individual employers, labor groups, or community-based organizations have sought funding directly from the Department of Labor, we have encouraged them to work through a substate area so that projects are coordinated with other employment and training efforts, and are weighed against other community needs as determined by the local Private Industry Councils (PICs).

Recommendation

The discretionary grants process should give preference to applications from states and substate areas. Mechanisms, including accountability mechanisms, already exist for the Department of Labor to contract with states and substate areas. States and substate areas already have the experience and a proven track record in providing services. In addition, use of this system preserves the role established for the PICs.

III. Prohibition on States Contracting Rapid Response Activity to Substate Areas

Proposal

Section 4324(a)(4) of the legislation proposes that the State Dislocated Worker Unit (DWU) be the sole provider of rapid response activity. This responsibility could not be passed to substate areas through a contract. State-level DWU activity would have to include establishing site-based labor-management committees, conducting worker surveys, providing initial basic readjustment services, and developing base conversion plans for military base closures.

Impact on California

California has found that rapid response services are more effective when planned and administered within the impacted communities, not when provided from a central location which is unfamiliar with the local economy, service providers, or labor market. H.R. 5006 proposes to reverse this practice by mandating a centralized service provider.

California provides rapid response services primarily through subgrants to Service Delivery Areas (SDAs). This is an effective approach due to the geographic size of California, the number of Worker Adjustment and Retraining Notifications (WARN) received in the state (461 since July 1, 1991), and the number of military bases currently scheduled for closure (17). California's Title III (EDWAA), 40 percent budget for the current year is over $19 million. Of this amount, $3.4 million has been spent on rapid response activities with $2.6 million (75.4 percent) being spent through subgrants with SDAs. Approximately $4 million will be allocated for subgrants to SDAs for rapid response activities in Fiscal Year 1992-93. Since rapid response activity is a labor intensive service, EDD anticipates that 40 additional state staff would need to be hired and trained if California was required to provide this service in the coming year.

While California does assign the primary responsibility for rapid response activity to substate areas, EDD's Job Training Partnership Division also notifies EDD Job Service field offices. Field offices are instructed to contact the SDA and participate in or initiate rapid response activity. Thus, California has a system in place to ensure that services are initiated and delivered promptly in the impacted communities in a coordinated manner.

Recommendation

To ensure effective, locally-responsive service to dislocated workers, states must be allowed to contract rapid response activity to substate areas. The process proposed by H.R. 5006 would be unwieldy and slow and service to dislocated workers would undoubtedly suffer.

IV. Rapid Response Change in the Definition of "Substantial Layoff"

Provision

Section 4324(b)(3) of the legislation proposes to change the definition of "substantial layoff" from 500 or more -- or 50 or more when the number equals 33 percent of the employer workforce -- to a flat 50 or more for the purpose of determining when rapid response services should be provided.

Impact on California

This definition would increase the number of situations in which rapid response services would be required, greatly increasing the number of state staff required to provide this service. Also, by using a different definition for "substantial layoff" in JTPA than in WARN, states would be required to provide rapid response services in cases where no WARN notice is required. This would leave states without an effective method to know that a substantial layoff is planned or has occurred.

Recommendation

Maintain the same definition of "substantial layoff" for both WARN and JTPA. In addition, provide states the flexibility to allow rapid response for smaller layoffs in smaller labor markets. This would only occur when local decision makers (PICs) determine that such a response is needed in the community.

V. Labor-Management Committees

Provision

H.R. 5006 requires that Labor-Management Committees (LMC) be established by the DWU in each instance in which rapid response services are to be provided, unless waived by the Secretary of Defense.

Impact on California

California supports the concept of labor-management councils but feels that individual councils for every defense-related dislocation may not be practical. Again, the distinction between military base closures and industry layoffs is pertinent here. LMCs do work in the case of military base closures because announcements are made well in advance; there is time for planning; and there is a scheduled layoff to facilitate planning. However, SDAs in Los Angeles or San Diego are dealing with dozens of defense contractors at multi-sites, with extended and changing layoff schedules. Those SDAs might have 50 or more councils to coordinate under H.R. 5006. H.R. 5006 requires a council for each contractor at each site and for each new layoff.

In addition, this section of the legislation is vague. While it is clear that the intent of the legislation is to broaden the responsibility of the DWU, it is unclear whether this provision applies only to defense-related layoffs or to all rapid response services under JTPA.

Recommendation

EDD agrees that Labor-Management Councils should be strongly encouraged and established where practical. However, in areas with multiple defense industry layoffs, which have regional and industry-wide impacts, EDD suggests that an industry-wide or area council may be more practical. The local SDA should have the discretion to make this decision.

VI. Limitations on Worker Eligibility

Provision

H.R. 5006 proposes to limit eligibility for worker training programs to restricted categories of dislocated defense workers: those who have been employed by a military base or an impacted prime defense contractor (with contracts in excess of $500,000) for more than 5 years prior to layoff. The current Defense Conversion Adjustment Program has no such limitation. The proposed "Defense Diversification Program" also extends eligibility to members of the military services who are forced to separate due to downsizing of the force.

Impact on California

Most layoffs are dictated by seniority. Data developed by the Rand Corporation indicate that California defense industry layoffs are disproportionately impacting workers under 30 years of age. Denying eligibility to defense industry workers with less than 5 years of seniority with their current employer denies needed services to a large segment of the impacted workers. In addition, individuals may have many years of service in the defense industry while not working 5 years for their last employer.

Large prime defense contractors depend heavily on smaller contractors and subcontractors. The Los Angeles area has a particularly rich mix of large prime contractors, smaller defense contractors and subcontractors. Workers displaced from these companies due to defense downsizing are equally in need of services. While workers from smaller companies may be difficult to target in discretionary grants, they could and should be served with formula-allocated funds.

Recommendation

Service should be equally available to all workers displaced by defense downsizing. Whether a worker has been with an employer for three or six years, or has worked for a large or small defense contractor, or has gained defense-related skill in the military, these workers should all be eligible for assistance. It is possible to define defense workers without using the proposed legislative criteria. For example, an employer's Standard Industrial Classification (SIC) code could determine

whether a separating worker's employer was in the defense industry.

VI. Service Members Occupational Conversion Act of 1992

Proposal

H.R. 5006 proposes to create an employment and training program to serve the men and women separating from the Armed Forces. This program will serve the estimated 350,000 active-duty military personnel who are scheduled to separate over the next 5 years.

Impact on California

California currently has 17 military bases which are in the process of closure, with additional bases under consideration for future closure. By some estimates, nearly half of all military layoffs due to downsizing will occur in California. These individuals have important skills which can contribute to the state's economy, if they are given the opportunity for retraining.

EDD administered the Emergency Veterans Job Training Act, later known as the Veterans Job Training Act (VJTA), from 1983-1988. This program was operated in cooperation with the Department of Veterans Affairs and the Department of Labor, Employment and Training Service. This program was highly successful.

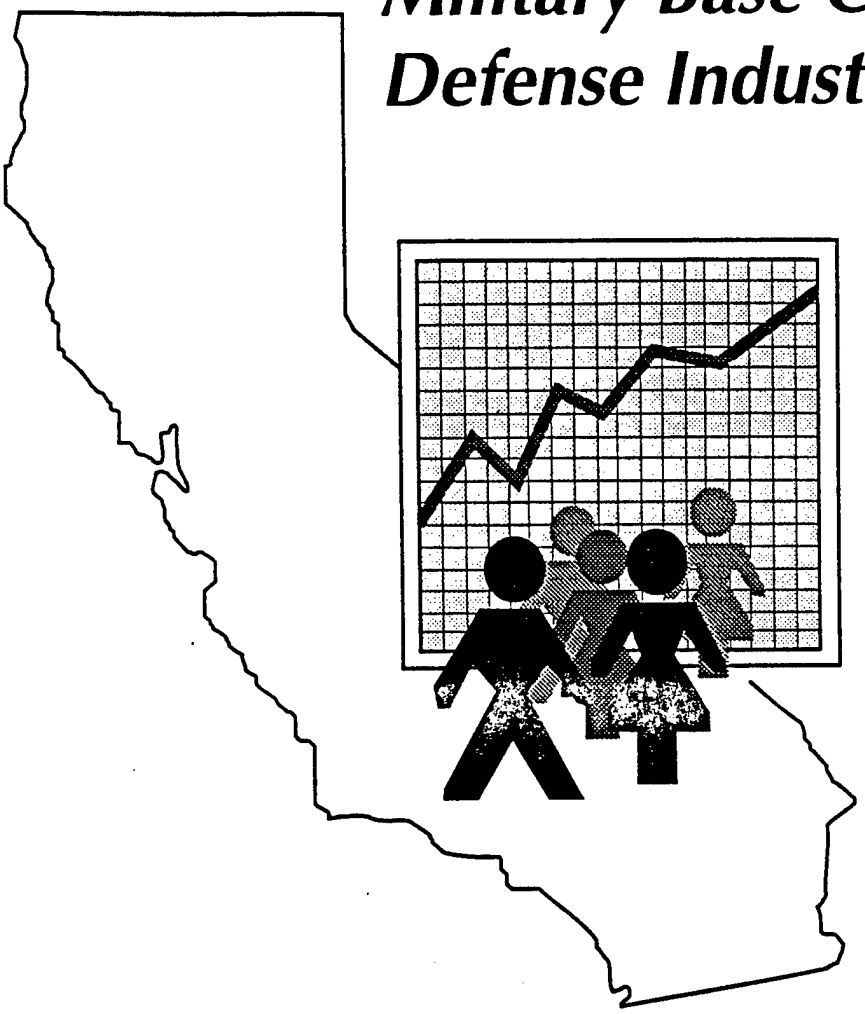
Recommendations

EDD supports the Service Members Occupational Conversion and Training Act of 1992 with the following amendments. First, the definition of eligibility should be the same as for other veterans programs, "veterans who are recently separated from military service," instead of veterans who are separated after August 2, 1990. Second, the permissive requirement that the Secretary of Defense enter into agreements with the Secretaries of Labor and Veterans Affairs should be made mandatory. The Departments of Labor and Veterans Affairs have a proven track record in administering veterans training programs. Third, the requirement that one third of the payment to participating employers be delayed until 6 months after the completion of training may make it difficult for small businesses to participate. We suggest an earlier full payment to small businesses.

EDD

Serving the People of California

Military Base Closures and Defense Industry Layoffs



Briefing by the

California Employment Development Department

March 12, 1992

Submitted by:
Martha Lopez
Long Beach

EDD

Serving the People of California

Military Base Closures and Defense Industry Layoffs

Briefing by the
California Employment Development Department

March 12, 1992

Pete Wilson
Governor
STATE OF CALIFORNIA

Russell S. Gould
Secretary
HEALTH AND WELFARE AGENCY

Thomas P. Nagle
Director
EMPLOYMENT DEVELOPMENT DEPARTMENT

Congress of the United States
Washington, DC 20515

February 26, 1992

Dear California Colleague:

We are writing to invite you to a briefing given by the California Employment Development Department (EDD), the Department of Labor (DOL), and the Department of Defense (DOD) on Thursday, March 12, at 1:00 PM, in 1416 Longworth. The purpose of this briefing is to discuss the projected impact of military base closures and reductions in defense procurement projects on California's economy and workforce, and the significance of that impact on federally funded job training programs.

As you know, international developments have prompted a serious re-evaluation of our long term defense force structure and procurement requirements. The planned closure of more than 10 military facilities from Sacramento to San Diego and reductions in defense production expenditures have already resulted in job dislocation for thousands of California workers. Future cutbacks will magnify that impact. Over the next five years, it is estimated that approximately 300,000 defense-related job lay-offs are likely to occur in California.

Last August, Congress enacted and the President signed into law the Defense Conversion Adjustment Program, which provides $150 million to assist dislocated workers affected by military base closures and reductions in defense procurement. These funds are in addition to other dislocated worker funds available under DOL's Economic Dislocation and Worker Adjustment Assistance Program.

The March 12 briefing will give the California Congressional Delegation an opportunity to discuss the impact of defense expenditure reductions on California's economy and workforce, address issues relating to funding and administration of current programs, and directly our concern that California receive its fair share of federal funds to help the State's transition to a peacetime economy.

We would appreciate a member of your staff contacting Robert Hoffman of Senator Seymour's staff at 224-5422 or Pam Barry of the California Democrats at 226-2313 to let us know if you or a representative from your office will be in attendance.

We look forward to seeing you on March 12.

Sincerely,

Sen. Alan Cranston

Sen. John Seymour

Cong. Don Edwards

Cong. Carlos Moorhead

MILITARY BASE CLOSURES AND DEFENSE INDUSTRY LAYOFFS

IMPACT OF DEFENSE SPENDING REDUCTIONS ON CALIFORNIA **1**

E.D.D. PROGRAMS AND SERVICES **2**

CALIFORNIA PROPOSALS AND PROJECTS **3**

BACKGROUND INFORMATION **4**

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EDD Serving the People of California

State of California, Employment Development Department

Publication

S U M M A R Y

February 1992

THE ECONOMIC EFFECTS OF REDUCED DEFENSE SPENDING

The end of the Cold War has led policymakers to believe that U.S. defense spending can be cut back. While the amount of the reduction must be judged based on military needs, its effects on the economy raise concerns. A Congressional Budget Office (CBO) study, *The Economic Effects of Reduced Defense Spending*, examines the near- and long-term economic consequences of two differently sized peace dividends.

The study concludes that if used to reduce the federal deficit, the peace dividend would increase national savings and investment and would thus benefit the economy over the long term. In February 1991, the Administration proposed a defense spending plan that was consistent with the 1990 budget agreement. By the next decade, the dividend realized under that plan would raise real gross national product (GNP) by 0.6 percent, or about $50 billion. The study also considers a larger reduction, which cuts defense spending roughly half again as much as the Administration's 1991 plan, and finds that the alternative would eventually raise GNP by 1.5 percent--over $100 billion a year. The effects of the Administration's latest defense spending plan, released as part of its 1993 budget proposal, would fall between these two alternatives, though closer to the 1991 plan.

Despite the projected long-term benefits, defense cutbacks would have some negative economic effects in the next few years if the resulting savings are used to reduce the deficit. Under the 1991 plan, for example, a total of more than 800,000 defense-related positions in the public and private sector would be eliminated by 1995. Many of these workers would find new jobs quickly, and other jobs would be created as lower deficits stimulated investment. But the net decrease in the number of employed persons could amount to as much as 300,000. Under the larger budget reduction analyzed in the study, defense-related employment could fall by 1.4 million, net employment by 500,000. Adverse effects on net employment could be reduced, or even eliminated entirely, if defense spending cutbacks are offset by expansionary monetary policy or other economic stimulus.

The short-term effects of defense cutbacks would fall unevenly on different regions and industries. Most areas of the country, and most industries, would experience only modest difficulties. But the adverse effects would be serious for a few communities and some industries. The CBO study does not make recommendations regarding which defense programs might be cut.

Most of the analysis in the study assumes that defense budget savings are used to reduce the deficit, as specified in the 1990 budget summit. Were the funds instead targeted toward increasing current consumption, many of the ill effects would be avoided in the short run, but at the price of losing long-run economic gains.

Questions concerning this study should be directed to CBO's National Security Division at (202) 226-2900. The Office of Intergovernmental Relations is CBO's Congressional liaison office and can be reached at 226-2600. For additional copies of the study, please call the Publications Office at 226-2809.

CONGRESSIONAL
BUDGET OFFICE
Second and D Streets, S.W.
Washington, D.C. 20515

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ATE OF CALIFORNIA

MMISSION ON STATE FINANCE
915 Capitol Mall, Room 435
Sacramento, California 95814
(916) 323-5202

Gail Greer Lyle
Executive Secretary

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State Assemblyman
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Director of Finance

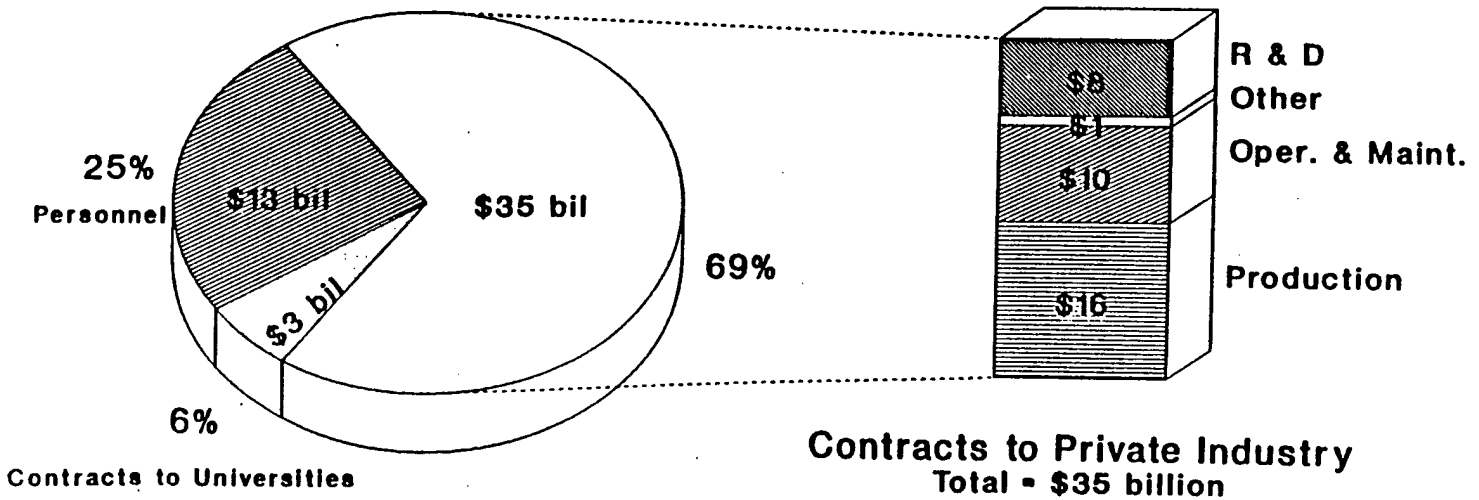
DEFENSE SPENDING IN THE 1990s: IMPACT ON CALIFORNIA

Summer 1990

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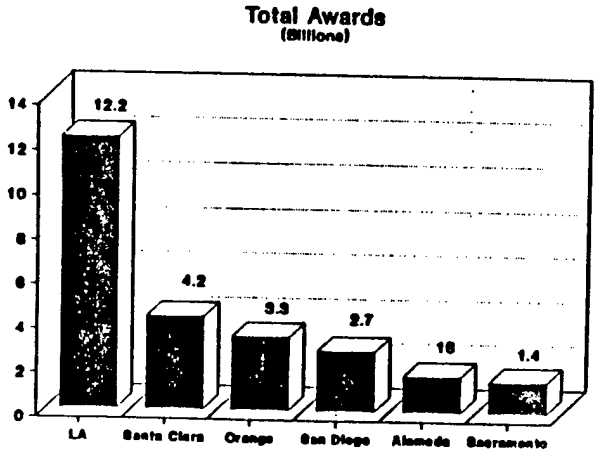
Majority of Defense Spending In California Goes To Private Contractors

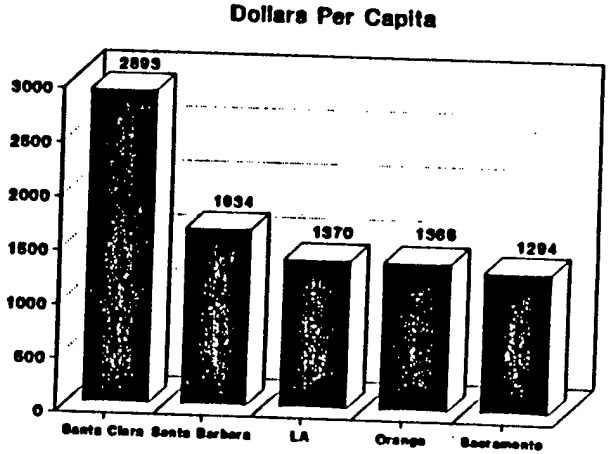
Defense Spending in California During 1991



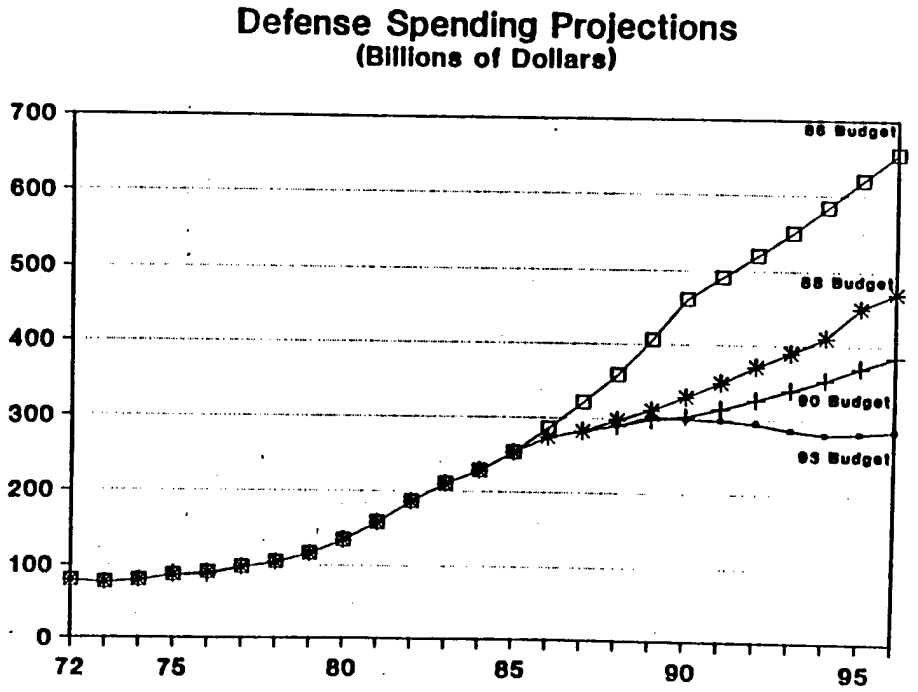
Total = $51 billion

Where Defense Contract Spending Goes In California

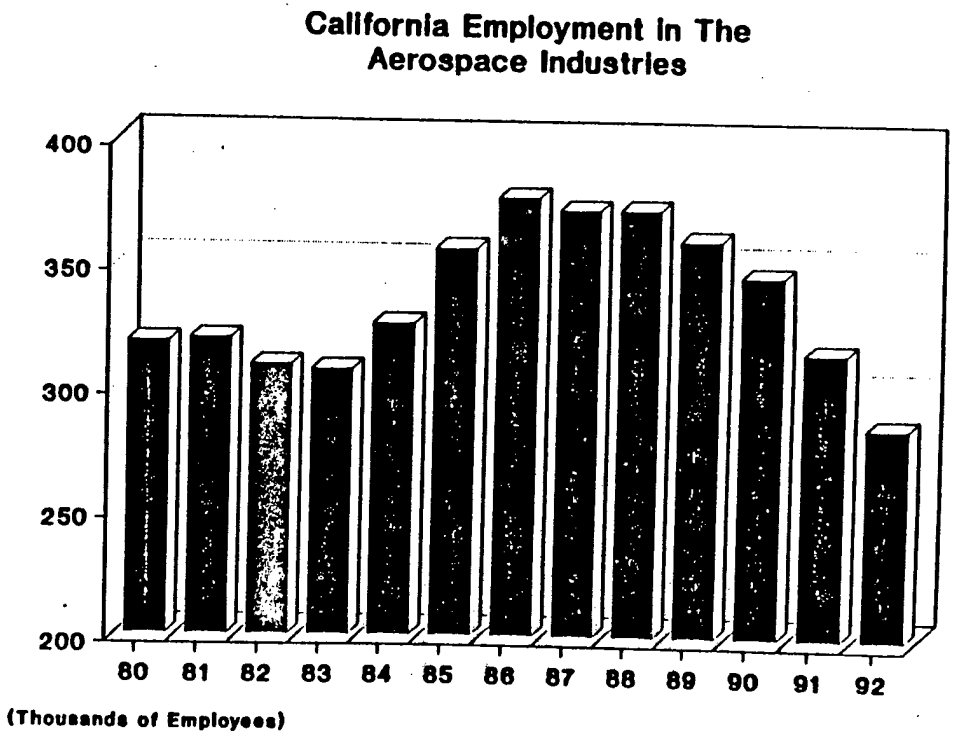




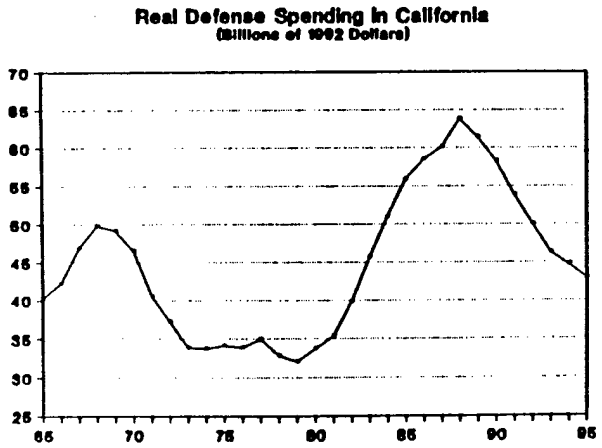
Defense Spending Plans Have Undergone Major Changes Since the Mid-1980's

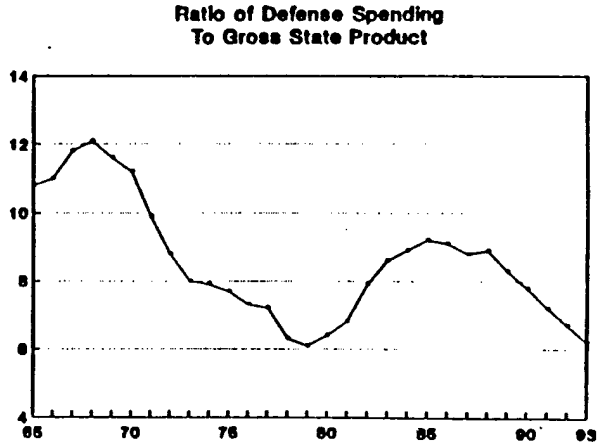


California Aerospace Employment Has Been Falling In Line With Scaled-Back National Plans



Real Defense Spending Will Fall Back to Levels of Early 80's Under President's Plan





1993 Budget Proposal Will Hit California Defense Industry Hard

- California firms are major producers of modern strategic weapons which are being scaled back in light of the breakup of the Soviet Union;
- The proposed reductions in the B-2, the Peacekeeper, the Midgetman, and the Cruise Missile, will impact California aerospace employment over the next several years;
- Some California programs--SDI and the C-17 Aircraft--received funding increases, but will be subjected to congressional scrutiny.

Base Closure Impact: Minor Relative to Statewide Economy, but Major Relative to Individual Communities

California Base Closures
First Round

Bases	Location	Jobs Affected Military	Jobs Affected Civilian
Army			
Presidio of San Francisco	San Francisco	2,140	3,150
Hamilton Army Airfield	Marin	26	3
Air Force			
Mather AFB	Sacramento	1,988	1,012
Norton AFB	San Bernardino	4,520	2,133
George AFB	San Bernardino	4,852	506
Navy			
Naval Station San Francisco (Hunters Point)	San Francisco	4,132	93
Total		17,658	6,897
Offsetting gains		(4,815)	(2,387)
Net		12,843	4,510

California Base Closures
Second Round

Bases	Location	Jobs Affected Military	Jobs Affected Civilian
Army			
Fort Ord	Monterey	13,619	2,835
Sacramento Army Depot	Sacramento	334	3,164
Air Force			
Castle Air Force Base	Merced	5,239	1,164
Navy			
Naval Station Long Beach	Long Beach	8,123	417
Tustin Marine Corps Air Station	Tustin	3,757	348
Naval Air Station Moffett Field	Sunnyvale	3,359	633
Integrated Combat Systems Test Facility	San Diego	24	46
Hunters Point Annex	San Francisco	0	0
Naval Electronic Systems Engineering Center	San Diego	6	619
Naval Electronic Systems Engineering Center	Vallejo	8	314
Naval Space Systems Activity	Los Angeles	14	28
Total		34,483	9,568
Offsetting gains		(10,779)	(1,820)
Net		23,704	7,748

Source: Department of Defense

Appendix Table II-2
Top 50 Department of Defense Prime Contractors in California in 1989
(Dollars in Millions)

Company	RDT&E	Production	Service	Total	Company (Percent)	Cumulative Share of Total (Percent)
ROCKWELL INTERNATIONAL CORP	1,323.8	1,514.7	260.8	3,099.2	12.0	12.0
MCDONNELL DOUGLAS CORPORATION	1,752.6	1,004.3	96.5	2,853.5	11.0	23.0
LOCKHEED CORPORATION	828.5	1,565.3	204.1	2,597.9	10.1	33.1
GENERAL MOTORS CORPORATION	419.4	1,212.4	276.9	1,908.8	7.4	40.5
TRW INC	609.6	602.4	103.4	1,315.4	5.1	45.6
CALIFORNIA INST TECHNOLOGY	10.8	0.0	1,058.2	1,068.9	4.1	49.7
GENERAL DYNAMICS CORPORATION	253.3	705.7	84.3	1,043.3	4.0	53.8
GENCORP INC	171.9	603.0	55.4	830.3	3.2	57.0
FORD MOTOR CO	240.9	147.8	170.3	558.9	2.2	59.1
FMC CORPORATION	67.8	479.0	3.0	549.8	2.1	61.3
NORTHROP CORPORATION	143.1	300.8	19.7	463.6	1.8	63.1
NATIONAL STL SHPBLDING CMPANY	0.3	287.8	43.4	331.5	1.3	64.4
WESTINGHOUSE ELECTRIC CORP	92.5	195.9	28.3	316.7	1.2	65.6
AEROSPACE CORPORATION	304.0	0.0	0.0	304.0	1.2	66.8
RAYTHEON COMPANY	4.6	265.8	32.9	303.2	1.2	67.9
LITTON INDUSTRIES	29.0	205.0	47.6	281.6	1.1	69.0
ITT CORPORATION	18.7	153.7	99.2	271.6	1.1	70.1
SCIENCE APPLICATIONS INC	76.7	105.6	84.8	267.2	1.0	71.1
CHEVRON CORP	13.2	226.9	(19.8)	220.3	0.9	72.0
ALLIED-SIGNAL INC	12.5	117.0	15.1	144.5	0.6	72.5
DELTA DNTL PLAN OF CALIFORNIA	0.0	0.0	118.3	118.3	0.5	73.0
CONTINENTAL MARITIME SAN DIEGO	0.0	0.0	116.6	116.6	0.5	73.4
TELEDYNE INC	24.2	70.0	11.2	105.5	0.4	73.8
GENERAL INSTRUMENT CORP DEL	5.7	96.3	0.1	102.1	0.4	74.2
FIGGIE INTERNATIONAL INC	38.1	19.3	38.0	95.4	0.4	74.6
SHELL OIL COMPANY	0.0	95.2	0.0	95.2	0.4	75.0
EXXON CORPORATION	0.0	90.6	0.1	90.7	0.4	75.3
BECHTEL GROUP INC	5.5	0.0	79.2	84.7	0.3	75.7
REGENTS OF UNIV OF CALIF	78.0	0.2	1.3	79.4	0.3	76.0
ROHR INDUSTRIES INC	0.3	76.4	0.3	77.0	0.3	76.3
LOGICON INC	38.0	11.9	27.0	76.8	0.3	76.6
UNITED TECHNOLOGIES CORP	4.6	7.0	64.1	75.7	0.3	76.8
UNISYS CORPORATION	0.9	17.5	52.7	71.1	0.3	77.1
NAV-COM INCORPORATED	0.0	68.9	0.0	68.9	0.3	77.4
FLYING TIGERS	0.0	0.0	66.4	66.4	0.3	77.6
COMPUTER SCIENCES CORPORATION	35.5	11.0	19.0	65.5	0.3	77.9
CUBIC CORPORATION	1.9	60.2	3.2	65.3	0.3	78.2
TEXTRON INC	0.9	52.0	9.5	62.3	0.2	78.4
STANFORD LELAND JR UNIVERSITY	59.4	0.0	0.3	59.8	0.2	78.6
NAVCOM DEFENSE ELECTRONICS INC	0.0	59.0	0.0	59.0	0.2	78.9
SUNDSTRAND CORPORATION	2.1	50.4	6.1	58.6	0.2	79.1
SOUTHWEST MAR SAN FRANCISCO	0.0	0.1	56.8	56.9	0.2	79.3
PARKER HANNIFIN CORP	0.1	54.1	2.3	56.6	0.2	79.5
VARIAN ASSOCIATES INC	3.5	46.3	4.2	53.9	0.2	79.7
S R I INTERNATIONAL	46.9	0.8	5.6	53.3	0.2	79.9
LORAL CORPORATION	7.9	36.6	7.0	51.5	0.2	80.1
WYLIE C E CONSTRUCTION CO	0.0	0.0	50.7	50.7	0.2	80.3
DYNCORP	0.0	0.0	50.4	50.4	0.2	80.5
HUNT BUILDING CORPORATION	0.0	0.0	47.1	47.1	0.2	80.7
AMERICAN PRESIDENT LINES LTD	0.0	0.0	46.8	46.8	0.2	80.9
ALL OTHER COMPANIES	739.2	1,970.9	2,225.3	4,935.4	19.1	100.0
TOTAL	7,465.9	12,587.5	5,773.3	25,826.8	100.0	100.0

Source: DRI/McGraw-Hill

Appendix Table II-3
Major Companies Located in the Top Ten California Counties in 1989

County	1989 CA Prime Contract Awards ($ Millions)
LOS ANGELES	11,719.8
ROCKWELL INTERNATIONAL CORP	2,324.6
MCDONNELL DOUGLAS CORPORATION	2,199.2
GENERAL MOTORS CORPORATION	1,074.4
CALIFORNIA INST TECHNOLOGY	1,068.9
TRW INC	1,027.7
GENCORP INC	537.0
LOCKHEED CORPORATION	380.3
AEROSPACE CORPORATION THE	304.0
GENERAL DYNAMICS CORPORATION	285.4
NORTHROP CORPORATION	231.0
LITTON INDUSTRIES	220.9
CHEVRON CORP	220.9
ITT CORPORATION	175.5
NAV-COM INCORPORATED	127.9
ALLIED-SIGNAL INC	121.2
FLYING TIGERS	66.4
LOGICON INC	43.0
SARGENT FLETCHER COMPANY	42.0
TELEDYNE INC	41.9
CHESEBROUGH-PONDS INC	38.8
LORAL CORPORATION	34.6
EATON CORP	33.1
TIGER UP TOWER AIR & UNITED JV	32.5
TEXTRON INC	31.0
UNIVERSITY OF SOUTHERN CAL	30.7
UNISYS CORPORATION	25.0
RAND CORPORATION THE	24.9
DOVER CORP	22.3
PARSONS RALPH M COMPANY THE	21.9
NI INDUSTRIES	20.1
ALL OTHER	912.8
SANTA CLARA	4,315.5
LOCKHEED CORPORATION	2,125.5
FMC CORPORATION	545.8
FORD MOTOR CO	435.5
WESTINGHOUSE ELECTRIC CORP	307.4
UNITED TECHNOLOGIES CORP	72.8
TRW INC	65.3
STANFORD LELAND JR UNIVERSITY	59.8
APPLIED TECH ASOC NC	44.9
INFORMATICS GENERAL CORP	29.8
BOEING COMPANY	27.0
VARIAN ASSOCIATES INC	26.8
G & F COMPANY	26.7
UNISYS CORPORATION	25.2
STANFORD TELECOMMUNICATIONS	22.1
NORTHROP CORPORATION	20.3
WATKINS-JOHNSON COMPANY	18.5
EG&G INC	18.3
SYSTOLIC SYSTEMS INC	14.7
CRAY RESEARCH INC	14.5
AYDIN CORP	14.4
TELEDYNE INC	12.2
LITTON INDUSTRIES	12.0
ACUREX CORPORATION	11.5
ADVANCED DECISION SYSTEMS	11.1
SANTA CLARA CONT'D	
HEWLETT PACKARD	10.7
SPACE APPLICATIONS CORPORATION	10.3
SYSCOM INC	9.5
BAMSI INC	9.4
TIBURON SYSTEMS	9.3
QUAD S COMPANY	8.8
ALL OTHER	295.5
ORANGE	2,928.7
GENERAL MOTORS CORPORATION	764.5
ROCKWELL INTERNATIONAL CORP	735.4
MCDONNELL DOUGLAS CORPORATION	649.4
FORD MOTOR CO	106.5
FIGGIE INTERNATIONAL INC	94.7
PARKER HANNIFIN CORP	53.6
NORTHROP CORPORATION	43.2
BRUNSWICK CORPORATION	35.3
ALL BANN ENTERPRISES INC	24.4
CARTWRIGHT ELECTRONICS INC	17.4
TRACOR INC	16.0
SPARTA INC	12.6
REGENTS OF UNIV OF CALIF	10.1
BODELL CONSTRUCTION	9.7
RAYTHEON COMPANY	9.6
MAGNETEK INC	9.1
AIRSPACE TECHNOLOGY CORP	9.0
WYLIE C E CONSTRUCTION CO	8.3
LOCKHEED CORPORATION	7.7
CONTINENTAL CONNECTOR CORP	7.5
ALL OTHER	304.8
SAN DIEGO	2,311.8
GENERAL DYNAMICS CORPORATION	490.8
NATIONAL STL SHPBLDING CMPANY	331.5
SCIENCE APPLICATIONS INC	214.9
CONTINENTAL MARITIME SAN DIEG	79.6
ROHR INDUSTRIES INC	70.1
CUBIC CORPORATION	65.1
SUNDSTRAND CORPORATION	58.5
MAXWELL LABORATORIES INC	36.1
TELEDYNE INC	34.6
LOGICON INC	33.7
WYLIE C E CONSTRUCTION CO	30.7
DIVERSIFIED TURNKEY CONSTRUCTION	27.2
COMPUTER SCIENCES CORPORATION	26.2
M/A - COM INC	23.7
TEXTRON INC	20.8
SOUTHWEST MAR SAN FRANCISCO	20.3
REGENTS OF UNIV OF CALIF	18.8
RIHA CONSTRUCTION CO	17.9
PACIFIC SHIP REPR FABRICATION	17.1
CONTINENTAL CONNECTOR CORP	16.1
ALL OTHER	678.3

Appendix Table II-3 (Continued)

County	1989 CA Prime Contract Awards ($ Millions)
SAN BERNARDINO	**780.8**
GENERAL DYNAMICS CORPORATION	264.3
TRW INC	212.9
LOCKHEED CORPORATION	69.7
DYNCORP	42.0
ROCKWELL INTERNATIONAL CORP	20.8
HUNT BUILDING CORPORATION	18.2
SOUTHERN CAL EDISON COMPANY	11.0
GENERAL ELECTRIC COMPANY	10.5
ASP CONSORTIUM	9.1
MACANDREWS & FORBES HOLDINGS	8.0
SCIENCE APPLICATIONS INC	7.6
DEVELOPMENTAL SCIENCES INC	6.3
BIRD CONSTRUCTION	5.9
BALDY BROTHERS CONSTRUCTORS	5.0
HONEYWELL INC	4.6
ALL OTHER	84.8
SANTA BARBARA	**607.4**
RAYTHEON COMPANY	285.0
ITT CORPORATION	86.9
GENERAL MOTORS CORPORATION	44.6
MISSION RESEARCH CORPORATION	24.7
FLOW LABORATORIES INC	16.4
QUINTRON SYSTEMS INC	14.9
SCIENCE APPLICATIONS INC	12.6
COMPUTER SCIENCES CORPORATION	10.5
REGENTS OF UNIV OF CALIF	9.8
G M HUGHES	7.1
MARTIN MARIETTA CORPORATION	6.1
TECOLOTE RESEARCH INC	5.8
SUNTAX CONTRACTORS	5.7
EG&G INC	5.4
KAMAN SCIENCES CORPORATION	4.9
ALL OTHER	67.0
VENTURA	**600.0**
NORTHROP CORPORATION	168.7
COMPUTER SCIENCES CORPORATION	45.9
LITTON INDUSTRIES	20.2
BECHTEL GROUP INC	19.4
WIGGINS LIFT CO INC	19.2
VSE CORP	17.9
IC INDUSTRIES INC	17.0
COMPUTER SOFTWARE ANALYSTS INC	15.6
GRUMMAN AEROSPACE CORP	13.7
INFOTEC DEVELOPMENT INC	12.7
TECHNOLOGY APPLICATIONS INC	12.6
ROCKWELL INTERNATIONAL CORP	11.3
COMPTEK RESEARCH INC	10.5
IBM	9.5
INTERMOUNTAIN CONSTRUCTION CO	9.5
ALL OTHER	196.3

County	1989 CA Prime Contract Awards ($ Millions)
SACRAMENTO	**529.7**
GENCORP INC	292.3
DELTA DNTL PLAN OF CALIFORNIA	118.3
SACRAMENTO MUNICIPAL UTLTY DST	12.0
DIGITAL EQUIPMENT CORPORATION	7.8
HARTFORD STEAM BRLR INSPTN	6.6
MC AMIS J E CO	4.0
UNISYS CORPORATION	3.4
AT&T	3.3
ACRA	3.0
GENERAL MANUFACTURING CORP	2.9
ALL OTHER	76.1
ALAMEDA	**396.5**
AMERICAN PRESIDENT LINES LTD	46.8
TECHNOLOGY COMMUN INTERL	32.3
HUNT BUILDING CORPORATION	27.9
REGENTS OF UNIV OF CALIF	27.7
OLIN CORPORATION	17.2
CONTINENTAL MARITIME SAN DIEG	14.9
SERVICE ENGINEERING CO INC	12.4
WYLIE C E CONSTRUCTION CO	11.7
OASIS HOMES CONSTRUCTION INC	10.2
RAYMOND HOLDINGS INC	10.1
ALL OTHER	185.3
KERN	**253.3**
GTE CORPORATION	36.6
COMARCO INC	20.5
COMPUTER TECHNOLOGY ASSOC	18.7
COX CONSTRUCTION INC	12.1
YORDI CONSTRUCTION INC	8.8
BALL CORPORATION	8.0
SOUTHERN CAL EDISON COMPANY	8.0
SPARTA INC	6.9
LITTON INDUSTRIES	6.9
TELEDYNE INC	6.4
ALL OTHER	120.2

Source: DRI/McGraw Hill

Appendix Table II-4
Major Companies Participating in the Top Ten Unclassified California Programs in 1989

Programs	CA Prime Contract Awards ($ Millions)	1989 Percent of Calif. Total
TRIDENT MISSILE	2,004.2	100.0
LOCKHEED CORPORATION	1,496.1	74.7
GENERAL MOTORS CORPORATION	189.9	9.5
WESTINGHOUSE ELECTRIC CORP	135.4	6.8
ROCKWELL INTERNATIONAL CORP	76.6	3.8
FIGGIE INTERNATIONAL INC	70.6	3.5
EG&G INC	18.2	0.9
LITTON INDUSTRIES	11.3	0.6
SCIENCE APPLICATIONS INC	3.0	0.2
SONATECH CORP	0.6	0.0
NORTHROP CORPORATION	0.5	0.0
MX-MISSILE	800.6	100.0
ROCKWELL INTERNATIONAL CORP	343.5	42.9
GENCORP INC	154.3	19.3
TRW INC	111.4	13.9
WESTINGHOUSE ELECTRIC CORP	95.6	11.9
NORTHROP CORPORATION	60.1	7.5
LOGICON INC	14.0	1.8
EARTH TECHNOLOGY CORP NORTHWST	11.4	1.4
MARTIN MARIETTA CORPORATION	4.8	0.6
COMPUTER TECHNOLOGY ASSOC	3.0	0.4
SYSTEMS & LOGISTICS CORP	1.6	0.2
ALL OTHER	0.9	0.1
STRATEGIC DEFENSE INITIATIVE	686.1	100.0
LOCKHEED CORPORATION	236.6	34.5
TRW INC	107.6	15.7
MCDONNELL DOUGLAS CORPORATION	103.2	15.0
ROCKWELL INTERNATIONAL CORP	49.4	7.2
GENERAL MOTORS CORPORATION	37.0	5.4
GENCORP INC	20.5	3.0
COLSA INC	11.3	1.6
MAXWELL LABORATORIES INC	8.6	1.3
ALLIED-SIGNAL INC	7.9	1.2
LASER SYSTEMS & RSCH CORP	7.3	1.1
SCIENCE APPLICATIONS INC	6.6	1.0
FLOW LABORATORIES INC	5.8	0.8
INNOVATIVE INFORMATION SYS	5.7	0.8
BECHTEL GROUP INC	5.5	0.8
WESTINGHOUSE ELECTRIC CORP	5.3	0.8
SPARTA INC	5.1	0.7
PHYSICAL RESEARCH INC	5.1	0.7
MISSION RESEARCH CORPORATION	5.0	0.7
S SYSTEMS CORPORATION	4.4	0.6
TINSLEY LABORATORIES INC	3.1	0.5
ALL OTHER	45.2	6.6
M-2 IFV (BRADLEY FIGHTING VEHICLE)	412.2	100.0
FMC CORPORATION	411.8	99.9
FMS CORPORATION	0.4	0.1
SIERRACIN CORPORATION	0.1	0.0

Programs	CA Prime Contract Awards ($ Millions)	1989 Percent of Calif. Total
MK48 TORPEDO	384.6	100.0
GENERAL MOTORS CORPORATION	383.4	99.7
PLESSEY NORTH AMERICA CORP	0.8	0.2
GENISCO TECHNOLOGY CORPORATION	0.1	0.0
SOUTHERN CAL BRAIDING CO	0.1	0.0
TELEDYNE INC	0.1	0.0
ROCKWELL INTERNATIONAL CORP	0.1	0.0
FOAM MOLDERS & SPECIALTIES	0.1	0.0
TOMAHAWK CRUISE MISSILE SYSTEM	331.1	100.0
GENERAL DYNAMICS CORPORATION	276.8	83.6
TELEDYNE INC	20.0	6.0
WESTINGHOUSE ELECTRIC CORP	15.6	4.7
TIBURON SYSTEMS	9.3	2.8
UNITED TECHNOLOGIES CORP	5.0	1.5
LEADING SYSTEMS INC	2.2	0.7
LOGICON INC	1.1	0.3
TECHMATICS INC	0.6	0.2
LITTON INDUSTRIES	0.3	0.1
SCIENCE APPLICATIONS INC	0.1	0.0
ALL OTHER	0.1	0.0
C-130 HERCULES	327.5	100.0
ROCKWELL INTERNATIONAL CORP	254.3	77.7
LOCKHEED CORPORATION	41.0	12.5
LOGICON INC	5.9	1.8
GENERAL MOTORS CORPORATION	5.7	1.7
ROHR INDUSTRIES INC	4.1	1.3
ALLIED-SIGNAL INC	3.8	1.2
IC INDUSTRIES INC	2.8	0.9
SARGENT FLETCHER COMPANY	0.9	0.3
DOVER CORP	0.8	0.3
LEAR SIEGLER INC	0.7	0.2
ALL OTHER	7.2	2.2
AOE FAST COMBAT SUPPORT SHIP	284.5	100.0
NATIONAL STL SHPBLDING CMPANY	284.5	100.0
B-1 MANNED BOMBER	258.0	100.0
ROCKWELL INTERNATIONAL CORP	233.9	90.7
GENERAL DYNAMICS CORPORATION	4.1	1.6
ZWICK ENERGY RES ORGANIZATION	3.8	1.5
SCIENCE APPLICATIONS INC	3.3	1.3
COLT INDUSTRIES INC	2.6	1.0
KIDDE INC	1.5	0.6
STERER ENGRG & MFG COMPANY	1.3	0.5
SIERRACIN CORPORATION	0.9	0.4
COMPUTER SOFTWARE ANALYSTS INC	0.8	0.3
PARKER HANNIFIN CORP	0.7	0.3
ALL OTHER	5.1	2.0
STINGER MISSILE	239.0	100.0
GENERAL DYNAMICS CORPORATION	236.8	99.1
ARRAL IND	2.1	0.9
ARYANA CORP	0.1	0.0
APPLIED COMPANIES INC	0.1	0.0

Source: DRI/McGraw-Hill

Appendix Table II-5
Top 50 1989 California Department of Defense Unclassified Contract Awards by Major Program

	Amount ($ Thousands)	Percent of CA Total	Cumulative Percent of CA Total
TRIDENT MISSILE SYSTEM	2,004,219.0	7.8	7.8
MX-MISSILE	800,631.0	3.1	10.9
STRATEGIC DEFENSE INITIATIVE (UNCLASSIFIED)	686,122.0	2.7	13.5
M-2 IFV (BRADLEY FIGHTING VEHICLE)	412,235.0	1.6	15.1
MK48 TORPEDO	384,564.0	1.5	16.6
TOMAHAWK CRUISE MISSILE SYSTEM	331,058.0	1.3	17.9
C-130 HERCULES	327,502.0	1.3	19.2
AOE FAST COMBAT SUPPORT SHIP	284,470.0	1.1	20.3
B-1 MANNED BOMBER	258,040.0	1.0	21.3
STINGER MISSILE	238,993.0	0.9	22.2
F-18 HORNET	180,118.0	0.7	22.9
F-15 EAGLE	178,429.0	0.7	23.6
AN/ALQ-119	169,195.0	0.7	24.2
AN/UYQ-21 NTDS	163,803.0	0.6	24.9
RIM-66 STANDARD MISSILE (MED)	150,133.0	0.6	25.4
F-111	149,957.0	0.6	26.0
LGM-30 MINUTEMAN	147,196.0	0.6	26.6
OH-58 KIOWA	140,993.0	0.5	27.1
AN/SPS-48 AIR SEARCH RADAR	137,386.0	0.5	27.7
S-3 VIKING	129,837.0	0.5	28.2
SICBM (MIDGETMAN)	120,344.0	0.5	28.6
P-3 ORION	113,726.0	0.4	29.1
F-14 TOMCAT	102,401.0	0.4	29.5
PERSONNEL CARRIER M113	91,020.0	0.4	29.8
AN/SLQ-32	87,919.0	0.3	30.2
F-16	80,549.0	0.3	30.5
C-5 GALAXY	79,030.0	0.3	30.8
AQM-37 TARGET DRONE	74,517.0	0.3	31.1
NAVSTAR	74,419.0	0.3	31.4
CRUISER GUIDED MISSILE-CG	68,481.0	0.3	31.6
UH-60 UTTAS	68,164.0	0.3	31.9
MK-15 CLOSE IN WEAPON SYSTEM	67,974.0	0.3	32.2
AN/ALR-62 COUNTERMEASURES	66,675.0	0.3	32.4
O-2	60,534.0	0.2	32.6
GF-4473 SDC ARRAY MULTIP SE	53,623.0	0.2	32.9
ASMS ADV STRATEGIC MSL SYS	53,532.0	0.2	33.1
A-4 SKYHAWK	53,120.0	0.2	33.3
MIM-72 CHAPARRAL	49,843.0	0.2	33.5
H/LGM 25 TITAN	46,418.0	0.2	33.6
MGM-71 TOW	45,569.0	0.2	33.8
C-10	41,068.0	0.2	34.0
SATELLITE COMMUNICATIONS	39,976.0	0.2	34.1
MIM-23 HAWK	36,556.0	0.1	34.3
SHORAD	36,238.0	0.1	34.4
M-1 COMBAT 105MM GUN	35,536.0	0.1	34.5
EA-6B PROWLER	35,400.0	0.1	34.7
F-100	33,155.0	0.1	34.8
AMRAAM	28,427.0	0.1	34.9
AIM-9 SIDEWINDER	27,798.0	0.1	35.0
T-38 TALON	27,505.0	0.1	35.1
All Other Programs (or unidentified)	16,752,336.0	64.9	100.0
TOTAL	$25,826,754.0	100.0	

Source: DRI/McGraw-Hill

Excludes some classified contracts which, if included would alter rankings. In particular, excludes major contract for B-2 Stealth bomber (possibly the largest program in California) as well as classified Strategic Defense Initiative awards.

Appendix Table II-6
County Distribution of 1989 Defense Contract Awards Over $25,000[a]
(Amounts in Millions)

County	RDT&E	Production	Service	Total	Share of CA Total	Per Capita Amount (Dollars)
Inyo	1.2	2.8	65.7	69.7	0.3	3,810.2
Santa Clara	1,221.2	2,586.2	508.0	4,315.5	16.7	2,966.6
Santa Barbara	105.6	314.0	187.8	607.4	2.4	1,733.3
Los Angeles	4,277.7	5,285.2	2,156.9	11,719.8	45.4	1,345.5
Orange	769.7	1,823.1	335.9	2,928.7	11.3	1,272.7
San Diego	491.6	1,045.3	775.0	2,311.8	9.0	940.0
Ventura	69.2	264.6	266.1	600.0	2.3	903.6
San Bernardino	275.6	270.5	234.7	780.8	3.0	566.3
Sacramento	68.1	244.2	217.5	529.7	2.1	525.9
Solano	0.0	100.4	61.3	161.7	0.6	489.8
Kern	29.4	67.1	156.8	253.3	1.0	471.2
Amador	11.6	0.9	0.0	12.5	0.0	417.5
San Mateo	61.8	153.2	13.6	228.7	0.9	358.9
Mono	0.0	0.0	3.2	3.2	0.0	326.1
San Francisco	9.5	43.3	180.6	233.4	0.9	320.9
Alameda	55.7	73.4	267.5	396.5	1.5	314.3
San Benito	0.0	9.4	0.0	9.4	0.0	260.4
Monterey	1.2	3.6	78.4	83.1	0.3	235.1
Contra Costa	4.9	134.3	41.5	180.6	0.7	228.7
Merced	0.0	5.8	33.8	39.6	0.2	225.9
Yuba	0.0	1.0	11.7	12.7	0.0	219.9
Nevada	0.0	2.7	12.8	15.5	0.1	192.1
Lassen	0.0	0.0	3.8	3.9	0.0	141.2
Humboldt	0.3	13.9	2.3	16.5	0.1	139.4
Shasta	0.1	15.3	0.6	16.0	0.1	109.2
Riverside	0.1	30.2	65.7	96.0	0.4	90.3
Marin	0.2	3.0	16.3	19.6	0.1	83.7
Yolo	2.5	7.3	0.3	10.1	0.0	74.1
Sonoma	1.7	20.5	5.7	27.8	0.1	73.6
Stanislaus	0.3	16.1	9.5	25.9	0.1	72.4
Santa Cruz	5.9	10.8	0.0	16.7	0.1	71.6
San Joaquin	0.0	9.3	23.9	33.2	0.1	71.5
Mariposa	0.0	0.6	0.4	1.0	0.0	68.4
Mendocino	0.0	5.0	0.2	5.2	0.0	66.3
Calaveras	0.1	0.1	2.1	2.2	0.0	66.2
Siskiyou	0.0	0.4	2.2	2.6	0.0	59.0
Del Norte	0.0	0.0	1.2	1.2	0.0	59.0
Imperial	0.0	0.8	5.7	6.5	0.0	55.6
Kings	0.0	0.0	4.7	4.7	0.0	47.5
San Luis Obispo	0.0	8.1	1.6	9.7	0.0	44.6
Fresno	0.2	7.2	15.3	22.7	0.1	35.7
Plumas	0.2	0.2	0.0	0.4	0.0	19.7
Placer	0.0	1.3	1.4	2.8	0.0	17.1
Tulare	0.0	3.9	0.6	4.5	0.0	14.9
Trinity	0.0	0.1	0.0	0.1	0.0	10.5
Napa	0.1	0.8	0.1	1.0	0.0	9.1
Glenn	0.0	0.1	0.1	0.2	0.0	7.7
El Dorado	0.0	1.0	0.0	0.9	0.0	7.2
Tuolumne	0.0	0.2	0.2	0.3	0.0	6.7
Tehama	0.0	0.3	0.0	0.3	0.0	5.9
Sutter	0.0	0.2	0.0	0.2	0.0	2.4
Butte	0.0	0.0	0.3	0.4	0.0	2.1
Lake	0.0	0.1	0.0	0.1	0.0	1.5
Madera	0.0	0.1	0.0	0.1	0.0	1.4
Modoc	0.0	0.0	0.0	0.0	0.0	0
Sierra	0.0	0.0	0.0	0.0	0.0	0
Colusa	0.0	0.0	0.0	0.0	0.0	0
Alpine	0.0	0.0	0.0	0.0	0.0	0
California	$7,465.9	$12,587.5	$5,773.3	$25,826.8	100.0	$888.6

Source: DRI/McGraw Hill
[a]Excludes certain classified contracts.

Military Base Closures

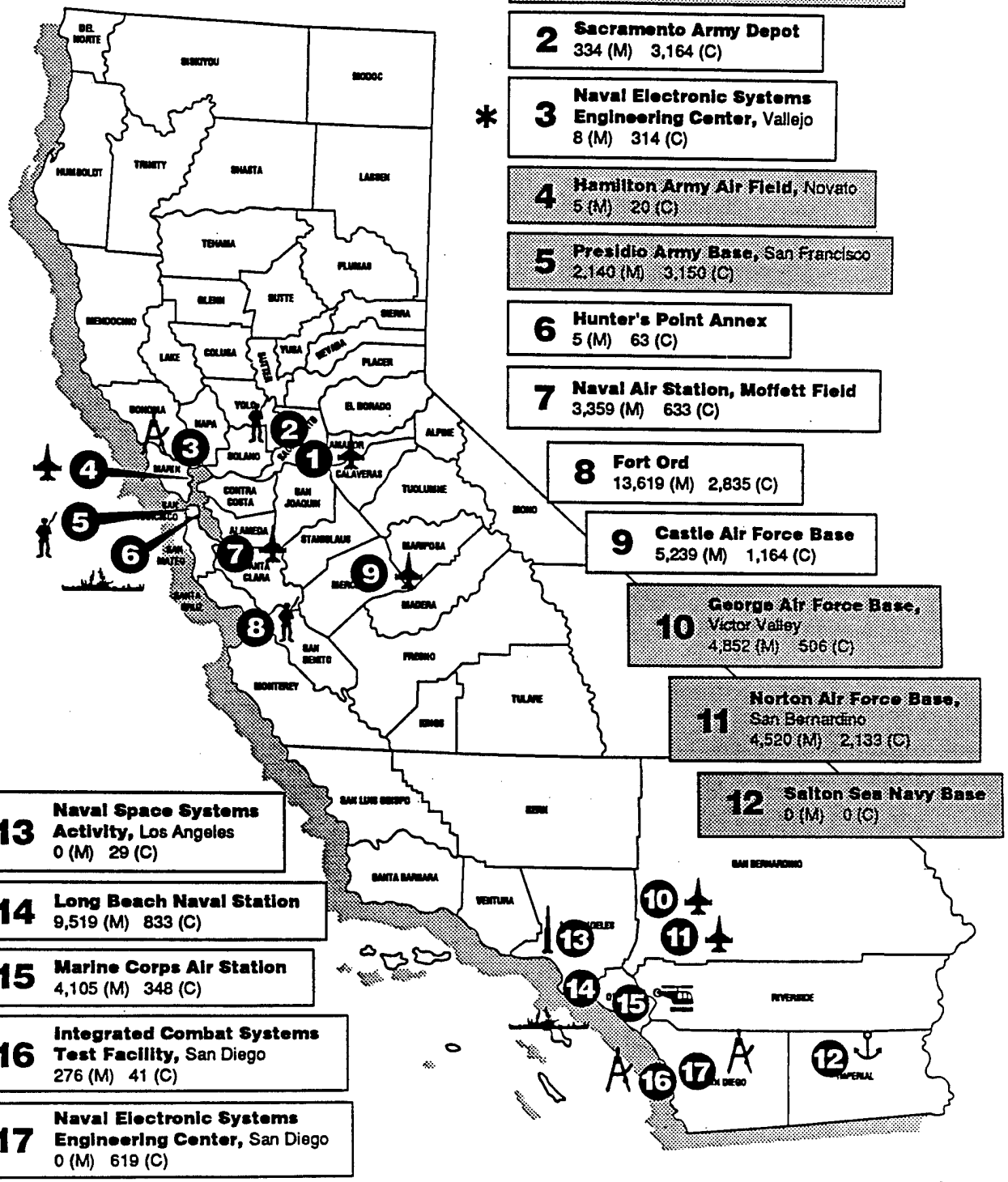
KEY:

(M) Military Personnel (C) Civilian Personnel

Base Closure Act of 1988

Base Closure Act of 1991

* *Minor closure - no facilities will become available*



1 **Mather Air Force Base,** Sacramento
1,988 (M) 1,012 (C)

2 **Sacramento Army Depot**
334 (M) 3,164 (C)

* **3** **Naval Electronic Systems Engineering Center,** Vallejo
8 (M) 314 (C)

4 **Hamilton Army Air Field,** Novato
5 (M) 20 (C)

5 **Presidio Army Base,** San Francisco
2,140 (M) 3,150 (C)

6 **Hunter's Point Annex**
5 (M) 63 (C)

7 **Naval Air Station, Moffett Field**
3,359 (M) 633 (C)

8 **Fort Ord**
13,619 (M) 2,835 (C)

9 **Castle Air Force Base**
5,239 (M) 1,164 (C)

10 **George Air Force Base,** Victor Valley
4,852 (M) 506 (C)

11 **Norton Air Force Base,** San Bernardino
4,520 (M) 2,133 (C)

12 **Salton Sea Navy Base**
0 (M) 0 (C)

* **13** **Naval Space Systems Activity,** Los Angeles
0 (M) 29 (C)

14 **Long Beach Naval Station**
9,519 (M) 833 (C)

15 **Marine Corps Air Station**
4,105 (M) 348 (C)

* **16** **Integrated Combat Systems Test Facility,** San Diego
276 (M) 41 (C)

* **17** **Naval Electronic Systems Engineering Center,** San Diego
0 (M) 619 (C)

12/11/91

CALIFORNIA MILITARY BASE CLOSURES

BASE CLOSURES	SDA	TOTAL MILITARY JOBS LOST	TOTAL CIVILIAN JOBS LOST	LAYOFF SCHEDULE 1991	1992	1993	1994	1995	1996	1997
FIRST ROUND - OCT 88 (PL 100-526)										
ARMY - PRESIDIO OF SAN FRANCISCO	SAN FRANCISCO	2,140	3,150		<----	---	---	--->		
HAMILTION ARMY AIR FIELD	MARIN	3	21		<----	---	---	--->		
USAF- MATHER	SETA	2,100	1,600	<----	---	--->				
NORTON	SAN BERNARDINO	4,520	2,133	<----	---	--->				
GEORGE	SAN BERNARDINO	4,852	506	<----	--->					
NEW LIST - AUG 91										
MAJOR BASE CLOSURES										
ARMY - FORT ORD	MONTEREY	13,619	2,835			<----	---	---	---	--->
SACRAMENTO ARMY DEPOT	SETA	334	3,164			<----	---	---	---	--->
NAVY - LONG BEACH NAVAL STATION	LONG BEACH	9,519	833			<----	---	---	---	--->
HUNTERS PT. TEASURE ISLAND	SAN FRANCISCO	5	63			<----	---	---	---	--->
NAVAL AIR STATION MOFFETT FIELD	NOVA	3,359	633			<----	---	---	---	--->
USAF - CASTLE	MERCED	5,239	1,164			<----	---	---	---	--->
US MARINES- TUSTIN AIR STATION	ANAHEIM & LONG BEACH	4,105	348			<----	---	---	---	--->
MINOR FACILITIES										
NAVAL SPACE SYSTEMS ACTIVITY	LOS ANGELES	0	29			<----	---	---	---	--->
INTEGRATED COMBAT SYSTEMS	SAN DIEGO	276	41			<----	---	---	---	--->
NAVAL ELCT. SYSTEM ENGINEERING	SAN DIEGO	0	619			<----	---	---	---	--->
NAVAL ELCT. SYSTEM ENGINEERING	SOLANO (VALLEJO)	8	314			<----	---	---	---	--->
TOTAL LAYOFFS FROM BASE CLOSURES		50,079	17,453							
REALIGN AND REDUCTION IN FORCE										
CHINA LAKE NAVAL WEAPONS CENTER (INYO)	KERN/INYO/MONO	0	160			<----	---	---	---	--->
PT. MUGU PACIFIC MISSILE TEST CENTER	VENTURA	0	190			<----	---	---	---	--->
REDUCTION IN FORCE (NOT ON DOD LIST)										
ALAMEDA SUPPORT DIVISION	ALAMEDA	*INA	60	<->						
MCCLELLAN AFB	SETA	INA	852	<----	--->					
MARE ISLAND NAVAL SHIPYARD	NAPA & SOLANO	INA	1,500	<--->						
NAVAL AVIATION DEPOT	ALAMEDA	INA	453	<--->						
NORTH ISLAND NAVAL AIR STATION	SAN DIEGO	INA	1,100	<----	--->					
TOTAL FROM REDUCTION IN FORCE		0	4,315							
TOTAL DISPLACEMENTS		50,079	21,768							

Information compiled from Dept. of Labor Training & Employment Information Notices and communications with SDAs. (8/26/91)
*INA-Information not available

SATURDAY, FEBRUARY 22, 1992
Los Angeles Times

D1-2

2.5 Million Arms Jobs Are at Risk

■ Defense: The government should help communities that suffer major losses of military-related business over the next 10 years, a congressional study says.

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—Cuts in defense spending could eliminate up to 2.5 million jobs nationwide over the next 10 years, and the federal government should help hard-hit communities by aiding displaced workers, according to a congressional report issued Friday.

The Office of Technology Assessment said the cutbacks resulting from the Cold War's end will have only a "modest" impact on the economy, and will be less severe than those accompanying the end of World War II, the Korean War and the Vietnam War.

Still, the nonpartisan congressional agency said communities where defense spending is concentrated could suffer sudden and severe financial setbacks, and government should help ease the transition by arranging for retraining for displaced workers and aiding small businesses.

The report, requested by Sens. Edward M. Kennedy (D-Mass.) and Claiborne Pell (D-R.I.), was optimistic about the nation's ability to adjust to the end of the Cold War's massive military budgets.

Even in California, the defense employment leader, the share of state economic activity generated by military spending has shrunk to 7.8% from 15.6% in 1964, the report said.

"Some defense-dependent communities might still escape serious problems if their local economies are strong and diverse enough to take up the slack," it said.

There are 6 million defense jobs nationwide. A 40% cut in military spending in the next decade, the study said, would eliminate 1.4 million defense industry jobs, 709,000 positions in the military services and 347,000 jobs held by civilians working for the Defense Department.

Many of the jobs will be eliminated by attrition as workers quit or retire, so the actual number who lose jobs is likely to be substantially less than 2.5 million, the report said.

"Compared to the size of the national economy, the current cutbacks in defense spending do not loom very large," the study said, noting that 119 million Americans were working in 1991.

The nation's most startling shift to civilian spending took place after World War II, from 1945 to 1948, when 33.4 million people, including 10.6 million members of the armed forces, left defense-related jobs. Many economists feared a depression, but the opposite happened: "Wartime savings and pent-up demand" produced a business boom, the report noted.

Employment plunged 2.5 million in the three years after the Korean War ended in 1953. Spending for the Vietnam War peaked in 1968, and military-related employment had dropped by 3 million by 1974.

As the country moves into the post-Cold War era, the economy "is not as robust as in earlier defense" spending declines because of the competitive challenge from Japan, the report noted. On the positive side, there are a greater number and variety of jobs than ever, and there are government programs to help distressed communities and displaced workers.

The losses in military jobs can be compared to the regional decline of coal mining, textiles and farming, the report said. "When and if defense spending drops to a permanently lower level, the story might be the same in highly defense-dependent communities—severe, long-lasting local effects but only minor impacts on the national economy," the study noted.

However, for those who are laid off, it will be hard to get new jobs that offer the same salaries and benefits.

"By and large, defense jobs pay well, and in private industry are heavily tilted to manufacturing," the report said. "For production and non-supervisory workers, defense jobs provide substantial middle-class incomes and good benefits that are hard to find elsewhere in the American economy of the 1990s."

A1-19

LOS ANGELES TIMES
SATURDAY, FEBRUARY 8, 1992

California Lost 240,000 Jobs During January

By WILLIAM J. EATON
and JESUS SANCHEZ
TIMES STAFF WRITERS

WASHINGTON—California lost almost 240,000 jobs in January, a state survey of employers' payrolls indicated Friday, as the nation's unemployment rate remained stuck at a five-year peak of 7.1%.

The state's jobless rate shot up to 8.1% from 7.7% in December, the U.S. Labor Department reported, as Sun Belt states in particular continued to suffer from the slumping economy. Unemployment in Florida rose to 8.7% from 7.5%, and in Texas it was 7.8%, up from 7%.

For the nation as a whole, the number of jobs fell by 91,000 as the recession took a heavy toll in the manufacturing and retail sectors.

In California, a separate household survey taken by the state government estimated that the number of unemployed climbed by 61,000 in January to 1,216,000.

"The worst has yet to hit California," said Paul Getman, an economist at Regional Financial Associates in West Chester, Pa., who cited job losses in the defense industry, real estate and financial services. "We believe that the California economy will be one of the weakest," with a turnaround not likely before the fourth quarter of this year, he said.

Economists said they expect jobless figures to remain high in the state because its major aerospace and commercial-construction sectors continue to decline while other industries remain flat.

Manufacturing, construction and retail trade actually showed the greatest number of job losses in January. But Lynn Reaser, a senior economist with First Interstate Bancorp in Los Angeles, said an increase in sales of new homes last month bodes well for construction and related industries.

Nationally, the Labor Department said 8.9 million Americans were jobless in January, while the number of people holding part-time jobs rose by 400,000 to 6.7 million. The increase in part-time workers indicates that more people were unable to find full-time work.

The number of discouraged workers, people who have quit looking for work, remained at about 1.1 million.

"It was a very negative and disappointing report," Reaser said. "The recession is still with us . . . most companies are very reluctant to take on any new employees, and many in fact are still paring staff."

The jobless report Friday initially boosted the bond market, where interest rates dropped in anticipation of Federal Reserve action to stimulate the economy. But that, and a brief stock market rally, fizzled after the Fed drained cash from the banking system, signaling that it was not ready to cut rates more broadly.

The Dow Jones average of industrial stocks fell 30.19 points to close at 3,225.40.

The unexpectedly large loss of jobs in January is a political liability for President Bush, who was campaigning Friday in California as he prepares to launch his formal campaign for reelection on Wednesday. Some analysts had expected a gain of about 30,000 jobs for the month.

Michael J. Boskin, chairman of the White House Council of Economic Advisers, said the unemployment rate may go slightly higher in February and March but should then start downward if the President's economic package is adopted by Congress.

"It will take some time before these [job] indicators pick up and improve," Boskin told the House Budget Committee on Friday. "It's unlikely that there will be an instant turnaround in the next month or two."

Sen. Paul S. Sarbanes (D-Md.) said the job picture was more grim in January than December even though the overall unemployment rate remained the same.

"There is nothing in the January report to show that the economy has started to recover from the downturn that began 19 months ago," Sarbanes said at a hearing of Congress' Joint Economic Committee.

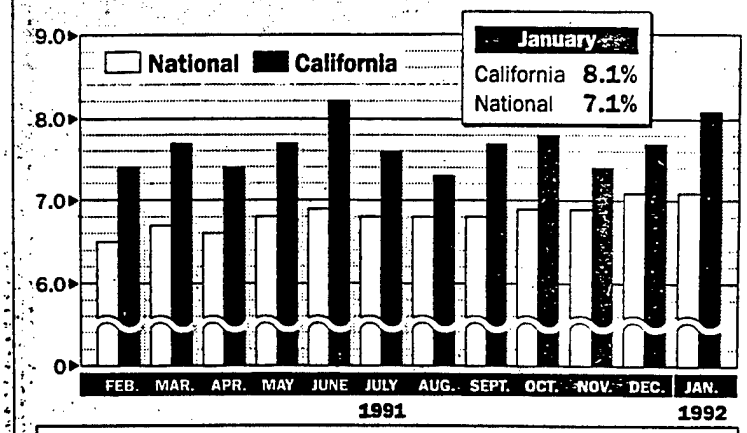
A private analyst, Marco Babic of Evans Economics, said there has been encouraging growth of the money supply and an increase in department store sales despite the latest sign of falling employment.

"I don't think we're in a double-dip recession, but the recovery may stall a little bit to the end of the second quarter or the beginning of the third quarter," Babic said.

3 4 MORE

The Troubled U.S. Labor Market

California's unemployment rate shot up to 8.1% in January from 7.7% a month earlier, the U.S. Labor Department reported. The government says 91,000 jobs were lost across the United States in January as the unemployment rate nationwide held at 7.1%.



Here are the unemployment rates in January for some of the major industrial states:

- **Florida:** 8.7%, up from 7.5% in December.
- **Illinois:** 8.2%, down from 9.1%.
- **Massachusetts:** 7.9%, down from 8.7%.
- **Michigan:** 8.9%, down from 9.2%.
- **New Jersey:** 6.8%, down 7.2%.
- **New York:** 8.4%, up from 8%.
- **Texas:** 7.8%, up from 7%.

SOURCE: U.S. Labor Department.

ANDERS RAMBERG / Los Angeles Times

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The Labor Department report said the job outlook remained "weak" in January, with a rise in unemployment among adult men to 6.9%, 2 percentage points above the mid-1990 level, when the recession began. Jobless rates for blacks rose to 13.7% and for Latinos to 11.3%, while the rate for white workers was unchanged at 6.2%.

Job cutbacks in manufacturing totaled 52,000, with half of that coming from layoffs in the auto industry. Another 51,000 jobs were lost in retail trade, primarily from cutbacks at department and variety stores, the Labor Department said.

In contrast to recent trends, there was no net job growth in the service industries last month, although there was a modest gain of 17,000 jobs in health services.

In further signs of weakness, the average workweek of non-supervisory, non-farm workers edged down to 34.3 hours in January from 34.5 hours, and seasonally adjusted average weekly earnings fell to $359.12 from $361.56.

Eaton reported from Washington and Sanchez from Los Angeles.

L.A. Times 2/8/92 A-19

Bush Signs Bill Extending Jobless Aid

WASHINGTON—President Bush signed legislation late Friday to extend unemployment benefits by 13 weeks, a measure Congress rushed to him earlier in the week to help 2 million jobless Americans—including 600,000 whose benefits would otherwise run out this month.

With the government announcement that the unemployment rate remained at a five-year high of 7.1%, Bush lent an air of urgency to the benefits extension by signing it while aboard Air Force One on his return from California.

At the same time, the President renewed his challenge to Congress to pass his overall economic recovery package by March 20.

"I'm not giving up on the Congress acting for the good of this nation," he told reporters, noting the alacrity with which the lawmakers had forwarded the jobless benefits bill.

Asked about the fact that he had twice killed unemployment benefits bills after Congress passed them last year, he replied: "I said I want to do it, but I want to do it within the budget agreement." The legislation he signed Friday meets that condition, he said.

Congress overwhelmingly approved the $2.7-billion election-year measure on Wednesday. The bill would add another 13 weeks to the benefits jobless people can receive. Currently, they can get either 39 or 46 weeks of coverage, depending on how high unemployment is in their states.

—Associated Press

EDD NEWS

Serving the People of California

Compiled by the EDD Communications Office on: Thursday, January 30, 1992

A1-16

LOS ANGELES TIMES

THURSDAY, JANUARY 30, 1992

200,000 State Jobs Seen Periled by Defense Cuts

■ **Military:** The loss of 600,000 nationwide by 1997 is predicted. Northrop will eliminate 1,500 positions.

By RALPH VARTABEDIAN
TIMES STAFF WRITER

The precipitous defense spending cuts unveiled Wednesday by the Pentagon could throw as many as 600,000 U.S. workers out of jobs nationwide—including more than 200,000 in California, according to projections by defense analysts.

The first of the local employment cutbacks were announced only hours after the spending reductions were released in Washington, when Northrop Corp. said that it would eliminate 1,500 jobs on the B-2 Stealth bomber program in Palmdale and Pico Rivera through layoffs and attrition.

The Air Force will halt B-2 production after just 20 aircraft, meaning that the last plane will leave its Mojave Desert plant by no later than 1998 and the vast majority of Northrop's 13,400 jobs on the program would be eliminated. The program accounts for 40,000 jobs in California.

Defense Secretary Dick Cheney unveiled a Pentagon budget Wednesday that would reduce spending by 7% in fiscal 1993, compared to this year, and by 1997 would drive down the defense budget by 37%, compared to its peak in 1985. In defense procurement, the funding cutback is a stark 50%, going from a peak of about $120 billion in the mid-1980s to a projected $54.4 billion by 1993.

The cutbacks will have a profound economic impact, even beyond the direct defense industry jobs. The U.S. labor market will be flooded with 138,000 military personnel to be released during the current fiscal year and a total of 321,000 by 1995, senior defense officials said in briefings Wednesday.

The economic forecasting firm DRI/McGraw Hill projected that anticipated budget cutbacks would result in the loss of 600,000 jobs in the U.S. economy by 1997, based on both the loss of direct defense industry jobs and a broad range of jobs throughout the economy. On a similar basis, the California impact was 200,000, according to Sal Monaco, a principle in DRI's aerospace practice.

David Hensley, an economist at UCLA's Business Forecasting Project, said he estimates that the budget cutbacks will result in the loss of 71,000 direct aerospace jobs in California over the next five years, not including indirect affects through the economy. Hensley said 61,000 jobs have already been lost since the state's aerospace employment peaked in 1988 at 375,000 jobs.

Both the DRI and the UCLA forecasts do not account for possible job growth in other segments of the economy that would result from alternative government spending or from reductions in the federal deficit, which could mitigate the loss of jobs resulting from defense cutbacks. Monaco said he is skeptical that a reduction in the budget deficit alone would create enough stimulus in the economy to offset the loss of defense jobs in the near term.

Cheney unveiled a long list of canceled defense programs Wednesday, many of them unfamiliar to the general public but representing the bread and butter of the defense industry—including a key Navy missile program at Texas Instruments, an early warning aircraft at Grumman, a nuclear attack missile at Boeing, an attack submarine program at General Dynamics and torpedo propulsion system at Hughes Aircraft.

As bad as California contractors were hit, Hughes Chairman Malcolm Currie remarked in an interview Wednesday: "It could have been much worse."

Indeed, the Pentagon budget calls for $2.7 billion in funding to

3 4 (MORE)

DEFENSE:

Continued

produce eight C-17 cargo jets at McDonnell Douglas in Long Beach, a sharp increase in production. Previously, funding had been approved for 10 C-17s.

"Clearly on the surface, McDonnell Douglas fared very well, at least the initial volley," Herbert Lanese, chief financial officer for the St. Louis-based firm, told a wire service, but he cautioned that a lot could change between now and the time Congress acts on the Bush budget.

Although substantial cuts were made against most programs, funding for the Strategic Defense Initiative, also known as "Star Wars," was boosted to $5.3 billion from $4.1 billion. California contractors account for the leading positions in the program.

Meanwhile, the Navy is seeking funding to produce another 48 F-18 jet fighters for $1.8 billion, about 40% of which is produced in El Segundo by Northrop. The B-2 decision, in which the Air Force will spend $2.6 billion for the last four aircraft, saved Northrop from an immediate cancellation that would have devastated the program.

In other Southland programs, the Pentagon is seeking $200 million to continue development work on the National Aero Space Plane, a program led by Rockwell International in Palmdale.

"Overall, we came out on the plus side," said Sam Iacobellis, executive vice president at Rockwell. He said that the company will take cuts in its Midgetman missile program in Orange County, but anticipates new work to reduce the payloads on the Minuteman 3 missile, as part of stragetic weapons reductions outlined by Cheney.

But the overall message brought out by Cheney on Wednesday was that the industry will face cutbacks through the mid-1990s.

"It keeps extremely negative pressure on defense employers year after year after year," remarked First Boston aerospace analyst Peter Aseritis.

Currie, the Hughes chief, said: "The industry is going to continue to go down. As the existing production programs end over the next several years, that is going to be the real crunch period for the industry."

The Pentagon plan includes an end to production of the Grumman F-14 and McDonnell F-15 jet fighters, both of which have significant content in California, including radars built by Hughes. The firm also builds the radar for the B-2 bomber.

EDITORIALS of THE TIMES

Does Anybody Care About the State's Defense Workers?

With layoffs looming, they need new training and jobs—and deserve both

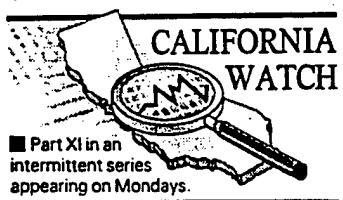
For too many California workers, the end of the Cold War is a mixed blessing. The so-called peace dividend eludes them as they face more layoffs at local defense firms because of possible new cutbacks by the Pentagon. The truth is that if there is to be any peace dividend for California, it will probably have to be of the state's own making.

That means Sacramento needs an aggressive plan—a strategy to create new jobs to replace those lost in the downsizing of the defense industry. Welcome and needed efforts are already under way to create a more attractive business climate, but that's not sufficient.

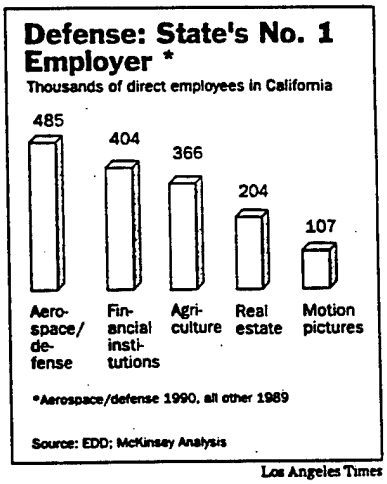
The state economy may be diversified, but not enough to totally offset the shock of massive restructuring not only in defense but in other traditional California industries too. The state Commerce Department must mount an effort to lure new industries to absorb unemployed defense workers and to provide for expanded retraining programs for aerospace workers. Other states have succeeded with economic development plans, too often by luring away California's businesses.

California ranks 10th among states likely to be seriously hurt by specific defense spending cuts that were in the works at the end of 1990. Now the Pentagon is scaling back again. Times staff writer Melissa Healy reported the Pentagon may freeze virtually all future defense programs after the research and engineering stage, which means weapons production could be postponed. The Pentagon initiative, to be unveiled this month, would end an era when defense contractors maintained a large force of skilled workers and received most of their profits from the production phase of contracts. While research and engineering staffs are likely to benefit, the outlook for production workers is bleak.

The Pentagon initiative would accelerate a decline in California's defense industry that began in the mid-1980s. Since 1986 California has lost 60,000 aerospace/defense jobs. And 90,000 related jobs are gone, too. A report by the Los Angeles Area Chamber of Commerce forecasts a 20%-to-25% cut in total defense expenditures over the next five years—even before the Pentagon's new initiative. All the more reason to seek out new opportunities that might facilitate California's defense conversion and make maximum use of highly skilled aerospace workers.



■ Part XI in an intermittent series appearing on Mondays.



Los Angeles Times

The logical first step toward replacing defense jobs is to look at emerging businesses trying to make products that meet demands of state environmental and mass transit policies. Take electric or rail cars; or consider clean industries such as biotechnology. In Los Angeles County, two nonprofit organizations have created the Aerospace Industry Task Force to track laid-off defense workers and to identify new training opportunities for them.

Securing adequate retraining funds is crucial to helping workers. It costs $2,500 to $3,500 to retrain an aerospace factory worker. California needs retraining funds. State efforts are funded by unemployment taxes paid by employers, but they are hardly adequate. California secured $7 million in federal funds last year to retrain aerospace workers. The state is applying for a share of $150 million in retraining funds authorized by Congress to help communities and workers affected by defense cutbacks. More is needed, and that's a job for the members of California's congressional delegation. It's their job to get federal aid for California's laid-off workers.

Without a coordinated effort to offset the decline in the defense industry, California's industrial base is likely to erode further. Avoiding that erosion will take long-term vision and planning—a task for the governor and Legislature. And for the congressional delegation.

EMPLOYMENT DEVELOPMENT DEPARTMENT INTITIATIVES

Military Base Closures and Defense Spending Reductions

DESCRIPTION OF TYPES OF SERVICES OFFERED

The primary role of EDD in the closing of military bases is providing retraining and employment services, either directly, or through the local Service Delivery Areas. Following is a synopsis of: (A) current activities the Department is pursuing to assist communities affected by base closures; (B) other actions planned in the near future; and (C) additional options EDD recommends as a long-term base closure strategy as it relates to potentially dislocated workers.

A. Current activities

The following services are currently available for both civilian and military personnel:

Governor's Office of Planning and Research

Governor Wilson has designated the Governor's Office of Planning and Research (OPR) as the central point of contact for state coordination and liaison with regard to issues relating to closure and re-use of military bases (see Executive Order W-21-91 in Appendix). OPR is establishing informal working groups of State agencies and departments to address economic, employment, and planning uses and is ensuring that existing state task forces also address these issues.

Job Training Partnership Act (JTPA) Displaced Worker Program and California Response Team

The goal of the "Displaced Worker" program (Title III of the Job Training Partnership Act) is to provide employment and training programs to workers dislocated as a result of plant closures or mass layoffs. These services are also available for base closures or reduction-in-force (RIF).

Federal legislation passed in 1989 (The Worker Adjustment and Retraining Notification Act, the Economic Dislocated Worker Adjustment Assistance Act, and amendments to the Trade

Adjustment Act) created the requirement to develop and formalize a rapid response system for plant closures and mass layoffs.

In California, a team concept involving state and local entities is used, including EDD, the Department of Commerce, the State Job Training Coordinating Council, and the Service Delivery Areas (SDA)/Private Industry Councils (PICs). The goal of the California Response Team is to prevent plant closures where possible and minimize the dislocation of affected workers.

Unemployment Insurance Benefits

Payment of unemployment insurance (UI) benefits to eligible individuals, including regular UI, UCX to military personnel, and UCFE to federal civiliarn employees.

UI is usually the first point of contact for dislocated workers. Field offices offer on-site claim filing. Arrangements can be made between the EDD field office and the employer to file claims for UI at the base, at which time information about other services, such as Job Service, Job Search and other programs, can be made available.

California Training Benefits

The California Training Benefits (CTB) program allows claimants to continue receiving UI benefits while they are in approved training. In addition, the program allows claimants to receive up to 52 weeks of UI benefits if they apply by their 16th week of regular UI. This program may be unique to California.

Job Match through Job Service program

Job Match is a statewide computerized network of available jobs listed through EDD which is made available to all individuals seeking employment.

EDD field office services

Potential dislocated workers can avail themselves of all EDD employment and training services, including: Job Match registration; Job Clubs; Job Search workshops; vocational counseling; vocational testing; resume writing workshops; and referral to supportive services. On-sie job services are offered when appropriate at 185 field office and service points in California.

Labor Market Information

EDD's Labor Market Information Division provides information on state and local economic conditions and labor market data. The state-local Labor Market Information program develops and provides local employment, occupational and economic data.

Technical assistance to local communities

EDD field office personnel actually participate in local organizations established to help prepare for base closures, set up by local communities.

In addition to the above services, which are available to both civilian and military personnel, the following services and benefits are provided by EDD to veterans:

* The federal Emergency Unemployment Compensation Act of 1991 now allows veterans to collect up to 26 weeks of unemployment insurance, equivalent to that non-veterans can collect; this is double the 13-week maximum prior to passage of this legislation.

* The Transition Assistance Program (TAP) for individuals leaving the military, pioneered in California and now operating nationwide, offered 156 workshops providing employment-related assistance to people separating from the military last year. Next year, 257 workshops are anticipated to be held in California.

* The Disabled Veterans' Outreach Program and the Local Veterans' Employment Representative programs are ongoing transition activities for veterans which can be used during base closure operations. Currently, EDD Job Service offices have 191 Disabled Veterans' Outreach Personnel and 118 Local Veterans Outreach Representatives.

* EDD also gives veterans preference in job placement through Job Service and all other employment and training services.

Examples of current activities taking place to assist communities affected by base closures follow:

* JTPA Title III funds have been provided for retraining and reemployment assistance to the following defense facilities in anticipation of closure: Naval Aviation Depot; Mare Island Naval Shipyard; Navy Exchange; Mather Air Force Base; McClellan Air Force Base; Sacramento Army Depot; Norton Air Force Base, and North Island Naval Aviation Depot. A grant application is pending to assist George Air Force Base.

* California was also awarded $7 million in Secretary's National Reserve Account funds for the Aerospace/Defense project which is operational from March 1991 through June 1992.

* A transition center is operating at George Air Force Base, under a cooperative arrangement by EDD, the San Bernardino County SDA and George Air Force Base. EDD and the San Bernardino SDA conduct orientations, on-site work registrations, workshops, and job development contacts. Most activities are part of Rapid Response efforts.

* Although Mare Island Naval Shipyard is not a "base closure," several hundred federal civilian employees were given RIF notices in August. The Vallejo EDD field office and the Napa County SDA have been and continue to be active in organizing and participating in Job Fairs, workshops, Job Clubs, etc., in affiliation with Mare Island's Outplacement staff.

B. Additional activities EDD plans in the near future

In addition to the above ongoing activities, EDD is planning the following activities in the near future.

* EDD is coordinating a workgroup to develop a plan to assist persons unemployed as a result of military base closures. The plan will focus on anticipating planned closures and ensuring that employment and training services are provided in a timely manner. Among the entities anticipated to participate include:

  The Governor's Office of Planning and Research;
  Health and Welfare Agency;
  Business, Transportation and Housing Agency;
  Department of Veterans Affairs;
  Representatives of the Military;
  State Job Training Coordinating Council;
  Employment Training Panel;
  Service Delivery Areas; and
  Private sector representatives of the Defense Industry.

  In addition, other entities will be added to conduct planning for specific closures or on an ad hoc basis.

* EDD sponsored a seminar, "Military Base and Defense Industry Layoffs: A Conference Addressing Policy and Implementation Issues," and was held in February 1992. The purpose of this conference was to present timely information and discussion

relating to providing services to California's workers dislocated due to military base and defense industry cutbacks.

* EDD staff from the Job Training Partnership Division will continue to be available to provide technical assistance to SDAs regarding military base and defense layoffs.

* EDD plans to expand its on-site unemployment insurance and job service registration when appropriate at bases to be affected by the base closure decisions.

* EDD will continue to work with local organizations established to help communities affected by base closures to retrain workers and attract new jobs to the affected areas.

WHAT IS JOB SERVICE?

Job Service is a nationwide program created over 50 years ago to help employers find qualified workers, and workers find appropriate jobs. Funding is provided from employer paid taxes under the Federal Unemploymen Tax Act (FUTA). In California the Employment Development Department (EDD) is the State agency that administers and operates the Job Service program.

WHY JOB SERVICE IS VITAL TO CALIFORNIA

- California is an important economic entity, strategically situated on the Pacific Rim. Its location, size, population, and diversity of services, products, and peoples require a statewide Job Service delivery system for continuity, effective coordination of services, and prompt response to changing needs.

- EDD's Job Service has an automated sytem, JOB MATCH, that quickly matches the right worker to the right job. This system is being expanded so that by 1991 employers will have instant access to qualified applicants from across the State. Job seekers will have instant access to appropriate statewide jobs.

- Trained professional Job Service staff throughout California operate a flexible and tailored labor exchange that addresses the particular economic needs of communities. This includes additional supportive services, such as, workshops, job clubs, counseling, and testing. All of these are critical to career development and long-term job retention.

- Job Service provides valuable labor market information which is vital to business, education, city, county and State economic planning and development.

- Job Service is the only government organization in the employment and training field that operates at local, State and national levels.

- Job Service is the only organization with links to all public employment and training organizations (county welfare programs, local employment and training providers, Private Industry Councils, community organizations, and other agencies).

- Job Service assures equal access to job opportunities to all persons eligible to work in the U.S.

WHAT JOB SERVICE DOES FOR EMPLOYERS

JOB SERVICE SAVES EMPLOYERS TIME AND MONEY BY PROVIDING:

- A single point of contact to serve employer needs.
- Qualified employees from California's largest single pool of job-ready workers.
- Automated systems which expand the area of search for job-ready workers and offer quick response.
- A wide variety of valuable labor market information for planning and economic decision-making.
- Recruitment services tailored to employer needs.
- Assistance with Affirmative Action planning and hiring.
- Interviewing facilities for employer use.
- Tax Credit certifications.
- Local seminars on how to get full use of Job Service programs.
- A forum to share employer concerns — Employer Advisory Groups.
- Participation in EDD sponsored job fairs.
- No placement fees.

JOB SERVICE HELPS EMPLOYERS MEET EMPLOYMENT NEEDS

WHAT THE JOB SERVICE DOES FOR JOB SEEKERS

JOB SERVICE SAVES JOB SEEKERS TIME AND MONEY BY PROVIDING:

- One stop service for:
  - Job referrals to the right jobs
  - Information and referral to job training
  - Access to the largest variety of job opportunities
  - Unemployment Insurance claim filing
  - Referral to supportive services
- Job finding assistance, including:
  - Workshops
  - Job Clubs
  - Vocational Counseling
  - Testing
  - Job Fairs
- Access to permanent, temporary, full-time and part-time jobs
- Special job assistance for U.S. Veterans
- Multiple offices throughout California for convenient service

Transition Assistance Workgroup

California Employment Development Department is participating in a Transition Assistance Workgroup composed of several State Employment Security Agencies personnel, the Department of Defense, Department of the Army, Department of the Navy, United States Marine Corps, and the Department of the Air Force as well as the United States Department of Labor's Employment Service and Veterans Employment and Training Service.

The workgroup is responsible for: outlining the hardware and software components of all current and planned systems as well as the data bases, developing options and workplans for linkages with the Interstate Job Bank (IJB) and identifying the costs and time frames for creating those linkages.

The workgroup is exploring various approaches and options for providing job search and referral services to the 300,000 to 400,000+ military personnel who will be leaving the four services during the next three to five years.

Several systems are currently being developed and implemented by the Department of Defense. They range from an automated system which will produce a summary of military experience and training for each person leaving the service to an on-line system (bulletin board) available at 156 transition sites throughout the country which will display jobs available from employers participating in this program.

The workgroup has discussed the capabilities and technical environment of the IJB used by Employment Security Agencies, and how this system could be integrated into the Department of Defense plans.

Several alternatives and approaches are currently being considered by the workgroup. They are:

- Provide an automated interface between the Department of Defense transition bulletin board and the IJB system to allow IJB information to be available on the bulletin board.

- Provide access to the IJB at each of the 156 military transition sites by providing either a personal computer or terminal with telecommunication links to the IJB.

- Provide access to State Job Bank system (Job Match in California) at each of the 156 transition sites.

- Provide current labor market information from each state to a Department of Defense automated system so that it is available to all transition sites.

- Provide access to both the IJB and State systems as well as regularly scheduled visits of employment service and/or veterans program staff from the State agencies to assist in matching applicants with jobs and making referrals to employers.

EDD FACT SHEET

Serving the People of California

VETERANS EMPLOYMENT PROGRAM

ROLE

As part of its mission to "Serve the People of California" and under federal mandate, the Employment Development Department (EDD) gives top priority to veterans for all Department services. Veterans receive priority in job referrals, referrals to training, the provision of counseling, testing, and related services. The disabled veteran receives top priority in all employment services.

SPECIAL STAFF

One hundred and eighteen Local Veterans' Employment Representatives (LVERs) are assigned throughout the state. The LVER is responsible for ensuring that veterans receive the services to which they are entitled. Local Veterans' Employment Representatives also assist severely disabled veterans and veterans who have unusual employment problems; promote employer interest in hiring veterans; work with local veteran organizations and committees, and visit military bases and hospitals to give employment information to men and women in the service who are about to be discharged from active duty.

Many field offices also have at least one of our 191 Disabled Veterans' Outreach Program (DVOP) specialists assigned. Disabled Veterans' Outreach Program specialists provide employment services to veterans, with emphasis on serving the needs of disabled and Vietnam-era veterans.

PRIORITY IN JOB REFERRAL

Veterans qualified for job openings listed with EDD are routinely referred before nonveterans. Within the ranks of veterans themselves, there are orders of priority in job referral. They are:

- Special disabled veterans (Those with a disability rated at 30 percent or more.)
- Vietnam-era veterans
- Other disabled veterans
- Veterans and eligible persons

All job openings received by an EDD office are placed into "Job Match", our Department's computerized system which matches

qualified job applicants electronically with employers' job orders. Job Match also selects veterans above all others for priority referral. If no qualified veterans are available, nonveterans are referred.

TRANSITION ASSISTANCE PROGRAM (TAP)

The TAP as administered in California is probably the most effective tool that can be used to counteract the disruptive effects of military downsizing.

In a normal year, approximately 60,000 individuals would be discharged in California; this year the number is expected to reach approximately 100,000. The TAP is an intensive employment preparation program designed to assist individuals leaving the military to make a smooth transition into a rewarding and successful career in the private sector. The TAP is conducted over three consecutive days, and provides the service member with the vocational guidance to make a sound and realistic career choice. Classes are currently conducted at 27 military installations throughout California. All military branches, including the Coast Guard, participate. Theoretically, it is possible to provide TAP classes to each of the 100,000 individuals that will soon be leaving the military in California. Based upon current and anticipated resources however, we will most likely be able to serve no more than approximately 30,000 (300 classes; 102 students per class).

The TAP continues to be the service members best guide to the security and independence of a new life once the parades are over. Regardless of the why or when of leaving a life in the military, making the break can and does trigger a range of anxieties.

Resumes, applications, networking, and interviews are an inherent part of a process which military service members find overwhelming and foreign. The TAP is a well structured program to provide the service member with the techniques, confidence, and know how for job hunting once the time comes to leave the military.

Benefits derived from the TAP include:

- Eliminating or at least reducing anxieties of the individual service member.
- A dollar savings in Unemployment Insurance (UI). Attendees of a TAP draw UI for a shorter period than nonattendees.
- An increased tax base for government entities.

- Reduction in the length of time to find suitable employment and at a higher wage than nonattendees.

These benefits are the result of surveys conducted of TAP attendees/nonattendees. Another measurement of the success of the TAP and one that deserves a great amount of consideration, is the critiques submitted by each student. Items critiqued are:

- Course content
- Course material
- Instructor presentation
- Usefulness of the overall program to the student

Using a numerical rating system from 1-10, the overall numerical evaluation received by the program was an outstanding 9.31. The majority of students have recommended and/or suggested the TAP be extended from three days to five days, and that attendance be made mandatory.

In summary, the TAP is without a doubt the necessary vehicle needed to make the service person competitive in the civilian market place.

PROMOTIONAL, INFORMATIONAL, AND OTHER SERVICES

The Employment Development Department sponsors or participates in cooperation with other various events with the sole purpose of informing the public, and particularly the employer community of the special abilities and needs of veterans. For example, each year during the first full week in May, the Department observes "Hire A Veteran Week" through a variety of activities, and throughout the year participates in:

- Local Job Fairs and Veteran Opportunity Days where unemployed veterans and employers are brought together to discuss available job opportunities.
- Veteran "STAND DOWNS." An activity envolving many community organizations and employers working together to address the severe often overwhelming problems faced by homeless veterans. At the STAND DOWN site, the homeless veteran will receive medical and dental care, legal assistance, and a full range of employment services provided by EDD staff and volunteers.
- Providing services to veterans participating in the federal Job Training Partnership Act, Title IV-C. Services such as counseling, job development, job placement, and caseload management.

The Employment Development Department also sponsors Veterans Employment Committees at the regional and local levels. These committees work closely with both EDD field offices and veterans to keep them informed of employment and training opportunities.

COOPERATION WITH OTHER AGENCIES

The Veterans' Employment and Training Service (VETS), U.S. Department of Labor (DOL), works with EDD to ensure that federal mandates on EDD services to veterans are carried out. The State VETS Director, DOL, is located in Sacramento. Both the Director and Assistant Directors, who are located throughout California, monitor veteran services in EDD field offices.

The Employment Development Department also works with the U.S. Department of Veterans Affairs, California Department of Veterans Affairs, California Department of Rehabilitation, County Veterans Service Officers, U.S. Office of Personnel Management, U.S. Department of Defense, Veterans Employment Committees, and other public and private groups interested in facilitating the employment of veterans.

EMPLOYMENT TRAINING PANEL

EMPLOYMENT TRAINING PROGRAM

FUNDING	$57,500,000 * All State (If carry-over from prior year is included, this total wou be $130,071,000) *Funding Level Stable*
INDIVIDUALS SERVED	43,000 enrolled
PURPOSE	To foster job creation, minimize employers' unemploymer costs and meet employers' needs for skilled workers by providing training for Unemployment Insurance (UI) claimants, workers who have exhausted their UI benefits who are still unemployed, and potential displaced worker who would probably become claimants. (Created 1982)
ELIGIBILITY	Unemployment insurance claimants, exhaustees who remained unemployed, potentially displaced workers.
PRIMARY SERVICE PROVIDED	On-the-Job Training, Vocational Education, Job Placemei
ADMINISTRATIVE RESPONSIBILITY	Federal: None State: Employment Training Panel (ETP)
PLANNING	ETP submits Annual Plan to the Governor and Legislatur
PROGRAM LINKAGES	Per state legislation the ETP is to coordinate with all employment and training and economic development programs. ETP maintains liaison with public entities including EDD, Department of Commerce, Department of Education, Chancellor's Office of the California Commun Colleges, and the State Job Training Coordinating Coun
PRIVATE SECTOR LINKAGES	Private sector employers and training agencies conducti training on behalf of employers are recipients of funds through a request for proposal process.

*Does not include ETP funds ($32.2 million) statutorily reserved for tax collections, and EDD programs (Job Service, Service Centers, and State-Local Labor Market Information). Additionally, for SFY 1991-92, the Department of Industri Relations will receive $1.3 million from ETP for the Apprenticeship Training Program.

CONCEPT PAPER
CALIFORNIA DEFENSE LAYOFFS

Purpose:

To ensure that through the coordinated effort of all affected entities, California will receive a proportionate share of available National Reserve funds sufficient to mitigate the adverse effects of defense industry layoffs.

Background:

Based on current defense industry data, David Hensley, UCLA Business Forecasting Project, estimates that California will lose 71,000 direct defense jobs over the next five years. The Department of Defense (DOD) estimates between 13,000 and 22,000 California workers annually will be adversely affected by defense cutbacks for the next three to five years.

Estimated dislocation figures could be substantially higher if DOD implements additional reductions in defense spending. Neither estimate includes indirect losses such as subcontracting and indirect purchasing associated with the defense related industries. According to a City of Los Angeles Jobs With Peace Initiative Study, local job multipliers are generally higher for defense related industries and defense workers receive higher wages. These two factors result in a significant effect on indirect job losses.

California has received $7 million in Secretary of Labor National Reserve Funds to address defense industry related layoffs. These funds have been allocated for expenditure from March, 1991 through March of 1993, serving an estimated 2,660 workers. Current funding, however, will be insufficient to meet the projected need and additional funds will be required to remedy future dislocations.

Priority Target Areas:

California's share of national defense related civilian employment in 1990 was 19%, the highest of any state in the U.S. In response to this disproportionate share of defense employment expenditures, the California Commission on State Finance has concluded that California will be especially vulnerable to defense employment cutbacks and will accordingly experience a prolonged recovery relative to the other states.

Defense-related contracts in California are concentrated in the following seven counties (Source: DRI/McGraw Hill):

COUNTY	SHARE OF CA TOTAL
Los Angeles	45.4%
Santa Clara	16.7%
Orange	11.3%
San Diego	9.0%
San Bernardino	3.0%
Santa Barbara	2.4%
Ventura	2.3%
Other	9.9%
Total	100.0%

Current Activities:

In the last month, the Employment Development Department has initiated the following activities:

- Met with the Service Delivery Areas (SDA) on the National Reserve Aerospace grant and have identified areas where there are underexpenditures and the reasons for those underexpenditures. As a result, we have requested and received verbal approval from DOL to extend the grant operating period through March 1993 Currently, grant funds are restricted to serve workers laid off between May 1, 1990 and May 31, 1992. We have also requested an extension of this time period through November 30, 1992 to allow workers laid off after May 31, 1992 to receive services provided under this grant. We are in the process of compiling information from the SDAs to request a waiver of the 50 percent expenditure requirement for retraining to the 35 percent level.

- Coordination of a state workgroup to develop a comprehensive plan to assist dislocated defense workers.

- Developing an application format for Defense Conversion Adjustment (DCA) funds to be issued in April.

- Assisting Sacramento Employment and Training Agency (SETA) with the development of a DCA application. We have provided review and comment on their application and are waiting for resubmittal the first week of March.

- Assisting San Bernardino County with the development of a DCA application. San Bernardino County plans to hand carry their application to DOL this week and submit a copy to JTPD simultaneously.

Action Plan:

- Use existing SDA system to link with defense industry

Several SDAs in the targeted areas have established relationships with the defense industry. For example, Verdugo has established a labor management committee with Lockheed Corporation which will continue to address present and future layoffs at Lockheed. The program has been very successful in reaching 870 workers and placing 528 in unsubsidized employment. Others include San Diego's partnership with Rohr industries and General Dynamics and the City of Long Beach's relationship with McDonnell Douglas. The SDA group should be the vehicle used to approach the defense industry through their established contacts with the California Aerospace Alliance.

- Establish state workgroup to serve as focal point for defense related activity

The workgroup will provide oversight of all activities relative to defense layoffs to ensure that California will receive sufficient funds to address the identified needs in the most efficient manner possible. The composition of the workgroup includes representatives from: Governor's Office of Planning and Research; Health and Welfare Agency; Business, Transportation and Housing Agency; Department of Veterans Affairs; Employment Development Department; State Job Training Coordinating Council; Employment Training Panel; Service Delivery Areas and the military and defense industries.

- Develop comprehensive list of available programs and resources

There are many programs outside of the JTPA system which could provide additional resources to the SDAs. Employment Training Panel, Department of Commerce and Department of Defense Office of Economic Adjustment are a few examples. A comprehensive list will be developed by the state workgroup.

- Identify and Initiate Demonstration Projects

Section 325 (d) of the DCA legislation provides for developing successful demonstration project models including; projects which transition workers to those occupations experiencing skill shortages that may benefit from existing skills, projects to assist in retraining and reorganization to avert layoffs and projects to assist communities in addressing and reducing the impact of defense dislocations.

The state workgroup, in conjunction with JTPD staff, will research this section of the legislation to obtain more information on the procedures for demonstration projects and will

provide technical assistance to SDAs in the development of applications.

• Identify Economic Development Projects and Emerging Demand Occupations

The transition of defense workers cannot occur without the creation of new job opportunities. A study should be conducted which will identify emerging or growth industries, promising new technologies and job opportunities which include the retraining requirements. Much of this information exists, however it is scattered throughout several organizations. The state workgroup, in conjunction with LMID, should be the led agency in compiling this information and use existing studies to determine the need for additional information. For example, a recent survey conducted by the Rand Corporation will provide extensive information on defense layoffs and the economic climate of business in California. The Department of Commerce is also conducting economic development and business retention activities relative to the defense industry.

FUNDING MECHANISMS

•State Title III Funds

California will receive $53.4 million in Title III funds for Program Year 1992/93, with $21.3 million available for Governor's Discretionary 40 percent funds. Forty percent funds may be used to establish labor management committees with the defense industry, collect data related to the economic dislocation and available resources and to assist in the development of a coordinated local community response including access to state economic development assistance. A portion of these funds should be set aside to assist with defense layoffs. However, other economic dislocations in the state will need to be considered.

• Secretary's National Reserve Funds

The National Reserve account has been allocated $104 million for Program Year 92/93 for expenditure on dislocated worker projects. California has been successful in accessing $21.5 million in National Reserve funds over the last 3 years. The National Reserve funds represent a viable source of future funding.

• Defense Conversion Act Funds

An allocation of $150 million for DCA projects has been approved for grants from July, 1991 through September, 1993. Additional legislation will be required to increase the funding level allocated pursuant to this program. While it seems reasonable to expect a funding augmentation, significant political and budgetary issues must first be resolved.

- Employment Training Panel (ETP) funds

To the extent possible, ETP funds will be used to assist employers in retraining their workforce to meet the demands of their changing work environment.

- Industry/Union Contribution

Employer and union assistance, when available, can be an asset to the project. Contributions include donating space and equipment, sponsoring outplacement services and assisting with communications and outreach.

ROLES AND RESPONSIBILITIES:

SDA Role:

- Liaison with affected companies/industries to gather information relative to the dislocation.
- Compile data and prepare the application.
- Submit application to Job Training Partnership Division.
- Identify available Title III funds which can be allocated to the project.

EDD Role:

- Provide technical assistance to SDAs and affected companies/industries in the preparation of DCA applications.
- Review and comment on applications received and transmit to DOL.
- Upon approval by the grant officer, initiate subgrant and provide oversight responsibility of the grant.
- Identify available state resources including Title III 40 percent funds and Employment Training Panel Funds.

SCHEDULE

FEBRUARY TO MARCH 1992

- Conducted the Defense Industry/Military Base Closure Conference.
- Conducted meetings with SDAs regarding National Reserve Aerospace funds and will plan additional follow up meetings.
- Submit modification to DOL on Aerospace grant to extend operational dates, request retraining waiver and extend the eligibility period.

- Meetings in Washington with DOL and the congressional delegation.
- Convene meetings with SDAs to discuss approach to defense industry.
- Submit DCA applications to DOL for SETA and San Bernardino County.
- Convene state workgroup meeting.

APRIL TO MAY 1992

- Continue state workgroup meetings to develop an overall state plan.
- Plan an SDA/Defense industry meeting.
- Continue to support SETA and San Bernardino County DCA applications.
- Begin to develop defense industry applications.

JUNE THROUGH DECEMBER 1992

- Continue meetings with SDA/defense industry.
- Review Aerospace grant in July to recapture and reallocate funds to areas most in need.

POSSIBLE APPLICATION STRATEGIES

One application initiated by company

Pros:

- If the company directly receives the funds, the state would be relieved of administrative and oversight responsibilities.

Cons:

- Company may choose to use another service provider other than the SDA.
- Existing structure that provides services to dislocated workers may be duplicated.

One application for industry initiated by group of SDAs

Pros:

- Coordinated regional effort.
- May be easier to gain Congressional support.

Cons:

- Administratively burdensome due to funding process inhibits state to manage overall project on an individual basis.
- DOL may be reluctant to fund a project of this magnitude.

One application initiated by one SDA for multiple companies

Pros:

- Focuses services on local area's need versus regional needs.
- Limits scope, therefore allowing more efficient management of the project.

Cons:

- May not ensure California will receive a proportionate share unless all SDAs in the areas where defense layoffs occur apply individually.

One application for a single company initiated by multiple SDAs

Pros:

- Coordinated regional effort.
- Data necessary to identify and decribe the target group for application purposes would be easily attainable.

Cons:

- May be difficult at the local level to coordinate and provide uniform services to affected employees.
- May duplicate efforts.

TITLE III 40 PERCENT FUNDS
ALLOCATED FOR MILITARY/DEFENSE LAYOFFS

MILITARY FACILITIES

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONAL DATES
Alameda	Naval Aviation Depot	$1,035,540 **	Retraining & readjustment	7/91 to 6/92
Napa	Mare Island Naval Shipyard	$202,303 **	Retraining & readjustment	7/90 to 6/92
Oakland	Navy Exchange	$20,000	Rapid response	10/91 to 2/92
Sacramento Employment and Training Agency	Mather Air Force Base, McClellan Air Force Base & Sacramento Army Depot	$200,000 $50,000 $600,000	Rapid response, retraining & readjustment	10/90 to 6/91 9/91 to 2/92 9/91 to 6/92
San Bernardino County	George Air Force Base	$49,500	Rapid response	1/92-6/92
San Bernardino City	Norton Air Force Base	$50,000 **	Rapid response	1/90 to 6/90
San Diego	North Island Naval Aviation Depot	$50,000 **	Rapid response	7/91 to 9/91

DEFENSE FACILITIES

SDA	FACILITY	AMOUNT OF SUBGRANT	TYPES OF SERVICES	OPERATIONA DATES
Carson/Lomita/ Torrance	Douglas Aircraft, Hughes Aircraft & TRW	$50,000	Rapid response	9/91 to 3/92
San Diego & EDD field office	General Dynamics & Rohr	$575,000 $275,000	Retraining and readjustment	7/91 to 6/92
South Bay	Northrop Corp.	$347,600	Retraining and readjustment	5/90 to 3/92
South Bay	TRW, Highes Aircraft, Aerospace Corp., System One Corp., Fairchild Control System, Northrop & Rockwell	$750,000	Rapid response, retraining & readjustment	3/91 to 6/92
Ventura	Northrup	$150,000	Retraining & readjustment	7/91 to 6/92
Verdugo & EDD field office	Lockheed, Zero Corp. & Weber Aircraft	$1,973,000 $223,485	Retraining & readjustment	5/90 to 6/92

**Subgrant includes several other closures, non-defense related, so the amount of funds available for the defense facility is less than the total subgrant.

CALIFORNIA'S NATIONAL RESERVE ACCOUNT
APPLICATION DATE TO OPERATIONAL AUTHORITY HISTORY

PROJECT TITLE	APPLICATION DATE	PARTIAL OPERATIONAL AUTHORITY	DAYS ELAPSED	FULL OPERATIONAL AUTHORITY	DAYS ELAPSED
EARTHQUAKE DISASTER ASSISTANCE	10/20/89	11/14/89	25	1/23/90	95
OAKLAND FOUR COMPANY SPECIFIC	1/9/90	6/29/90	171	10/31/91	661
NOVA MULTI COMPANY SPECIFIC	1/25/90	6/30/90	125	2/25/91	278
AEROSPACE INDUSTRY	7/31/90	3/7/91	219	12/2/91	398
ELECTRONICS INDUSTRY	7/31/90	3/7/91	219	12/2/91	398
TIMBER INDUSTRY	7/31/90	3/7/91	219	12/2/91	398
SANTA CRUZ PILLSBURY/ GREEN GIANT	3/18/91	---	50	5/7/91	50
FREEZE DISASTER ASSISTANCE	4/19/91	8/19/91	122	11/18/91	190

DAYS ELAPSED ARE CALENDAR DAYS RFOM THE DATE OF APPLICATION.

AEROSPACE, ELECTRONICS, AND TIMBER INDUSTRY
NATIONAL RESERVE PROJECT CHRONOLOGY

DATE	ACTION
7/31/90	State submits preliminary application for $28 million.
8/-/90	DOL verbally requests additional information.
8/21/90	State submits requested additional information.
9/20/-90	DOL verbally requests additional information.
9/21/90	State provides further requested information.
9/-/90	Representative from DOL National Office visits California, meets with impacted substate areas, and suggests application be revised.
10/10/90	State submits revised application for $23.4 million per DOL's suggestion.
1/7/91	DOL funds project for $10 million, extends partial operational authority, and requests additional information.
2/7/91	State submits additional informations requested.
3/7/91	DOL requests additional information.
3/27/91	State submits requested Modification 1 with partial additional information.
4/10/91	DOL acknowledges and accepts information submitted 3/27/91.
5/10/91	State submits requested Modification 2 with additional information.
6/24/91	DOL acknowledges receipt of additional information, partially accepts, and requests yet additional information.
10/8/91	State submits Modification 3 with requested additional and requests extension to the eligibility window.
12/2/91	DOL approves Modification 3 to extend the eligibility window, but inadvertently does not include the Electronics Industry.
12/19/91	State requests clarification on Electronics Industry.
1/17/92	DOL request information relative to the Electronics Industry which was previously submitted on 10/8/91.
1/-/92	DOL requests continuation monthly reporting and expresses concern regarding the ability of the Aerospace Industry project to meet cost limitation requirements and effectively serve workers.
1/16/91	State submits requested special report and corrective action plan.

EXECUTIVE DEPARTMENT
STATE OF CALIFORNIA

EXECUTIVE ORDER W-21-91

WHEREAS, on July 1, 1991, the Defense Base Closure and Realignment Commission affirmed the closure of 34 domestic U.S. military bases, as recommended by the Secretary of Defense, including 11 bases located in California; and

WHEREAS, these base closures are in addition to six California bases designated for closure in 1988 by the previous Base Realignment and Closure Commission and other defense industry cutbacks which have affected California; and

WHEREAS, base closures and other defense spending reductions will result in job losses and economic dislocations regionally and throughout the state; and

WHEREAS, these base closings may also present opportunities for local business, economic, and housing development through re-use of land and facilities, the primary responsibility for which is appropriately assigned to locally elected officials and re-use committees; and

WHEREAS, State agencies have a vital role in assisting affected communities in planning for and mitigating economic losses, expanding development opportunities, and protecting the public from environmental contamination often present on military bases; and

WHEREAS, there is a continuing need to coordinate the actions and activities of State agencies with regard to military base closure and re-use planning.

NOW, THEREFORE, I, PETE WILSON, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and statutes of the State of California, do hereby issue this order to become effective immediately:

Section 1. STATE BASE CLOSURE ASSISTANCE AND COORDINATION.

1. The Office of Planning and Research shall continue to serve as the central point of contact for state coordination and liaison with regard to issues which relate to closure and re-use of military bases. Departments of the executive branch of state government shall coordinate base closure actions with the Office of Planning and Research.

2. The Office of Planning and Research shall establish informal working groups of State agency secretaries and department directors, as necessary, to address economic, employment, and planning issues which relate to the closure and re-use of military bases. The Office shall also ensure that base closure and defense industry reductions are addressed by existing task groups, such as the Council on California Competitiveness and the Interagency Council on Growth Management.

3. The Office of Planning and Research shall organize workshops to facilitate information exchange and coordination between local re-use planning groups and State and federal agencies.

Section 2. CALIFORNIA BASE CLOSURE ENVIRONMENTAL COMMITTEE.

1. The Secretary of the California Environmental Protection Agency shall establish a California Base Closure Environmental Committee to ensure the expedited environmental restoration of the closing military bases. The committee shall include the Director of the Governor's Office of Planning and Research, representatives of the U.S. Department of Defense and the U.S. Environmental Protection Agency, and such other members as are deemed appropriate by the Secretary.

2. The Secretary of the California Environmental Protection Agency, in cooperation with the Office of Planning and Research, shall organize one or more workshops for local base re-use committees to assist them in planning for the effects of environmental restoration actions.

Section 3. REPORTING.

The Office of Planning and Research shall report to me periodically on the impacts of base closures in California, options for mitigating the effects, progress and difficulties encountered in re-use planning, and potential future closures of important California bases. In addition, the reports shall include information from the Secretary of the California Environmental Protection Agency on the status and progress of base environmental restoration operations, any problems encountered, and recommendations for enhancing and expediting the clean-up process.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 5th day of December 1991.

Governor of California

ATTEST:

Secretary of State

MAJOR STATE PROGRAMS
TO ASSIST WITH MILITARY BASE RE-USE PLANNING

EMPLOYMENT TRAINING PROGRAMS

Job Training Partnership (JTPA)

Administering agency: Employment Development Department (EDD).

Purpose: To provide readjustment services, job retraining, support services, job needs-related payments, and job placement services to workers dislocated as a result of a base closures or other major employment losses.

Eligible recipients: Substate service delivery area organizations (private industry councils) designated under Title III of the Job Training Partnership Act to receive JTPA funds.

Type of assistance available: Direct grants and technical assistance in establishing programs. Typical grants range from $50,000 to $500,000.

Information contact: Rapid Response Program, California Employment Development Department, P.O. Box 826880, Sacramento 94280-0001. Telephone: (916) 654-8006.

Employment Training Panel Program

Administering agency: Employment Training Panel (ETP).

Purpose: To promote economic development in California by providing training funds to qualified employers who are retraining potentially unemployed workers, expanding their operations in California, or relocating their businesses to California; and to minimize unemployment insurance (UI) costs by providing employment opportunities to UI recipients, UI exhaustees, and potentially displaced workers.

Eligible recipients: Employers and job training agencies.

Type of assistance available: Direct grants and technical assistance in establishing programs.

Information contact: Employment Training Program, 800 Capitol Mall, Room W1077, P.O. Box 942880, Sacramento 94280-0001. Telephone: (916) 654-9072.

HOUSING PROGRAMS

Mortgage Revenue Bonds and Home Purchase Assistance

Administering agency: California Housing Finance Agency (CHFA).

Purpose: To provide funds at below market interest rates for new construction, rehabilitation, or mortgage loans for single and multiple family dwellings. Most programs emphasize low and moderate income first time home buyers or renters.

Eligible recipients: Low and moderate income first time home buyers and housing program sponsors (for-profit and non-profit housing developers and local agencies).

Type of assistance available: Mortgage loans.

Information contact: California Housing Finance Agency, 1121 "L" Street, 7th Floor, Sacramento 95814. Telephone: (916) 322-3991.

California Housing Rehabilitation Program - Rental Component (CHRP-R)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: Preservation and rehabilitation of unreinforced masonry multi-family units to increase the ability of the structures to withstand earthquakes, through a program offering low interest loans. Also, rehabilitation, possibly including acquisition, of substandard low-income rental housing, to bring the buildings into compliance with the California Health and Safety Code.

Eligible applicants: Local Government agencies, for-profit and non-profit organizations, and individuals.

Eligible activities: Loans for rehabilitation, including seismic rehabilitation, code violation rehabilitation, conversion from non-residential to residential use, or reconstruction. Eligible projects include single-family or multi-family rental dwellings, residential hotels, mixed residential and commercial buildings, mixed owner-occupied and rental buildings, group homes for persons in need of special services, congregate homes, and limited equity cooperatives.

Type & terms of assistance: Loans carry an interest rate of three percent (3%) simple interest. Loans are for a minimum of 20 years for rehabilitation only, and 30 years or more for acquisition and rehabilitation or refinancing and rehabilitation.

When funds are used for the seismic rehabilitation of unreinforced masonry structures, seventy percent (70%) of the assisted units must

be occupied by low-income households. When funds are used for the health and safety rehabilitation of rental structures, all assisted units must be occupied by low-income persons.

The minimum number of assisted units is the number of units occupied by low-income households at the time of application. The rent for assisted units is restricted by a regulatory agreement.

Application procedure: Applications are accepted on a continuous basis and are rated and ranked at least quarterly.

Contact: Department of Housing and Community Development (HCD), Housing Rehabilitation Unit, 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 445-6501.

Rental Housing Construction Program (RHCP)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: New construction of rental units affordable to low-income households, through a low interest loan program.

Eligible applicants: For-profit and non-profit corporations, local government agencies, and individuals.

Eligible activities: Development and construction costs associated with new rental housing units for low-income households. Projects must have at least five rental or cooperative units on one or more sites; i.e., a mobilehome park with five or more mobilehome units, or a residential hotel or group home with five or more units.

Type & terms of assistance: 40-year loan with deferred payment of principal. Loans carry an interest rate of three percent (3%) per annum simple interest. Both construction and permanent financing are available. The loan term can be extended beyond the 40-year term. The number of assisted units in each project must be at least thirty percent (30%) of the total number of units. At least two-thirds of the assisted units in a project must be for very low-income households. The rent for assisted units is restricted by a regulatory agreement.

Application procedure: Awards are made on a bi-monthly basis. Awards are made available through a Notice of Funding Availability (NOFA).

Contact: Department of Housing and Community Development (HCD), 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 327-2069.

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Family Housing Demonstration Program (FHDP)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: Provide low interest, deferred payment loans for development of new affordable rental or cooperative housing that provides on-site support services for low-income families.

Eligible applicants: Local government agencies and nonprofit housing development organizations.

Eligible activities: Costs of new construction, rehabilitation, or acquisition and rehabilitation for either Congregate or Community Housing developments occupied by low-income households. The units must be in projects that provide on-site support services such as, but not limited to, child care, job training, and employment services.

Type & terms of assistance: 20 to 40-year, 3% interest, deferred-payment loan to decrease construction and long-range operating costs for Community or Congregate Housing, which may be conventional rental units or units in a cooperative.

> Community Housing is a development of 20 or more units on one or more sites. The housing must include a range of unit sizes.
>
> Congregate Housing is a new or rehabilitated large, multi-bedroom structure occupied by two to ten households. The facility provides common living areas. Occupants share household responsibilities such as child care, cleaning, and cooking.

For both Congregate and Community Housing, units must be for very low-income households, with incomes below 50% of area median income. The number of assisted units in each project must be at least thirty percent (30%) of the total number of units. Twenty to thirty percent (20%-30%) of the assisted units must be available for elderly persons; the balance must be for families with children.

On-site support services must be provided and include, but are not limited to: child care, community rooms, community laundry facilities, job training, and employment opportunities.

Application procedure: Applications are available from HCD.

Contact: Department of Housing and Community Development (HCD), 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 327-2069.

Predevelopment Loan Program [Urban & Rural] (PLP)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: To provide predevelopment capital for starting low-income housing projects.

Eligible applicants: Local government agencies and non-profit corporations.

Eligible activities: Predevelopment costs including, but not limited to: site control, engineering studies, architectural plans, application fees, legal services, permits, bonding, and site preparation. Loans are also made for site acquisition to acquire land bank sites for future low-income housing development.

Type & terms of assistance: Seven percent (7%) loans for up to three years.

Application procedure: Applications are accepted, and loans are awarded on a continuous basis.

Contact: Department of Housing and Community Development (HCD), 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 327-3580.

Emergency Shelter Program (ESP)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: To provide emergency shelter for homeless individuals and families through a grants program.

Eligible applicants: Local government agencies and non-profit corporations that shelter the homeless on an emergency basis. It is a threshold requirement for eligibility that the shelter provide staff and support services to residents.

Eligible activities: Rehabilitation, renovation, expansion of existing facilities, site acquisition (including lease or purchase of an existing site or facility), equipment purchase, vouchers, and administration of the award (limited to no more than five percent of a single award). Ineligible activities are operational costs, which include, but not limited to, one-time rent and direct and indirect client services.

Type & terms of assistance: Grants. Each county receives a grant allocation. Twenty percent (20%) of the total allocation is made available to non-urban counties.

Application procedure: In some counties an authorized local board of shelter service providers may distribute, rank, and prioritize applications for ESP funding. Final award determination is made by HCD. Where no local board exists, applications are submitted directly to HCD. Funds are awarded using a Notice of Funding Availability (NOFA) process. Applicants should check with HCD's ESP Program staff to determine where an application should be submitted.

Contact: Department of Housing and Community Development (HCD), Emergency Shelter Program, 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 445-0845.

Federal Emergency Shelter Grant Program (FESG)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: To provide emergency shelter for homeless individuals and families through a grants program.

Eligible applicants: Local government agencies in small communities that do not directly receive shelter funds directly from the U.S. Department of Housing and Urban Development (HUD) and nonprofit homeless assistance providers. Local nonprofit shelter organizations may also receive funds as a service provider working in cooperation with a local government agency applicant.

Eligible activities: Facility conversion, rehabilitation, maintenance, operating costs, rent, and provision of essential services, such as transportation, legal aid, and counseling to accelerate transition to independent living.

Type & terms of assistance: Grants.

Application procedure: When HUD announces the availability of funds, HCD makes awards based upon a Request for Proposals (RFP) process.

Contact: Department of Housing and Community Development (HCD), Federal Emergency Shelter Grant Program, 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 445-0845.

ECONOMIC AND BUSINESS DEVELOPMENT PROGRAMS

Small Business Loan Programs

Administering agency: California Department of Commerce.

Purpose: To provide below market interest loans and other forms of direct assistance to California small businesses. Most programs are for specified purposes, such as purchasing hazardous waste reduction equipment or energy conservation equipment.

Eligible recipients: California small businesses.

Type of assistance available: Loans at below market interest rates, information, management and technical assistance are available through regional Small Business Development Centers.

Information contact: California Department of Commerce, Office of Small Business, 801 K Street, Suite 1700, Sacramento 95814. Telephone: (916) 445-6733.

Enterprise Zone Program

Administering agency: California Department of Commerce.

Purpose: To delineate areas which are eligible for certain State and local incentives to growth and development.

Eligible recipients: Local governments.

Type of assistance available: State incentives to new and expanding companies include: tax credits for sales and use taxes paid on machinery purchases; tax credits of approximately $19,000 per qualified employee hired; interest deductions for lenders on loans to firms within the zones; and accelerated expensing deduction for a business purchase of certain property. In addition, local governments may reduce or waive permit and construction fees and may offer expeditious processing of plans and permits.

Information contact: California Department of Commerce, Office of Local Development, 801 K Street, Suite 1700, Sacramento 95814. Telephone: (916) 322-3502.

Community Development Block Grant (CDBG)

Administering agency: California Department of Housing and Community Development (HCD).

Purpose: To finance housing rehabilitation, public facilities, and economic and community development projects. Planning and technical assistance are also available. At least 51% of funds statewide must be used for housing programs; 30% is set aside for economic development activities; 10% of the overall funds are set aside for planning and technical assistance.

Eligible recipients: Cities under 50,000 population and counties under 200,000 population, which are not entitled to direct funding by the U.S. Department of Housing and Urban Development (HUD).

Type of assistance available: Grants and planning/technical assistance.

Information contact: Department of Housing and Community Development (HCD), Community Affairs Division, 1800 Third Street, P.O. Box 942054, Sacramento 94252-2054. Telephone: (916) 445-6000.

Urban Waterfront Area Restoration Financing

Administering agency: California Coastal Conservancy and California Urban Waterfront Area Restoration Financing Authority.

Purpose: To authorize State-issued revenue bonds for waterfront renewal projects in metropolitan areas. Financing is generally available for projects that provide visitor-serving facilities, waterfront-dependent industries, public recreation and shoreline access facilities, public utility systems, and shoreline protection and erosion control facilities. Bond funds may not be used to construct office buildings and permanent residential developments. Bonds must be repaid by the project sponsor, usually from revenues generated by the project.

Eligible recipients: Public agencies, private for-profit and non-profit applicants, joint ventures.

Type of assistance available: Tax exempt revenue bond funds, at interest rates below market rates. Currently, $650 million has been authorized for bond sales. Of this, $50 million is reserved for inland (non-coastal) project areas.

Information contact: Ron Kukulka, Deputy Executive Officer, California Coastal Conservancy, 1330 Broadway, Suite 1100, Oakland, California 94612. Telephone: (510) 464-1015.

Airport Re-Use Assistance

Administering agency: California Department of Transportation (Caltrans).

Purpose: To provide information for assessing airport feasibility and to provide direct grants to assist with airport operation after conversion to a civilian aviation facility.

Eligible recipients: Public agencies authorized to operate public use airports.

Type of assistance available: Studies and projections of supply and demand for airport facilities (the California Aviation System Plan and Study for Possible Conversion of Military Airbases to Civilian Aviation) and grants for safety and other improvements to public use airports. Approximately $2 million is available annually for grants and an additional $2 million is available for local airport loans.

Information contact: Fred Stewart, Chief, Office of Planning, Caltrans Division of Aeronautics, P.O. Box 942874, Sacramento, California 94274-0001. Telephone: (916) 322-9955.

Permit and CEQA Assistance

Administering agency: Governor's Office of Planning and Research (OPR), Office of Permit Assistance (OPA).

Purpose: To provide information and assistance on the California Environmental Quality Act (CEQA) and major State and local permit requirements, and to assist with scoping of environmental impact reviews. OPA schedules and chairs interagency (State, local, and federal) meetings to scope all potential environmental issues of a proposed development project. Time lines are established which will meet requirements of CEQA and the Permit Streamlining Act.

Eligible recipients: Public agencies, private developers.

Type of assistance available: Information, technical assistance, and facilitation.

Information contact: Christine Kinne, Assistant Chief, Office of Permit Assistance, Office of Planning and Research, 1400 Tenth Street, Sacramento, California 95814. Telephone: (916) 322-4245.

Appendix P Submitted by Brian McMahon (for Julie Wright)

California Department of Commerce
Testimony to the Defense Conversion Commission

August 6, 1992
Long Beach, California

Brian McMahon, Deputy Director
Manufacturing Retention

On behalf of Julie Wright, Director of the California Department of Commerce, I would like to thank the Commission for the opportunity to appear before you today to discuss the very serious impacts of reduced defense spending on the California economy. As the State's primary economic development agency, the Department of Commerce is profoundly concerned with critically high levels of job loss occurring in the State's defense industry.

To put the magnitude of job loss in California into perspective, I would like briefly to reiterate some of the key points made by Martha Lopez and other previous speakers as to the significance of the defense industry to California and the nation.

California still employs approximately 310,000 aerospace workers, thats almost a third of the nation's estimated 1.1 million workers. The value of shipments of aerospace products manufactured in California totaled $41.3 billion in 1990 or 26 percent of the total U.S. aerospace output. Certain segments of the industry are even more concentrated in California. Fifty-one percent of missiles and space industry output in 1990 came from California.

Aerospace firms tend to be concentrated in the Los Angeles and Orange County areas. In 1991, 28.3 percent of Los Angeles County's manufacturing jobs were in aerospace, and the area's large firms had a median dependency on sales to the Department of Defense of 97 percent. It is estimated that for every eight dollars in lost defense revenue, twenty-eight dollars will be lost from the economy of Los Angeles County.

The decline of aerospace and other defense industries in California and the rest of the nation is not primarily the result of market forces, or a failure of the industry or community to maintain competitiveness. It is instead the result of a major change in federal policy in response to the end of the decades long cold war. These costs cannot be borne exclusively by private industry and, particularly, the workers involved. Government must share in the economic and social costs associated with defense adjustment.

There are very tangible reasons why the federal government should continue to assist with the conversion of the defense industry to peacetime commercial applications. First, scaling back defense spending has a clearly demonstrated cost in lost jobs, this impact should be phased, especially during a period of post-recession economic recovery. Secondly, a manufacturing capability needs to be retained that could be transformed quickly back into military production should the need arise.

Third, and most important, the talent that the defense industry has nurtured is a national asset which must be retained and encouraged to develop new commercial products and technology that can foster new industries for the United States in the 21st century.

DEPARTMENT OF COMMERCE ROLE

As you have heard from the testimony presented by the Employment Development Department, Governor Wilson has placed a high priority on establishing a coordinated multi-agency response to the needs of the defense industry within the State. In addition to the initiatives addressing critical training issues, Commerce is involved in a number of projects aimed at improving the competitiveness of the State's defense-related companies.

Important among these is the recent designation of the California Manufacturing Technology Center (CMTC) by the U.S. Department of Commerce's National Institute for Standards and Technology (NIST). The CMTC is sponsored jointly by the California Community Colleges and the State Department of Commerce with support from the Employment Training Panel and an array of private sector partners. It will assist smaller aerospace suppliers in transferring aerospace technologies to commercial applications, in part, by emphasizing the use of computer-integrated manufacturing with efficient and cost-effective programming systems. This will allow manufacturers

to produce high-quality products with shorter lead times and ideally achieve greater profitability.

The California Supplier Improvement Program (CalSIP) is also an important partnership between government and the private sector. The California Department of Commerce, Chancellor's Office of the Community Colleges, and the State's Employment Training Panel have joined ten aerospace prime contractors to provide aerospace suppliers with comprehensive training in Total Quality Management to streamline manufacturing processes and hold down costs.

These are two examples of a fairly comprehensive framework of programs and services providing targeted assistance and resources to the State's defense-related companies. A more complete description of programs can be available to the Commission at its request. Despite the State's current efforts, however, the extent of cut-backs in defense spending so devastatingly affects California that existing programs and resources are not sufficient to meet the level of need.

Program Proposals

The economic and social impact of the employment and potential technological losses associated with reduced defense contracting have very serious implications for both the state and nation.

Further investment of technical and financial assistance must occur by government through existing as well as innovative new programs. Washington must join with the states in the development and delivery of a comprehensive defense adjustment program.

The general goal of such efforts should be to help defense dependent companies and workers adjust to defense budget cuts, convert to commercial production, and improve competitiveness for survival in the global economy essential to the economic viability of California and our nation.

The Department of Commerce advocates use of the peace dividend to fund a comprehensive national defense conversion program that reflects a leadership role and commitment to global competitiveness by the federal government. Assistance should include a focus on the following primary areas:

I) Industrial Conversion/ Retaining Our Industrial Base - This effort should include:

Promotion of dual-use technology research and development and other initiatives leading to commercialization of defense technologies.

Increased funding of federal aerospace and other science inititatives such as those recommended by the Federal Coordinating Council on Science and Technology.

Support for technology extension and transfer programs.

Fostering spin-offs, start-ups and market diversification for existing smaller aerospace companies.

Promotion of an environmental clean-up industry utilizing aerospace technologies and expertise.

II) Assisting Impacted Communities - In addition to the devastating effect that critically high levels of job loss among defense firms is having on California's communities, eleven military facilities have been targeted for closure in the State. These combined circumstances have left many communities reeling. They face severe revenue loss and at the same time experience greater demand for spending on public assistance programs. Federal funds should be available to assist localities in:

Economic adjustment planning for base closure and job loss associated with reduced defense contracting.

Reuse of military facilities. It is especially important that communities be able to achieve full reuse of these facilities in the shortest possible time. High priority must be given by the federal government to the timely clean-up of hazardous waste on these sites.

Developing incubators, loan programs, and other community based efforts aimed at economic diversification.

The Department of Commerce also supports the Employment Development Department's position on the Defense Conversion Adjustment program regulations of the Department of Labor. It is imperative that these funds be available for retraining of defense workers in new, non-defense skills with their current employer.

Allocation Principles

Finally, Commerce believes that federal defense conversion funds should be allocated to states through a formula based on an individual state's share of factors such as level of defense contracting, output, employment and job loss.

The primary savings from defense cutbacks initially accrue to the federal government, with state and local government in most cases suffering the adverse economic impacts. In establishing ratios

for any matching fund requirements to federal defense conversion monies, it must be recognized that, very often, the state and local jurisdictions most in need of federal assistance will be the least capable of aggressively matching federal dollars. Additionally, funding should be primarily directed to existing programs but it must also be flexible enough to foster creative new partnerships and initiatives.

Once again, I thank the Commission for the opportunity to speak and I commend its willingness to seek solutions for the transition to a post-cold war economy. The California Department of Commerce is ready to provide direct assistance as appropriate those federal agencies involved in the administration of defense conversion programs.

The Governor's Office and Commerce will also be providing the Commission shortly with a more detailed recommendation paper.

Poetry by



Dare to define

Dare to describe

Dare to be different

Dare to defy

Doomed to die

In God I rely

Through Christ—*Alive*

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On Who's Sake

If the privledged are not favored
What sense would this make?
And for those who have labored
But then—for who's sake

Will we continue to work
To fight the problems that lurk
in all of our society
The idiom of propriety

There are some who feel so solid
About their ability to succeed
And they all ignore the squalid
for to them, it might impede

Their sense of direction
To make their connection
with the almighty dollar
so that they can holler:

See—I am better then you
I've got lots of money to spend
I get to keep my due
Don't ask me to give or lend
because I'm one of the few
I don't wish to offend
Go ahead—try if you like to sue
But it's not on me you can depend

If the privledged are not favored
what sense would this make?
And for those who have labored
But then—*on* who's sake

Can we all hope to depend

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The Rich—And The Gangster

I see all of you standing
before me here
Looking at you—I know
you're not sincere

You incompetent fools!
you're the devil's jewels
with your man made tools
and your laws and your rules

There is no life within you
For your death is based on fear

Tell me—what is a gangster?
but an ill-willed prankster
putting life on the chopping block
to prove he is of heroic stock

Is it death he will mock?
Or is it the thrill to shock
the world with boundless hate
about matters ignored by the State

A people of the lower class
who are much too proud to ask
for a little human compassion,
for money to help them fashion
a good life, without distrust
but instead—you throw the crust
of the bread you don't want

And you wonder, how can they haunt
me with terrors of pain and death,
of suffocating me—of my breath,
Are those their footsteps I hear?
Oh, is my death drawing near?

You see them landing
before you here
Looking at them—you know
they're not sincere

They are incompetent fools!
—the devil's jewels
with no way to make tools
they break the laws and the rules

There is death within them
For their life is so unclear

Another Desperate Winter

I have stared into emptyness
Knowing every nothingness

Imagine your worse dream
Do you know what I mean?

I will answer every lie
with a shrieking cry!

Another Desperate Winter
For all of us to see
Where, at the Center
No one hears the plea

All causes will splinter
with no one able to agree
and we will not enter
into the Land of the Free

Where can this send me?
Knowing what I am to announce
Will the world treat me with envy
or accept what I will denounce?

For this is where I draw the line
In an effort to expose
with words and music—the sign
to help us all dispose

Of Another Desperate Winter
having found the remedy
Where, at the Center
We all understand the plea

Gone will be the dissenter
We will then be able to agree
and at last, we will enter
into the Land of the Free

TESTIMONY

OF

ARTHUR T. LEAHY

Assistant General Manager -- Operations
SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

TO

DEFENSE CONVERSION COMMISSION
U.S. DEPARTMENT OF DEFENSE

Long Beach, California
August 6, 1992

INTRODUCTION

Mr. Chairman, members of the committee, my name is Arthur T. Leahy, I am the Assistant General Manager for Operations at the Southern California Rapid Transit District (SCRTD). It is a pleasure to appear before you today to discuss a project that we believe will not only be a breakthrough for the transit industry, but the aerospace industry as well. That project is the Advanced Technology Transit Bus (ATTB).

Our industry is required to be the first to respond to federal, state and local Clean Air Act requirements. Additionally, the District has been faced with new challenges to meet the standards established by the recently legislated Americans with Disabilities Act. As such, the trucking industry and, to some extent, DOD learns from our efforts.

The SCRTD provides a variety of transit operations to over 409 million patrons per year. Our service area covers 1,442 square miles in the Southern California region through 16 operating divisions and a state-of-the-art Central Maintenance Facility. SCRTD currently operates electrified rail vehicles, as well as conventionally fueled buses and one of the nation's largest fleet of alternatively fueled buses.

We are considered leaders in heavy duty, clean air applied research. Our work indicates that greater technological advancements will be necessary to satisfy the every increasing requirements of legislated mandates as they become more stringent.

BACKGROUND

The SCRTD is a member of the I-Time Task Force sponsored by the U.S. Department of Transportation (DOT) and the Ontario (Canada) Ministry of Transportation. The objective of the task force is to improve maintenance efficiency through the introduction of innovative technologies.

The preliminary findings of the I-Time Task Force indicate the need for a lighter weight, non-diesel powered, low floor transit bus that could be built, using proven aerospace technologies. Composites (possibly carbon fiber material) and/or aluminum unibody structures have been identified as possible alternatives to reduce weight. The District is interested in a low-floor bus configuration because of its improved ability to accommodate the needs of the disabled population, while eliminating the relatively high cost and low reliability associated with current technology wheelchair lifts.

The International Composites Institute confirms the technological and economic feasibility of a bus with advanced composite materials. Lighter weight transit vehicles will significantly decrease fuel consumption by increasing average miles per gallon. Hence, the development of a light weight bus will provide the transit industry with increased fuel economy while decreasing undesirable emissions into the atmosphere. It is important to note that according to EPA reports, Los Angeles ranks highest in the nation for undesirable ozone and Pollutant Standards Index emissions into the atmosphere. However, this is an international problem so that unique solutions have potentially wide applications.

The District's proposal also reflects concerns of the South Coast Air Quality Management District (SCAQMD). SCAQMD has a strong interest in the introduction and operation of low emission transit bus propulsion technologies in this region.

Based on discussions with representatives from major design, engineering, and manufacturing corporations (i.e., Northrop, Futura Corporation, Amerigon Corporation, Crane-Carrier, General Electric, FMD, Graham Sales Corporation), as well as ideas contained in technical journals, it appears that there is a potential for a breakthrough in the design of a transit vehicle based on hybrid electrical power technology. This propulsion technology uses electric motors to drive two, or all, wheels on the vehicle. The source of electrical energy is a small clean air design engine. The ultimate design goal is to eventually incorporate either fuel cells or new generation batteries. This type of design could also be used for a trolley bus operation. This development is a key factor to support successful development of fuel cells.

Discussions with design engineering staff from various major corporations indicate that there is a strong possibility of achieving significant weight reductions through the use of composite material, specifically designed engines, and overall systems integration. The District believes that there is a potential to lower vehicle weight from the 28,000-pound range of current transit buses to the vicinity of 16,000 pounds by employing these innovative techniques. Obviously, a lower weight vehicle has many advantages in that it requires less power to accelerate, reduces wear and tear on dynamically-loaded components (brakes, transmissions, etc.), and should reduce infrastructure damage to roads and bridges.

The transit industry is currently relatively small and has extremely limited research and development funding. Thus, many of the advanced manufacturing processes adopted by the aerospace or automobile industries have not yet been transferred to transit bus manufacturing. Also, the transit industry has not made use of self-diagnostic components, ABS brakes, nor has it maximized the

use of computerized control systems. These elements will all improve transit bus maintainability.

Breakthroughs of Global Position Satellite Technology have not been exploited to meet the challenges outlined above. The District proposes to provide staff resources to facilitate the development of an Advanced Technology Transit Bus. We believe the time has now arrived for a full-time liaison/facilitator to assist the major design, engineering, and manufacturing sectors in the aerospace and automobile industries, and the transit industry to ensure appropriate, timely, and cost-effective technology transfer.

PROGRAM SCOPE

The ATTB program will be performed in three phases, each of which will have its own specific goal. This will permit us to minimize risk, cash flow, and overall expenditures until specific milestones are achieved. Program oversight will be provided by District staff. All conceptual design work, design validation, and engineering work will be performed by vendors under contract to the District.

PHASE I

Phase I is the development of a conceptual design of a "modern-age" bus, applying state-of-the-art technologies to the key components of a transit bus. It will consist of the preliminary engineering required to validate design goals and gather necessary information so that the vehicle design can be optimized from a systems integration point of view. This will mean contacting potential suppliers from both the traditional bus as well as the aerospace industries to take advantage of the latest available American technology. This will enable the District to examine the relationship between all aspects of the vehicle design from both a weight and technology standpoint.

The technologies that the District is examining currently exists but have not been applied to a transit bus. For example, carbon fiber material is virtually corrosion free and would provide the bodies of ATTB vehicles with extended life. The carbon fiber technology also has a very high strength to weight ratio. This would provide ATTB vehicles with greater impact/crash resistance, resulting in improved safety for our patrons. Low-floor technology will be an important step forward in meeting goals of the American with Disabilities Act (ADA). All of this should result in a very favorable economic analysis based on life cycle cost.

The primary engineering responsibility during this phase would be with a design contractor who has a strong background in designing, integrating complex systems, and manufacturing major components. Obviously, these are things that our major aerospace firms do very well.

In addition, we enjoy the support of major players in our own industry. A review group, or Rapid Transit Review Board (RTRB), has been formed that represents the New York, Chicago, San Jose, Dayton, Phoenix, and other agencies. At the completion of the proposed conceptual Phase I element, a technology transfer meeting will be held to present the ATTB design to the RTRB, and to other transit industry representatives. Comments and suggestions will be solicited for incorporation into the ATTB Phase II activities. The Phase II plan will then be fully developed for approval by the RTRB.

PHASE II

Phase II is the development of a validated bus design and manufacturing plan to the point where a scale model can be constructed and selected full-scale components can be fabricated. It will focus on a detailed design leading to the manufacturing of key components as well as a manufacturing plan. This will permit for actual prototype work on certain key structural components for the purposes of validating design and cost estimates. The detailed design and pre-production work will lead to a full-scale mock-up and a complete business plan for manufacturing.

As a preliminary effort, the District will look at the availability of various power sources to drive the vehicle's electric motor. This propulsion system will take advantage of the best available clean fuel technology. The goal is to design the vehicle in such a manner that the power plant could eventually be a fuel cell, or an advanced battery configuration. SCAQMD staff is knowledgeable about research being done in this area, and will help facilitate the transition to production-ready propulsion technology.

A factor is reduced power requirement for a new design transit bus. This will permit both weight reduction and lower emissions. This vehicle has the potential for very low exhaust emission without the elaborate infrastructure investment that is projected for contemporary alternative fuels.

PHASE III

Phase III consists of a detailed design and manufacturing plan for the selected bus configuration. It incorporates the actual construction of four to six vehicles while at the same time finalizing pre-production manufacturing designs and tooling. One prototype will be completed to test design parameters. Four prototype buses will then be fabricated for on-the-road testing. We would then build and test the vehicles in actual revenue service.

The major elements of the test plan include:

- o Environmental Protection Agency Testing - All testing will be conducted under the direction of experienced emission consultants and will be performed to California Air Resources Board standards. The hybrid drive concept and the sophistication of the ATTB engine control system should ensure emissions certification of the vehicle.

- o Department of Transportation Testing - All required tests will be performed including destructive and non-destruction tests as required by law.

- o Component and System Testing - Each system, including but not limited to, suspension system, electrical braking system, and the electronic packages will be tested. Testing of each system will be designed to be as rigorous as possible to ensure the guaranteed system life is met.

- o Road Testing - Testing will be conducted on an instrumented vehicle to evaluate the integration of each subsystem into the bus system as a whole. Instrumentation will include structural integrity, vibration, fatigue, emissions, heat transfer, component life, and overall system operational effectiveness.

Test results combined with value engineering could reduce cost, and result in a vehicle that will revolutionize the transit bus industry as it is known today. The District's ability to meet the goals outlined in this proposal will be measured, and may well result in unexpected durability benefits.

TECHNOLOGY TRANSFER

An on-going objective of the program will be to communicate the technology developed under this program to the transit industry. (Any "proprietary" technology will remain the property of the contractor.) A detailed technology transfer plan will be developed at the beginning of Phase I and updated during Phases II and III. All work performed on the program, from definition of transit user requirements to development of production plans, will be documented. It is expected the District's contractor will be required to publish quarterly technical reports, end-of-phase technical reports, and an end-of-program report.

In addition to these reports, contractors will be required to hold briefings/demonstrations at bi-monthly intervals to share the progress of its development effort with the transit industry and to obtain valuable feedback for continuing improvements. The combination of reports, briefings, demonstrations, video tapes, and RTRB evaluations will ensure the effective transfer of technology development on the ATTB program to the transit industry.

PROGRAM BUDGET

The ATTB program is projected to require a funding level of $27.7 million over an anticipated 47-month period.

The District is requesting funds totalling $5 million in Section 26(b) grant funds from FTA to implement Phase I of the program at this time. An evaluation of the program's feasibility will be performed at the close of Phase I. Comments will be solicited from FTA, the District and the RTRB before the next phase of the program is initiated. If a decision is reached to proceed with the project, a grant amendment will be forwarded to FTA to revise the scope of work and to include funds for Phase II of the program. Like Phase II, a mutual decision between FTA, the District and the RTRB will be reached prior to proceeding with Phase III. Currently, this project enjoys the highest research priority at the FTA.

CONCLUSION

As proposed, this project will bring current technologies into the development of a new generation transit bus which will integrate low emission propulsion, a low floor design, and low maintenance materials and systems. This will be a vehicle that bus riders will want to use. The technology enhancements can then be applied toward school buses and rail cars as well.

Additionally, this project will significantly contribute to revitalizing the area's economy, as well as providing a technology which will help Southern California achieve its air quality goals.

The District plans to develop a national transit consortium to participate in the procurement of Advanced Technology Buses. The procurement will be opened to all potential bidders.

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INTERNATIONAL BUSINESS

Handbook of International Economic Statistics, 1996
Central Intelligence Agency, Washington, DC.

The handbook provides basic worldwide statistics for comparing the economic performance of major countries and regions. In general, the data in the handbook are for 1970, 1980, 1985, and individual years in the period 1990-95. The handbook reflects the creation of new nation-states and the realignment of regional economic groupings. Richly illustrated with figures and tables, the handbook covers data for the past five years that show: economic profiles, aggregative trends, country trends, economic indicators in the former Soviet Union, foreign trade and aid, and environmental topics. Data for the presented countries have been adjusted, where necessary, to achieve comparability.

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TESTIMONY GIVEN TO DEFENSE CONVERSION COMMISSION

LONG BEACH, CA

August 6, 1992

Good afternoon. My name is Bob Bremer and I am the Associate Director of Business Analysis for the Lockheed Corporation. I am a member of the Corporate Development Group which has the responsibility of supporting the development of corporate strategy, conducting market research, identifying new lines of business, and assessing potential acquisitions. I am pleased to have the opportunity to make some remarks before this Commission.

Lockheed is a $10 billion company that is predominately in the defense/aerospace market, although we have always had some commercial components. Currently, about 30% of our sales are from customers other than the DOD. Our long term goal is to increase this to 40%, and this will be done by expanding our commercial activities and not decreasing the level of military activities.

We currently have a sizable business with NASA and are expanding our involvement with federal agencies other than DOD. We have a major division that makes plotters, digitizers, and displays for commercial customers. We have long been involved in airport development and management. We are also pursuing a number of new

initiatives in the commercial arena. One of these is commercial aircraft modification and maintenance. We have been doing this for a few years in South Carolina, but we have opened new facilities at Tucson, Arizona and San Bernardino, California. The San Bernardino facility is the old Norton Air Force Base and we have contracts to perform maintenance on B747s there.

We also have contracts to perform data processing for a number of local and state governments. We process parking tickets for the city of Los Angeles and collect child support payments for the State of California. We have an alliance with Motorola to develop a global telephone communications system and an alliance with AT&T to pursue smart highway systems. We recently received a major contract to perform remote mail bar code reading for the Postal Service. Out of some $100 billion in potential opportunities that we see for future competitions in the next few years, about one third of them are in the commercial area.

But we recognize that large scale conversion will be difficult. The success rate of defense companies diversifying into commercial markets is very poor. The defense market, although declining, is still huge. Lockheed is committed to its core businesses, and we feel that we will fare well in the future defense environment. We are venturing into some commercial areas in what we call skill-based diversification, but only in areas that make good business sense. We have many stakeholders in the company, but the principal one is still to enhance shareholder value.

The public sometimes wonders why it's difficult for defense firms to convert readily into commercial ventures. Most military systems are high value, highly engineering systems with a high degree of redundancy. Low volume production rate is the norm. The accounting system and procurement practices required by the DOD are much different than that of commercial customers. The focus is on technical issues rather than marketing issues. The culture and the mind set of the people in the industry are different. They are used to dealing with one customer, not many. There will have to be changes in these things to some degree. Some aerospace companies are recruiting senior executives from the commercial world to help them in their diversification. Some companies are forming separate stand-alone facilities for their commercial ventures. In addition, some welcome changes have been made in defense acquisition and procurement policies, although more can be done.

All aerospace companies are taking action to accommodate the defense decline. A few have decided to focus on their military core businesses. Most are pursuing new commercial markets related to the technologies and markets that are at least somewhat related to what they have been doing. Examples are commercial space, data processing, transportation systems, and environmental clean-up. Unfortunately, almost all are targeting these areas so there is a lot of competition.

The downturn in military work will be more rapid than commercial jobs can be created for their displaced workers. And those that do get jobs will probably be at lower pay levels. The current recession makes finding jobs all the more difficult. It is ironic that these workers are a victim of their own success. They've won the Cold War, and now they are out of work.

Government help is warranted and can take many forms. Some initiatives exist within Congress now to help workers. We believe, however, that top down directing by the government may not be the best approach. The government could centrally identify national economic priorities, e.g., transportation, infrastructure, competitiveness, and let the businesses and local communities plan how best to fill those needs. Perhaps something analogous to the GI Bill of Rights could be developed that would help laid-off workers attend school and get retrained in something they are interested in and the marketplace needs.

Joint partnerships between government and private industry can be helpful. Lockheed, for example, is involved in one called CALSTART which is a non-profit consortium of over 40 public and private entities formed to create an advanced transportation industry in California. It is evaluating several exciting transportation projects, including electric car development. Lockheed has donated a building in Burbank that was empty as a result of the shutdown of our operations there. This is a good way to see how we can contribute and understand the technology and market before we enter

into it in a major way. We see more and more examples where government at all levels is helping the conversion process, and we believe that more of such ventures would help business, the nation and the workers.

Thank you for your time. I would be pleased to answer any of your questions or send you additional information on what we are doing in this area.

DEFENSE CONVERSION COMMISSION HEARINGS

Thursday, August 5, 1992

Long Beach, California

By DON NAKAMOTO, Public Affairs Director
International Association of Machinists
and Aerospace Workers, District 727
Burbank, California

Chairman and members of the commission, thank you for the opportunity to address you today. My name is Don Nakamoto and I am a Machinists Union representative for hourly employees at the Lockheed Corporation in Southern California.

Our location has been one of the most devastated defense-related areas in the country since the end of the Cold War. Since May 1990, Lockheed has gone from 12,300 Southern California workers to 4,500 today, based on the expiration of contracts, defense cuts and the transfer of defense programs to other locations.

Two years ago, in the midst of this devastation, our union leadership decided to explore job creation alternatives rather than focus on reversing defense cuts, which we felt was a futile endeavor. The alternative we developed was defense conversion, more specifically the creation of a regional coalition to develop alternative industries to defense.

That coalition-- the non-profit CAL START consortium-- today represents one of the most advanced economic conversion projects in the country. The coalition is comprised of dozens of public utilities, corporations, government officials, local government agencies and unions in California. The intent of the coalition is to utilize its combined resources to create new industries, such as advanced transportation, that can absorb laid off defense workers and revitalize the state's economy.

One of the initial focuses of CAL START is the development of an electric vehicle parts manufacturing industry in California. Based on the California Clean Air Act of 1990, 2% of all vehicles sold in the state in 1998 must be emission-free. That rate rises to 10% by 2003 or, in other words, the mandated sale of 220,000 vehilces in the state, in all probability electric vehicles.

Now two Eastern states have adopted similar mandates and seven Eastern states have such legislation under consideration. Many countries around the world are looking to electric vehicle transportation to mitigate their environmental problems. So the outlook for electric vehicle utilization is tremendous.

Based on electric vehicle market-driven demand, CAL START projects the creation of 150,000 jobs worldwide by the year 2000. California hopes to capture at least 50,000 of those jobs through creation of the vehicle parts industry.

Within the next few months, hundreds of workers will begin development of electric vehicle prototype parts. The CAL START consortium is working in unity to integrate the parts of approximately 17 local companies to create a functional "showcase" model electric vehicle that will be displayed at auto shows around the world. Already, major auto manufacturers are looking to CAL START companies to be key parts suppliers as automakers rush to begin larger scale production of electric vehicles by 1995 to meet anticipated demand.

While this program has enjoyed remarkable success in this embryonic stage, we have encountered significant obstacles, which I believe should be addressed by this commission.

Though this new industry holds tremendous promise and will develop a product in obvious future demand, there are very few areas within the federal budget which can help support the needs of a new program and new industry such as this. Yet, when we speak of the issue of defense conversion— the transition of defense workers into civilian areas— this is exactly the type of program and industry that should be embraced and supported. The advanced transportation industry has the capability to employ many defense workers, and more importantly, it has the capability to employ the basic skills and technologies generated from the defense industry.

There are areas within the federal budget which can assist with the purchase of equipment or machinery or worker retraining, but nothing to assist in probably the most critical area of an incipient industry such as this-- the subsidy or support of defense worker salaries.

Officials within CAL START indicate that hundreds of additional laid off defense workers can be reemployed almost immediately, however there is insufficient funding for salaries. The union and its expert consultants scrutinized federal funding sources in the Department of Labor, the Department of Commerce, the Department of Transportation and the Department of Defense. There are no provisions which would assist in the adequate supplementation of defense worker salaries and benefits.

Most U.S. companies looking to diversify into these areas don't have the risk capital or are too small. Since we are a non-profit consortium-- which has been one of the bases of our success— we do not have access to private venture capital.

Plenty of money exists to retrain defense workers. If they wish to retrain into the education field, there is money available. Unfortunately, we are laying off teachers and cutting school district salaries in California. If they wish to retrain into the health care field, there is money available. Unfortunately, we are laying off health care workers as we cut hospital budgets.

Our union recently was involved in a program to place dozens of laid off defense workers through an exhaustive eight-week retraining program for hazardous material handling, a field considered as one of the most promising future U.S. industries. Three-quarters of the prospective jobs waiting for the workers at the end of training disappeared because of the recession.

Yet, with an emerging industry such as the electric car, with tremendous prospects for future growth and astronomical employment potential, there is little money to put workers back to work.

This set of circumstances represents a frustrating malfunctioning in our system of redeployment of labor resources in this country. In the past, we were always able to transition workers from a depressed industry into a more prosperous industry. This system succeeded in the past and served us well for many years. However, because of the economic times we find ourselves in and the unprecedented level of job losses from defense, the system urgently needs revamping. No longer can we be assured that there will be jobs waiting for the defense worker that is retrained into existing industries.

The emphasis must be changed from retraining to actual job creation. Some mechanism must be created to assist the development of emerging industries in this country. Otherwise, every post-Cold War industry that seeks to get off the ground-- whether it be in high-definition TV, advanced medical instruments or environmental remediation-- will be faced with the same problem we've encountered in trying to put defense workers back to work.

One final irony of this situation is that many of our defense workers already have the basic skills to do the work in new fields such as advanced transportation and would only require minimal retraining. Our companies already have the technologies to compete globally. The only missing element is early funding support to get these industries and jobs off the ground.

Until we can solve this glitch in the system, we'll continue to see the Germans and Japanese develop new industries while we retrain and retrain and retrain our defense workers for jobs that may never exist.

-- END --

R E S U M E for Merle K. ALBRIGHT
(213) 691-8237 h

EXPERIENCE

- EXECUTIVE DIRECTOR (Systems Management Services Int'l-SMSI) Prepare proposals,perform technical-financial-management due diligence for small and large businesses (six years)

- DIRECTOR TECHNICAL MARKETING ADVISORY GROUP for Molectrics (a new proprietary metal processing company)(two years*)

- EXECUTIVE DIRECTOR America Helps,non-profit corp(two years*)

- ADVISORY BOARD and CONSULTANT to Mitec Ventures,Inc.(a co. which examined over 450 companies..preparing business plans to taking enterprises public (three years*)

- SCIENCE AND TECHNOLOGY ADVISOR to Glenn Taylor, President of Discovery Computer Network television and former owner of FNN-Financial News Network (three years*)

- GENERAL PARTNER for a new X-Ray Diffraction and Cold Stabilization Corp.(current..five years*)

- GEOTHERMAL PROJECT DIRECTOR for Los Angeles County and State of Calif and other energy programs (two years*)

- SYSTEMS ANALYST,PROJECT DIRECTOR AND PROPOSAL MANAGER (L.A. County)(five years)

- DIRECTOR AND ASSISTANT DIRECTOR Economic Development Program (Los Angeles County and 80 Cities) (five years)

- CHIEF ADM. OFFICE SENIOR ANALYST (L.A.County) (one year)

- CORPORATE OFFICER/CONSULTANT...Member of Board of Directors of various small businesses;corporate consultant for numerous joint ventures,mergers and acquisitions:and technical consultant for SMSI (four years)

- EXECUTIVE ADVISOR in systems mangement on Manned Orbital Laboratory (MOL) program (Douglas) (one year)

*concurrent

cont...

- STAFF AND MANAGEMENT POSITIONS in the Apollo Vice-President's Office;and Test Operations (Rockwell)(five yrs.)

- PLANNING CHIEF AND OPERATIONS MANAGER on the Titan Missile Program at Cape Canaveral,Denver and Sacramento (Martin-Marietta Corp) (five years)

- CONTRACTS/PROPOSALS ADM. PROJECT MAN Navaho Program,first intercontinental booster program (Rockwell) (four yrs.)

- ASSISTANT CONTRACT ADMINISTRATOR for O'Keefe & Merritt Co. power generators for the Dew-Line and Berlin Airlift (two years)....Note:first full-time employer after college.

PERSONAL INFORMATION

One and one-half years toward Masters Degree in Teaching (Current part-time teaching credentials)
Member of various professional societies
Contributing Editor to trade newspapers and publications

SPECIAL ABILITIES

Knowledge and application of broad technical and management resources through international data banks and professional affiliations ...proprietary assesments
Experience in-- proposalpreparation,systems management--in planning and procedures ... in first use of computers and current applications in Artifical Intelligence (expert systems) to FOF (Factories Of the Future)
Numerous contacts in public and private sector



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Ron Kaufman- White House

P I E C E D I V I D E N D
(Aerospace/Defense Contractor Diversification)

This is a brief summary of the proposed new diversification funding concept for Defense Contractors, Primes and Subcontractors, and some professional and technical personnel to start new businesses creating new jobs in spin-off technologies.

The program was first used in So. Calif some 15 to 20 years ago. NASA has partially used the concept for space-spin-off's.

The current proposal is to set aside approximately 1 1/2 to 3% of the Prime and Subcontactors Billion dollar programs (i.e. the B2 or the C-17 Cargo Plane) to diversify the contractors Products, Technology, Techniques, or Processes in new commercial businesses....for current and future market growth ....and possibly preserving the core company and personnel in job creating efforts...that would provide for potential new re-activation capabiliities should they be required.

The Defense Contractors/ highly skilled professional and technical personnel should get a piece of the Peace Dividend.

Merle K. Albright
America Helps Inc.
9141 Wallace Ave
La Habra, Calif 90631

310/691-8237

Attn: Cathy Hutchinson (Rm 167)
As we discussed earlier, a group here including Uni. of So. Calif, has been in touch with the Pentagon on a very broad Defense Diversification program...which the Governor and Calif State Dept of Commerce is currently evaluating...I will be sending you further details ...if requested...Thanks.

9141 WallaceAvenue, La Habra, California 90631 Telephone: (213) 691-8237

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

FORCE MANAGEMENT
AND PERSONNEL

Submitted By

Mr. Merle Albright
Systems Management Services International
9141 Wallace Avenue
La Habra, CA 90631

Dear Merle:

I have read your July 19 letter to me, complete with the enclosures. Because it was so informative, I can now offer more targeted advice about your proposed concept to deliver diversification assistance to communities and business enterprises.

First, you want to provide help to strengthen the economies of communities where Department of Defense (DoD) installations will soon close. The Office of Economic Adjustment (OEA) provides grant assistance to help those communities decide upon the optimum reuses of former DoD property. In cases where no property will become available, our aid can assist them in preparing a local economic diversification strategy. Our grants are awarded directly to units of government; two have already been awarded to the County of San Bernardino for use by the communities near Norton AFB and George AFB. Any further effort in this regard would be funded directly by the affected governments or, more likely, the development organizations (Inland Valley Development Agency and Victor Valley Economic Development Authority) they have formed to guide their respective communities' base reuse programs. This sort of effort is also eligible for financial support from State and other Federal government agencies.

Second, you also propose to deliver a series of workshops to acquaint defense-related businesses about ways to identify and penetrate other markets (and presumably also identify and market new/adapted products). Although seminars are a good introductory and marketing tool, the only productive method to supply these services is on a one-to-one basis.

As we have discussed, Federal agencies such as the Department of Commerce, Small Business Administration, National Science Foundation, NASA, and others fund programs to help private enterprise in such areas as technology transfer and commercialization, small business development, industrial effectiveness, etc. As you well know, the NASA Industrial Applications Center (NIAC) program is one of them. Similar programs are funded or co-funded by many States government.

I have been unable to identify any Federal agencies in process of creating or expanding programs that support business diversification. Therefore, your decision to maintain your alliance with the University of Southern California NIAC appears particularly sound. This organization seems to offer your best chance to secure external support for individualized business diversification aid. Of course, Brian McMahon is best qualified to comment on support from the State of California. I can provide similar information about other State government's programs as well. You may also consider direct user fees for the performance of your service as you have for you proposed workshops.

Finally, it seems that you plan to marry aid to businesses negatively affected by DoD contract cutbacks with aid for communities where nearby DoD base are closing. Although a former DoD base can be a cost-effective place for enterprises to locate, it seems unwise to target weakened businesses for relocation into a project that is just getting started. Further, Federal government agencies rigorously avoid subsidizing the relocation of businesses both intra- and interregionally.

I encourage you to maintain your contact with Los Angeles Aerospace Task Force. Their focus is fixed on aiding the conversion of local industries away from the diminishing DoD marketplace; the same as yours.

Please let me know if I can provide further information.

Sincerely,

Kenneth M. Matzkin
Senior Project Manager
Office of Economic Adjustment

cc:
Peter D'Errico (VVEDA)
Cynthia Gonzales (LAATF)
Brian McMahon (CA/DOC)
Sandra Viera (IVDA)

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-4000

FORCE MANAGEMENT
AND PERSONNEL

JUN 20 1991

Submitted by

Mr. Merle Albright
Systems Management Services International
9141 Wallace Avenue
La Habra, CA 90631

Dear Mr. Albright:

I was pleased to finally meet you in San Bernardino last week. As promised, I am sending you the industrial profile (for Klamath County, Oregon) you requested. Also, enclosed is a copy of our "Diversifying Defense Affected Economies" which discusses selected methods and practitioners of local economic diversification.

I shall take this opportunity to reiterate the conclusions of our meeting.

1. Office of Economic Adjustment (OEA) grant support can only be provided to government agencies;

2. OEA may contract to implement your idea, but selection would take about 4-5 months and it would be competitive; and

3. The work (manual) must be applicable to and reflective of a nation-wide audience.

Finally, permit me to ask (again in some cases) a few questions to help me better identify Federal program areas in which your proposed work might lie. I trust that your answers will be brief but enable me to explain adequately your program to others.

1. Please tell me more about the software/data base you plan to develop.
   a. How and from whom would your software/data base gather its information?
   b. What kinds of information would be contained in it?
   c. How and by whom would it be accessed?

2. Who are the government personnel who are already interested in your proposal?

3. Please provide an informal "Statement of Qualifications" about America Helps Inc. (i.e., nature and places of successful projects).

4. What might the approximate cost of the proposed work be; in its entirely and perhaps by each primary component?

5. Please provide any other information that will help me identify support for your program.

I look forward to your response.

Sincerely,

Kenneth M. Matzkin
Senior Project Manager
Office of Economic Adjustment

Enclosures:
As Stated

M. L. Warrick
1048 Fairbrook Lane
Santa Ana, CA 92706 - 1106
714/953-2731
714/953-6506 (FAX)

Resume of Qualifications

Identifying and developing diversification opportunities requires a diverse background and the specific skills necessary to implement programs. The following is a summary of relevant experience.

Diversification Experience

As a consultant to the Department of Defense, I designed and implemented a program to assist subcontractors in diversifying their activities. I worked with 40 Southern California Defense Sub-contractors and was 70% successful in identifying diversification opportunities. Recently, I am providing consulting services for a number of Russian and Ukranian defense firms.

Business Development Experience

As a business development consultant, I have advised more than 800 clients and assisted in starting more than 100 companies. Forty of these companies were started by unemployed aerospace engineers.

Business Planning

I have written more than 20 business plans.

Financing Experience

I have participated in a wide variety of business financing exercises including credit lines, SBA loans, equity investments and public offerings. Altogether, I have assisted in raising funds for nearly 100 companies. I have owned and operated a venture capital company which reviewed more than 600 investment opportunities and provided funding for approximately 10.

Education

I have a BS degree in Physics. While attending college I served an apprenticeship as a machinist and ultimately attained instrument-maker classification at the California Institute of Technology, Pasadena, CA.

Information Sources

A key element necessary to identify business diversification opportunities is timely access to information. I have information sources as good or better than most companies in the world.

Affiliations

Business Development Advisor - County of Los Angeles, Economic Development Program
Director, Business Development Programs - Orange County.Management Council
Member, Board of Directors - Orange County Business Development Center
Member, Technology Utilization Task Force, Los Angeles Chamber of Commerce
Member, Board of Advisors - University of California at Irvine, Technology Executive Roundtable
Member, Los Angeles County Aerospace Task Force
Member, Active Corps of Executives - U. S. Small Business Administration
Member, Business Development Commission - State of California
Science Advisor - City of Los Angeles, Office of the Mayor
Technology Transfer Advisor - State of California, Office of the Governor

PROFESSIONAL PORTFOLIO

M. L. "Bud" Warrick
1048 Fairbrook Lane
Santa Ana, CA 92706
(714) 953-2731
(714) 953-6506 (FAX)

M. L. "Bud" Warrick

Professional Portfolio Supplement

(1989 to 1991)

General Activities:

Business Plan Preparation
- Financial Analysis and Forecasting
- Market Studies
- Marketing Plans
- Personnel Manuals

Diversification Consulting
Fund Raising
Hazardous Materials Compliance
Merger & Acquisition Consulting
Public Offering Consulting
Technology Assessment

Business Plans

Prepared business plans for the following clients:

- **Commercial Floor Cleaning Franchise (service)**
- **Computer Printer Repair Depot (service)**
- **Dog Drink (manufacturer)**
- **Fire Sprinklers Installer (service)**
- **Hazardous Waste Treatment (service)**
- **Humidity Controller (manufacturer)**
- **Marina (service)**
- **Restaurant (service)**
- **Skin Treatment Compound (manufacturer)**
- **Water Damage Restoration (service)**

Diversification Studies

Assisted companies in identifying business diversification opportunities.

- **Computer Printer Repair Depot**
- **Asbestos Abatement Contractor**

Fund Raising

Asisted in fund raising for the following clients:

- **Aerospace Subcontractor Purchase**
- **Computer Printer Repair Depot**
- **Hazardous Waste Remediation Company**
- **Pet Food Manufacturer**
- **Marina**
- **Secure Fax Machine**

Mergers & Acquisitions

Acting as an advisor to investors, I have been called upon to evaluate various investment opportunities such as:

- **Aerospace Subcontracting (metal fabrication)**
- **Asbestos Abatement Contractor**
- **Cut Flower Preservation Device**
- **Entertainment Video (for children)**
- **Gold Mining (new refinement process)**
- **Hazardous Waste Remediation Contractor**
- **Oil Refining (refinery purchase)**
- **Record Production Company**
- **Solar Screens (for windows)**
- **Wildlife Disperser (in event of hazardous material spill)**

Hazardous Materials Compliance

In the process of preparing a business plan for the hazardous material remediation company, the following additional documentation had to be prepared:

- **Transportable Waste Treatment Permit**
  This permit is required by several governmental agencies. It is an extensive description of a series of hazardous materials treatment vehicles.

- **Emergency Contingency Plan**
  This plan, which can be modified to fit most industrial processing companies, must be prepared for each site before hazardous material treatment can begin. In essence, it is a written description of all of the steps which must be taken in the event of an accident.

- **Hazardous Waste Hauler's Permit**
  This permit application details operational procedures and contingency plans.

- **HazMat Driver Training Manual**
  This manual contains all the safety procedures and contingency plans to be carried out in the case of an accidental spill.

- **HazMat Liability Insurance Application**
  The application contains all of the above elements plus a business plan to demonstrate the viability of the company.

Technology Assessments

- **Secondary Oil Recovery Systems**
- **Wildlife Dispersion Systems**
- **Hazardous Material Treatment Technology**

(update)

Professional Experience

COMPANY PROFILE



Mitec Ventures, Inc.

Mitec is a business consulting organization specializing in business development and equity financing.

The company is comprised of 16 associates who lend their expertise to various projects.

Since February of 1987, more than 600 businesses have been reviewed for investment potential. Three have been funded through public offerings with several others financed privately.

Specialty activities include long range planning, mergers & acquisitions analysis and diversification assistance.

Partial Client List:

- Airplane Manufacturer
- Asbestos Removal Company
- Insurance Agency Software
- General Contractor
- Lawn Maintenance Product Manufacturer
- Mobile Hair Salon (Franchise)
- Pasta Sauce Manufacturer
- Hazardous Material Training School
- Waste Disposal and Treatment
- Wig Manufacturer

Liberal use is made of 400 computerized bibliographic data banks for various business, market, and technical research.

(Warrick is the President and founder)

VOLUNTEER ACTIVITY



DEC Technology Executive Roundtable

This organization, sponsored nationally by Digital Equipment Corporation and locally by the University of California at Irvine's Graduate School of Management, is made up of founders, presidents, and CEOs of technology firms with fewer than 300 employees. With more than 1500 participants nationally, monthly meetings are held in five cities where peers discuss common business problems.

(Warrick is Chairman of the Board of Directors of the Southern California chapter.)

VOLUNTEER ACTIVITY



LPR Theater

This non-profit organization produces 400 plays annually for children in Kindergarten through 6th grade. They also operate a dinner theater in Tustin, CA, the proceeds of which are used to expand the programs in Los Angeles and Orange County schools.

(Warrick is Chairman of the Board of Directors.)

VOLUNTEER ACTIVITY



Orange County Business Development Center

This non profit corporation funded by grants from the State of California and corporate donations is chartered to assist small business in Orange County, California.

(Warrick is a member of the Board of Directors.)

COMPANY PROFILE



Baldwin Aircraft Corp. (OTC)

This company manufactures a small jet aircraft made mostly of composite materials such as Kevlar. Although not designed as a "stealth" plane, it has an extremely low radar profile.

The primary applications for the plane are training and border surveillance. Orders have been place with the company for more than 500 planes with an average price tag of $2 million depending on accessories.

(Warrick acquired a public company which in turn was acquired by BAC. Stock rose from $0.05/share to $3.00/share in 2 years.)

COMPANY PROFILE

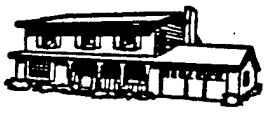


Advance Tax Representation (OTC)

This company with 300 former I.R.S. agents provides I.R.S. audit insurance. If you are audited by the I.R.S., the appear in your place and win disputes 90% of the time.

(As Vice President of Planning, M Warrick was responsible for the development of the formal business plan for this organization. He also set up their direct mail advertising, telemarketing, and seminar programs. He succeeded in taking this company public. Stock rose from $.05/share to $4.30/share in 18 months.)

COMPANY PROFILE



Cellular Building Systems, Inc.

This company manufactured low-cost, pre-fabricated, cellular concrete houses. The first house, erected in Santa Ana, CA was also the first manufactured house to be classified as "merchant built" which solved the greatest problem of others, building department approval. At a time when the lowest cost houses were being provided at $30 per square foot, this house was built at $18 per square foot.

(Warrick began as Vice President of Finance, progressing to President. He wrote the business plan and obtained investors for the company. Shortly before full-scale production was begun, the company was disbanded due to problems associated with the inventor. (The inventor had sold 120% of his rights to other investors!))

COMPANY PROFILE



Pro Tem Associates

The company provided two primary services to clients:

- Preparation of business plans
- Computer systems

Business plan preparation included financial analysis and market research.

Computer systems involved both hardware and software for accounting, manufacturing control, and project management.

One client, for which both types of services were provided, became the fastest growing privately-held company in Orange County for the following five years.

Mitec Ventures is the successor to this business.

(Warrick was the founder and president of this company.)

COMPANY PROFILE



Business and Industrial Development Corporation

The company was established to provide loans to small businesses in Orange County. The majority of the funds necessary to qualify for federal and state banking licenses were obtained. Project was abandoned due to major increases in interest rates. Mitec Ventures is the successor to this organization.

(Warrick participated in the preparation of the enabling legislation and was the founder of this organization.)

SPECIAL EVENT



Warrick was invited to participate as an appointee in the administration of President Ronald Reagan. Appointment would have been with one of the following: Department of Commerce, U.S. Small Business Administration or White House Science Advisory Staff. Declined offer due to business and family commitments.

COMPANY PROFILE

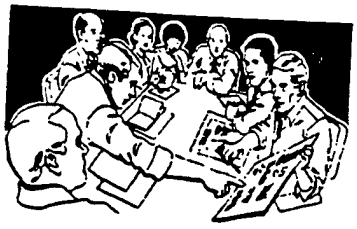


Warrick Miniatures

This business was established to provide miniature models for architects, aircraft companies and the movie industry, and hobbyists. In addition various items were manufactured for the miniature industry in general.

(M. L. "Bud" Warrick was one of the owners.)

SPECIAL EVENT



California Office of Business and Transportation

Warrick was appointed to a special commission with the California Office of Business and Transportation. The role of commission was to hear testimony in cities throughout California and make recommendations to the State legislature on new legislation to assist small business.

The establishment of a State Small Business Ombudsman was one of the products of this commission.

SPECIAL EVENT



Office of the President

Warrick was invited to work on the staff of the President (Jimmy Carter) as an advisor in information acquisition.

The recommendation came from the Executive Director of the Information Industries Association in Washington, D.C. because of his knowledge of my pioneering efforts in computerized bibliographic data bases. Declined invitation due to business and family commitments.

COMPANY PROFILE



Delphi West

This company provided various types of business information for clients utilizing computerized bibliographic data bases containing a large percentage of the country's published research reports and business news.

Primary activities included assisting companies in their diversification efforts.

Approximately 50 companies were served including 40 Southern California Defense Subcontractors provided by the Department of Defense. We were 70% successful in finding diversification opportunities involving:

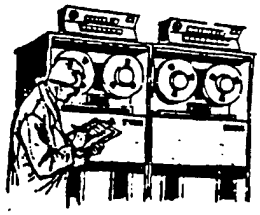
- New Products for existing customers
- New customers for existing products
- Emerging market opportunities

Studies conducted included market, technology, and competitor intelligence. Various elements of this business have been merged into Mitec Ventures.

The company also assisted in establishing business information center at the os Angeles Chamber of Commerce and the Anaheim Chamber of Commerce.

(Warrick was the founder and President of this company.)

COMPANY PROFILE



Precision Engineered Products

This company was the recognized world-leader in the manufacture of machinery to produce computer memory cores.

During a seven-year span, the company introduced a series of new machines which progressively raised production from 90 parts per minute to 1.5 million parts per hour.

At the same time, zero-defect production was achieved by maintaining part tolerances of plus or minus 20 millionths of an inch (one-hundredth the thickness of a human hair).

100,000 of the donut-shaped, ferro-ceramic devices could fit in a thimble. They are capable of maintaining memory without power and are still in use today.

Technological of this company eventually sold to large firm in Great Britain.

(Warrick was Vice President of Engineering, responsible for the development of new products.)

425

CHAMBER OPENS BUSINESS INFORMATION CENTER



Anaheim Chamber of Commerce

The Anaheim Chamber was the first in the country to establish a commercial business information center based on computerized bibliographic data.

(Warrick was the founder and Director of the Center.)

OVERALL ECONOMIC DEVELOPMENT PROGRAM



County of Los Angeles

In order for the County to apply for federal funding, it was necessary to establish an overall economic development plan. The end product, approximately two inches thick, detailed the County demographics, nfrastructure, and long-range plan.

(Warrick provided the original roposal for the establishment of the rogram and assisted in writing the lan. He authored and participated 1 the Defense Diversification rogram funded by the U. S. Depart- ent of Commerce and the U. S. efense Department in assisting vernment subcontractors in diver- ying to stabilize the contractor se. 75% of 40 companies were suc- ssful in his methodology to diver- .)

CHAMBER OPENS BUSINESS INFORMATION CENTER



Los Angeles Chamber of Commerce

The Los Angeles Chamber was the second in the country to establish a commercial business information center based on computerized bibliographic data.

(Warrick was a member of the Technology Utilization Task Force which arranged for the initial funding of this center from the U. S. Department of Commerce.)

HELP FOR SMALL BUSINESS

State of California

Sacramento, CA Thanks to the efforts of M. L. "Bud" Warrick, special consultant to the California Job Development Corporation Law Executive Board (CAL-JOB), a unit of the Governor's office, small businesses in California will receive some new forms of assistance from the State.

Warrick successfully convince State officials to change the laws regarding minority business assistance to include all forms of disadvantage including women, veterans, and displaced workers starting their own businesses.

These business people may apply for management and technical assistance as well as loan guarantees. This program has a remarkable cost-effectiveness of $39.00 per job created.

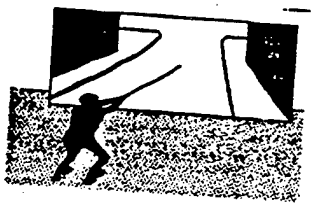
Warrick was invited to be the State's first Science advisor but declined due to family and business commitments in Southern California.

LOS ANGELES HIRES SCIENCE ADVISOR

City of Los Angeles

Mayor Sam Yorty's office announced today the creation of the position of City Science Advisor. The objective of the position is to assist various agencies in acquiring advanced technological capabilities to improve service to the public and reduce costs. The initial staff will consist of four scientists and engineers.

UPDATE:



The M. L. "Bud" Warrick, City Science Advisor successfully resolved the problems of the police training academy's shooting simulator through the design of a new bullet and infrared tracking camera.

The simulator, using movie scenarios and having the ability to record bullet hits on a moving target is the first of its kind . It is intended to train policeman when to shoot, not how.

The simulator was built at a cost of $700,000 and represents the state of the art in the world in training police personnel on when to shoot.

Warrick also pioneered the use of computerized bibliographic data bases for assistance in solving the problems of local government. This

newly developed resource allows the city to instantaneously find the results of research conducted by other governmental agencies and apply them to local problems.

At a special ceremony, Warrick was presented with the Mayor's appreciation award.

VOLUNTEER ACTIVITY

U.S. Small Business Administration

M. L. "Bud" Warrick has been named an Accredited Representative of the SBA's Active Corps of Executives for his efforts in furthering the cause of small business.

40 NEW BUSINESSES!



Orange County Management Council

The Orange County Chamber of Commerce and the Merchants' and Manufacturers' Association, under contract with the U.S. Department of Labor established a program to assist unemployed aerospace engineers.

A special program was established to assist them in starting their own businesses. Through this program, 40 new businesses were started. Seven received SBA loans.

(Warrick was Director of Business Development Programs. He obtained $300,000 in commitments from local businesses to establish a venture bank fund for these unemployed engineers. He also organized the establishment of an Overall Economic Development Program for the County of Orange which enable the county to apply for a multitude of U. S. goernment assistance funds.)

COMPANY PROFILE

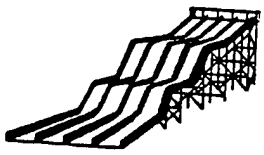


Technical Commodity Corporation

This company developed automation machinery for the electronics industry. Typical customers were: Beckman Instruments; Burroughs; Xerox; and Motorola. Cutbacks in Defense spending destroyed this business.

(Warrick was one of the owners.)

COMPANY PROFILE

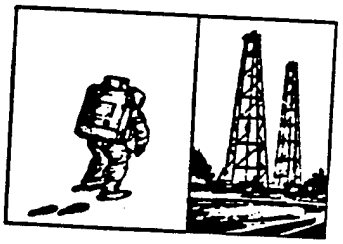


Sky Slide, Inc.

This company was the world's largest manufacturer of amusement slides. Constructed of fiberglass with a mile of structural steel support, they were the largest fiberglass structure of their time. More than 100 of these slides were erected in the United States.

(Warrick was Vice President of Manufacturing and responsible for fabrication, shipment, construction and maintenance of these 100 locations. The company was sold to out of state interests.)

NASA ANNOUNCES TECHNOLOGY TRANSFER OF THE YEAR



Endevco Corp.

Pasadena, California - Yes, swords can be made into plows and Endevco's accelerometer shows how. NASA today announce that this product was the best technology transfer of the year.

Technology transfer is the term used to describe technology which has been developed by the government as part of the Space or Defense programs and converted to commercial use.

This was demonstrated recently by Endevco which introduced a small device to be installed in the head of an oil well drill which can accurately measure its position within a few feet.

Drill head position is critical to oil exploration, either to stop the hole from bending out of line or to deliberately slant the drill at an angle.

The device used was an accelerometer which measures motion. Normally used to detect vibration, these transducers have been brought to such a high degree of sensitivity that they can be used to measure the position of a missile by sensing minute changes in its speed and direction.

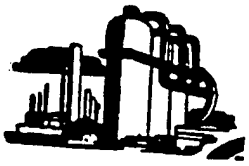
Slightly larger than your thumb and containing 250 parts, an accelerometer can tell you where you are anywhere in the world within a few hundred feet. Rockwell Corp. used them as part of the inertial guidance system of the Minuteman missile.

A small a group of entrepreneurs obtained the technology from Rockwell and re-engineered the devices to be affordable in a commercial environment. The price was reduced from $5,000 to $500 each.

Aside from their accuracy as a position sensor, the can be used as safety monitors measuring small motions in bridges and buildings. They are so sensitive that if you were to lift up the United States and place a dime under one edge, you could detect the tilt of the country.

(Warrick was one of the founders of Inertial Instruments Inc. who developed the commercial products. The company was acquired by Endevco, a division of Becton Dickenson.)

COMPANY PROFILE

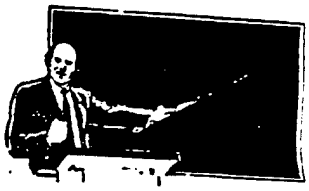


Leeds & Northrup

The company is a manufacturer of industrial instruments and control systems. Typical customers include refineries, steel mills, electric power plants, and industrial processing companies.

(Warrick was a Field Marketing Engineer for the Southern California area, specialized in the primary metals industries. He attained the rank of 10th in sales of 300 Engineers within 2 years.)

TEACHING



California State University at Los Angeles

Warrick was a Technical Assistant in the Physics Department. He organized laboratory demonstrations and gave lectures in undergraduate Physics while obtaining the final requirements for degree in Physics.

COMPANY PROFILE



Whamo Manufacturing Co.

San Gabriel, CA The list is long. Hula Hoop, Super Ball. Slip n' Slide, Water Wiggle, Zillion Bubbles, Frisbee, and more. Whamo Manufacturing company can boast of successes accomplished by few others.

The company which produced the Pet Rock couldn't come up with another product and went out of business.

The secret to Whamo's success is brainstorming. Each day, a team of 6 people meet for two to four hours to review new inventions and turn them into profitable products. They review more than 1,000 products each year.

The team is comprised of people with diverse backgrounds including physics, industrial design, advertising, manufacturing and more. Ultimately, new products are subjected to the ultimate test.. children. End result: a continuing stream of successful new products.

(Warrick was a part of this team for several years.)

COMPANY PROFILE



Merlin Industries

This company manufactured and installed various security devices and security systems. The company developed the first long-range photoelectric eye (1,600 feet in daylight) based on new semiconductor devices.

Customers included Sears, the Huntington Librabry, and two military missile control centers.

Other products included a traffic control monitoring sytem for the freeways.

(Warrick was Chief Engineer.)

COMPANY PROFILE



Warrick Instruments

This company, established in 1960, provides product design and prototyping services. It has produced a multitude of prototype devices for various companies. Products include:

- An automatic ceiling leveler which is used to install the t-bars in sub-ceilings
- Miscelaneous components of a billion frame per second camera including the shutter and stroboscopic light source

- Wire twisting pliers for safety wiring
- An automatic nailing gun
- Various toys
- An automatic assembly machine for colotomy bags
- Remote control cameras
- Automatic phone dialer
- Automatic staple guns

(Warrick is the founder of the company)

EARTHQUAKE OR UNDERGROUND NUCLEAR EXPLOSION?



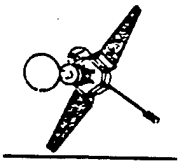
California Inst. of Technology

Pasadena, CA Today in Nevada a nuclear device was exploded underground. Minutes later, it was detected at the California Institute of Technology's Seismological Laboratory in Pasadena.

Computer analysis of the information from nine seismometers successfully differentiated the shock from that of an earthquake. Although the vibration was no larger than that of ocean waves striking our coastline, a nuclear explosion has a unique "signature".

(Warrick constructed the recording system and computer which analyzed the event.)

FIRST MOON PROBE TO MEASURE "MOONQUAKES"



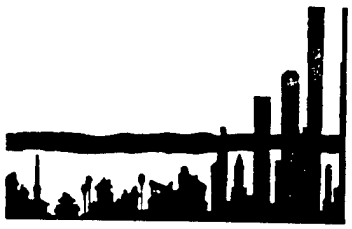
California Inst. of Technology

Pasadena, CA - The California Institute of Technology's Seismological Laboratory announced today the completion of the Lunar Seismometer to be carried in the Ranger Spacecraft to be landed on the Moon.

Approximately the size of a quart can, the seismometer will transmit information back to earth about meteor impacts and moonquakes. It is the first step in the manned exploration of the Moon.

(Warrick was in charge of final assembly and testing of the instrument package.)

SMOG'S EYE IRRITATION SOURCE ISOLATED



California Institute of Technology

Pasadena California - researchers at the California Institute of Technology Physics Department released the results of a four year study to find the source of eye irritation in smog. The unique project focused on tiny particles in the atmosphere as concentrators of eye irritants.

Researchers proved that these particles have atmospheres like the earth. They successfully measured the thickness of these microscopic particle atmospheres and found a unique fact. The ratio of the thickness of these particle's atmospheres to their diameters is same thickness to diameter ratio as the earth and its atmosphere!

The particles, created mainly by internal combustion engines, gather gaseous elements on their surfaces. When exposed to sunlight, chemical processes begin to create eye irritating oxides. When these particles come in direct contact with an irritant sensor on the eyeball, irritation results.



In order to make these measurements, researchers constructed a centrifuge which subjected particles to 20,000 times the pull of gravity. Under these conditions, particle diameters can be measured by the rate at which they fall.

Other instruments developed during the project included a pollution level monitor using bacterial life or death as a measure of eye irritation.

(Warrick constructed all of the measuring and analysis instruments.)

newres)

Education &Training

The education section of a resume normally lists college degrees. However, the dictionary defines education as the process of training and developing the knowledge, skill, mind, character, etc. Here I will also cover unique learning experiences. They are listed in chronological order.

By the time I graduated from high school and entered college, I had three years experience as a machinist, the last year of which was spent building racing cars for one of the largest speed shops in the Country.



Machinist

While attending undergraduate clas- :s for a degree in Physics, I was hired : a machinist for the California In- itute of Technology in Pasadena. or four years, I designed and fabri- ted research instrumentation for a ofessor of Physics. In classic terms, vas a protege, expected to aid the ofessor for life.



Research

is particular professor, one of the inal founders of Cal Tech had an officer on a German U-boat e first world war. Merely receiv- degree in Physics in no way com- s with the personal attention I ved from the professor.



Instrument Maker

I also worked alongside of, and was tutored by an elderly machinist who had been trained by Mercedes Benz prior to the 2nd World War. If he didn't know how to make something, it couldn't be done. I after three years, I had a full Instrument-Maker classification, proficient in metalworking, electronics, glassblowing, carpentry and welding to mention a few. Although I spent one further year at Cal Tech's seismological laboratory, I do not consider it training, but application.

I left Cal Tech to open an electronic security business. After a great start and early wealth, I discovered the world of business failure. A business start-up and failure can not be experienced in an academic environment.



Product Design

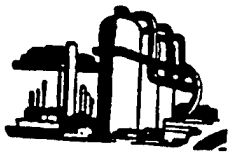
Undaunted, I purchased a machine shop and began designing and building prototype products for commercial customers. Again, product design and development is a unique, non-academic experience.

For several years, I was a consultant to Whamo Corporation. While designing toys and sporting goods, the most important training I received was in "brainstorming". Whamo had developed it to a degree I've never seen since. The result was an unprecedented series of products like the Hula Hoop and the Frisbee.



Physics

Upon receiving my degree in B. S. Physics after ten years of part-time study, rather than a career in research, I chose marketing.



Industrial Controls

My first position was as an Instrument Engineer for Leeds and Northrop. I attended their 9 month school and was trained in industrial processes and control systems. This included production of steel, electricity, glass, chemicals, petroleum, and cement, to name a few.



Manufacturing

After two years in this business, I teamed up with three other people to start a business manufacturing accelerometers. The company was acquired by a large conglomerate.

My next business start-up manufactured automatic assembly machines for the electronics industry.

The Defense spending cutbacks of the late 60's and early 70's cause the demise of the fourth business I had started.

By this time, I had already started four businesses:

- an Electronic security devices manufacturing company (failed)
- a Machine shop (still in business)
- an Accelerometer manufacturing company (acquired)
- an Automatic assembly machine company (failed)



Business School

With no money to start another business and no prospect for a job during this recession, I went back to school and graduated from an MBA program funded by the U. S. Department of Labor.



Government

I proposed to the U. S. Department of Labor that I could assist unemployed aerospace engineers in starting their own businesses and was given a contract. This was the beginning of a broader base of small business experience.

During the year of this contract, I nelped more than 40 people start their own businesses including obtaining SBA funds for seven of them.

This experience in job creation resulted in contracts with the City of Los Angeles, the County of Los Angeles, the State of California, and The U. S. Department of Commerce.

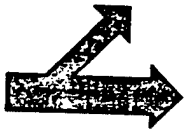
Working with these agencies gave me invaluable training in governmental and legislative operations.



Bibliographic Computers

While with the government, I began studying computerized bibliographic data bases. Advances in computer technology were making it possible to electronically read the world's published information. Today, there are more than 60,000 operators using this resource. I had commercial terminal number three.

Operating the computers involved a half-day of training. Proficiency came after 2,000 literature searches and $20,000 in computer time. These computers are the basis for my information retrieval capability.



Diversificatioin

In one particular contract, I was successful in assisting 70% of 40 Southern California Defense Subcontractors in diversifying their businesses. This project could have qualified me for a PHD in business had I been in an academic environment. The project finished with the preparation of a definitive manual on how to diversify a company.



Personal Computers

I recognized very early the power of the personal computer. From my first computer in 1979, my personal collection has grown to 8 computers and more than $40,000 in software.

Most of my computer training has come from personal study however, I have taken special courses in word processing, spreadsheets, data base management, accounting and desktop publishing.



Public Offerings

My latest training has come in the area of taking companies public. During the past three years, I have studied more than 600 businesses and taken four public as their investment banking consultant. It is difficult to name a type of business in which I have no experience.

Other areas in which I have been trained include franchising and venture capital, and real estate.

Education by no means stops with graduation.

(ed)

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714/953-6505 (FAX)

August 6, 1992

Resume of Russian Activities

September 1991

In September, one month after the fall of the Soviet Union, I met with official representatives of the City of Vladivostok during their visit to San Diego. Based on my experience in converting U.S. defense subcontractors to commercial products, I was invited to visit the city of Vladivostok in the Russian Far East.

Vladivostok had been a "closed" city since 1937. It had been dedicated to support service for the Soviet Pacific Fleet and the Far East Wing of the Soviet Air Force. The population is nearly 1 million with 350,000 employed in high-tech manufacturing.

November 1991

In November 1991, I met with the Directors of approximately 30 Russian and Ukrainian Defense Firms during their visit to the United States. We exchange resources and I was invited to visit several defense plants in the Moscow area.

December 1991

In December of 1991, two weeks before the city "opened", I toured Vladivostok and four of its defense factories.

I met with the Mayor and other government officials and donated approximately $2,000 to an orphanage.

I was featured on the front page of the newspaper and appeared twice on Russian Television.

I took more than 100 photographs and five hours of video tape. The pictures are of the city and the manufacturing facilities.

I established joint venture agreements with the four companies who employ an average of 10,000 each. Company number one manufacture hydraulic and pneumatic control systems. Company number two manufactures electronic products. Company number three manufactures deck hardware for ships. Company number four builds and maintains large ships.

Since December, we have been developing communications and business

strategies.

February 1992

In February, I met with 12 Directors of construction companies from St. Petersburg.

March 1992

Working with a professional associate we have developed a seminar on doing business in Russian and presented these seminars during April and May. Further seminars are planned.

April 1992

I April I attended a Russian business conference sponsored by the World Trade Association of Orange County. I met with approximately 10 business and governmental representatives from Russia.

In April, 170 people from Vladivostok visited San Diego. Myself and a team of four associates held meetings with many of these people during the week they were here. I signed two more agreements bringing the total client list to six.

I also arranged to employ two Russians in Vladivostok. They are currently developing an industrial directory of companies in the Russian Far East.

May 1992

In May, I accepted an order for approximately 100 computers from a company in Vladivostok. The order is currently in process.

I also participate in the second seminar on doing business in Russia.

June 1992

In June, I met with representatives of the Ukrainian government during their trip to the United States. They offered to provide me with as many as 80 defense companies if I could provide them with products to manufacture.

July 1992

Communications has been one of the most difficult problems to date. Direct phone and fax communications is now available to Vladivostok. U.S. Express Mail is now servicing Vladivostok in four days. The first E-Mail cable was received from Vladivostok the last week of June. Improved activities are anticipated.

I am currently seeking manufacturing contracts for my clients in

Russia. In addition, I am in the process of developing markets for several commercial products they manufacture. Included are an umbrella, a radiation dosimeter, a toy, a kitchen mixer, commercial television sets, Christmas tree lights, and household lamps.

I have also created a newsletter of joint ventures available to U.S. businesses. A series of newsletters is planned, encompassing nearly 100 business opportunities compiled to date.

I currently have one product under consideration for manufacturing in Russia. It is a valve used on crude oil pumps. The contract could involve more than $2,000,000 annually to Russia.

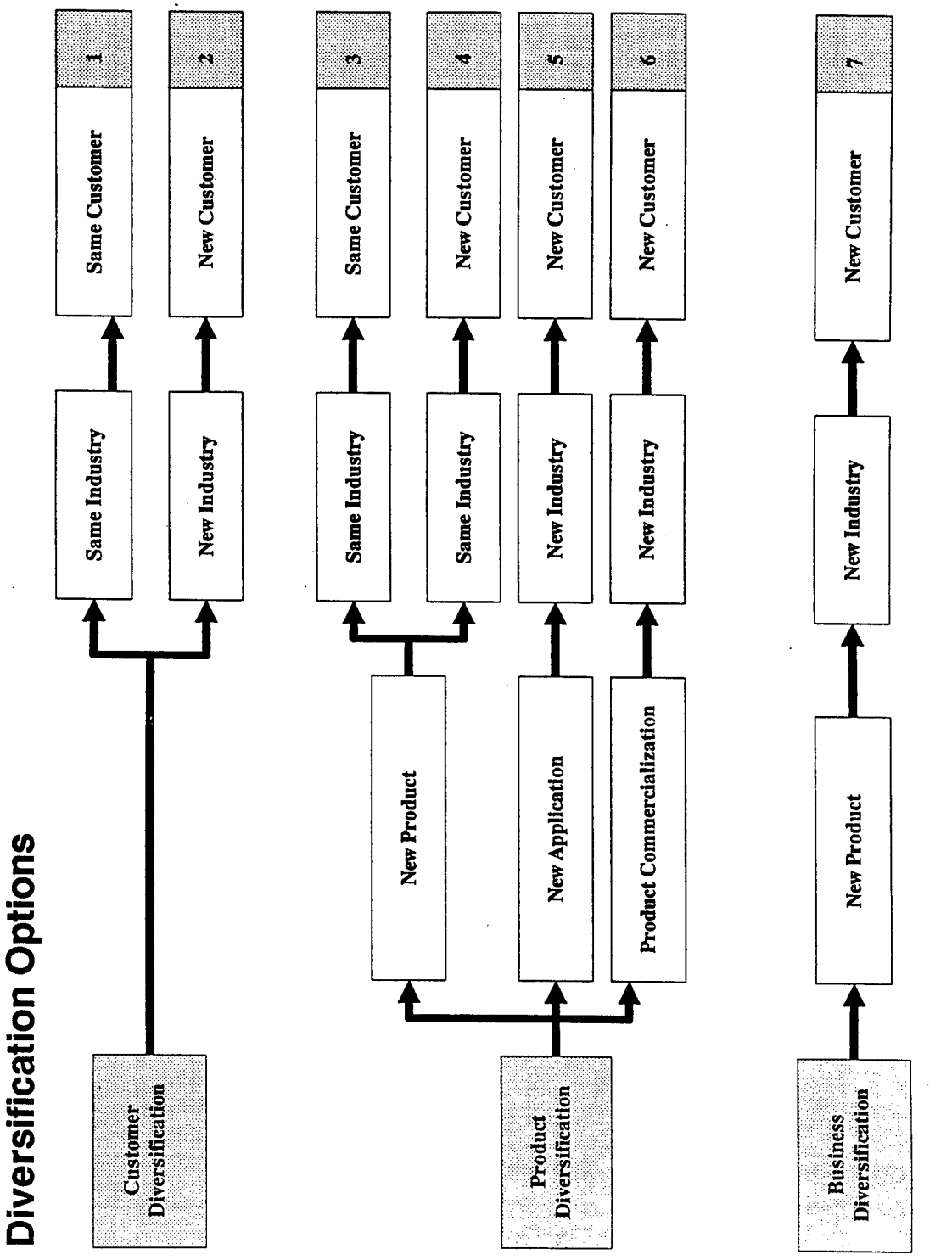
I am developing a relationship with a major non-profit philanthropic organization interested in providing food and medicine for orphanages in the Russian Far East.

(C:\RUSSIA\RESUME)

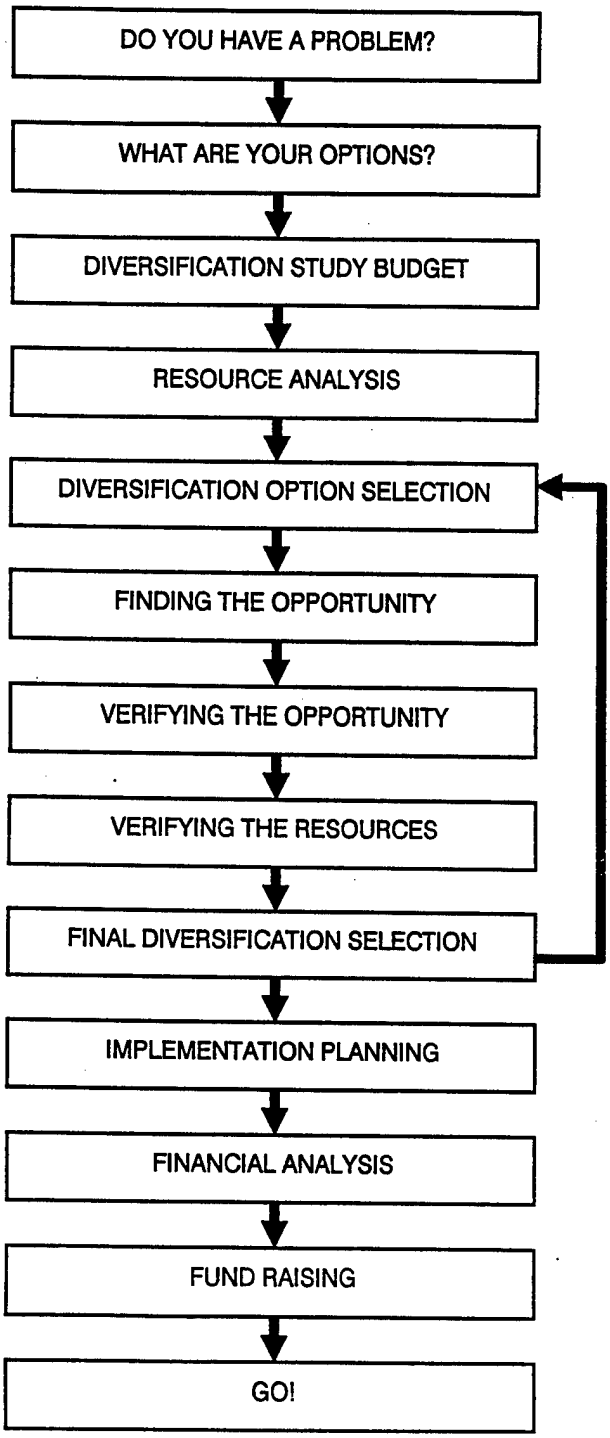
CLIENT DIVERSIFICATION EXAMPLES

Company	Principal Product	Diversification Selected
Air Logistics Corporation	Composite Material Products	Modular Containers
AVI Manufacturing, Inc.	Electro-Mechanical Assemblies	Power Supplies Solid Waste
Bishop Graphics	Graphical Aids	International Sales
Calcor Space Facility, Inc.	Electro-Mechanical Assemblies	Solid Waste Equipment
Cal-Doran Metallurgical Service, Inc.	Metal Treaters	Heat Treating Precious Metals Recovery
California Hydroforming Co., Inc.	Metal Formers	Bellows Pressure Vessels
Datron Systems, Inc.	Electro-Mechanical Systems	Satellite Communications Equipment Navigation Ground Terminals
Electro-Modules, Inc.	Electronic Components	Power Supplies
Fortin Laminating	Board Assemblies	Hybrid Circuits Integrated Circuits
Frazier Aviation, Inc.	Aircraft Parts	Solid Waste Equipment
G. W. Galloway Co.	Metal Fabrication	Solid Waste Equipment
Gardner Bellows Co., Inc.	Specialty Metal Bellows	Commercial Nuclear Market
Guidance Technology, Inc.	Instrumentation	Vehicle Locator
Instrumentation Technology Corp.	Instrumentation	Demand Transit Communication Consoles
KDI Composites	Electro-Mechanical Assembly	Fiberglass Components
Lockhart Industries, Inc.	Specialty Parts	Waste Heat Recovery Systems Vacuum Brazing
Magparts, Inc.	Metal Formers	Technical Magnesium Casting
Mechanical Specialties	Metal Formers	Geo-Thermal Turbines
Microwave Products, Inc.	RF Products	Vacuum Brazing
Resdel Engineering Corp.	RF Products	Vehicle Locators Area Communications Systems
R. O. Roberts, Inc.	Specialty Parts	Waste Heat Recovery Systems
Screwmatic, Inc.	Metal Formers	Industrial Fasteners
Seaton-Wilson, Inc.	Fluid Management	Oil Filtration and Recovery Equipment
Sierra Engineering	Specialty Parts	Industrial Safety Products
Space Age Control, Inc.	Electro-Mechanical	Mass Spectrometer Chemical Oxygen Generators Linear Displacement Transducers
Space ordnance Systems	Electrical Components	Ordnance Actuated Heat Devices
Thiem Industries	Metal Formers	Solid Waste Equipment Heat Exchangers Lab Furniture
Transco Products, Inc.	RF Products	Satellites Communication Equipment
Vanguard Electronics Co.	Magnetic Components	Power Supplies
Wavecom Industries	RF Products	Satellite Communication Equipment Ground Equipment

(divexam)


Diversification Options
Customer Diversification
Same Industry
New Industry
Same Customer
New Customer
1
2
Product Diversification
New Product
New Application
Product Commercialization
Same Industry
Same Industry
New Industry
New Industry
Same Customer
New Customer
New Customer
New Customer
3
4
5
6
Business Diversification
New Product
New Industry
New Customer
7
DECCHRT.CHP

THE DIVERSIFICATION PROCESS



DIVERSIFICATION POTENTIAL CHECKLIST

42 QUESTIONS THAT CAN CHANGE THE LIFE OF YOUR COMPANY

Prepared by:

M. L. Warrick & Associates

1048 Fairbrook Lane
Santa Ana, CA 92706-1106
714/953-2731

WHAT TYPE ARE YOU... 1, 2, OR 3?

Diversification is the key to meeting changes in the market. These inevitable changes come about from:

New technology
Foreign competition
Changes in government spending

Only those companies with a vigorous diversification strategy will survive.

- Do you have a written diversification plan? Yes [ ]; No [ ]

OPPORTUNITIES

- **When it comes to diversification, you have three basic choices. Which one will you choose? #1 [ ]; #2 [ ]; #3 [ ] (see below)**

1 NEW CUSTOMERS FOR YOUR EXISTING PRODUCTS AND SERVICES.

This can be the simplest of all diversification. It requires a knowledge of the market and methods of market penetration. It may require additional product development to meet the needs of a new market.

This may require a new market study and marketing plan. It also may require a modification to your existing products or services.

Checklist:

- **Can you perform a market study? Yes [ ]; No [ ]**
- **Do you know the names of the majority of your competitors? Yes [ ]; No [ ]**
- **Do you understand your competitor's weaknesses and your strengths? Yes [ ]; No [ ]**
- **Can your product or service be modified to meet the needs of a different market? Yes [ ]; No [ ]; Don't know [ ]**
- **Can you prepare a marketing plan? Yes [ ]; No [ ]**

2 NEW PRODUCTS AND SERVICES FOR YOUR EXISTING CUSTOMERS.

These are either developed or acquired from another company. You have developed a good relationship with the customer. What other products and services can you provide?

Checklist:

- **Decreased cost of goods can improve profits. Can you increase your value added capability to retain more of your sales dollars? Yes [ ]; No [ ]; Don't know [ ]**
- **You may have a capability you use to support your own activities. This capability may be marketed to the outside world. Can you expand your product or service line based on under-utilized resources? Yes [ ]; No [ ]; Don't know [ ]**
- **Knowing your customer's needs is the beginning step in selling a product or service. You may know your customers' needs but, have no way of fulfilling them. Do you know a company or technology you can acquire to provide a different product or service for your existing customers? Yes [ ]; No [ ]**
- **Do you know how to find and acquire another company? Yes [ ]; No[ ]**
- **Can you raise the funds to acquire another company? Yes [ ]; No [ ]; Don't know[ ]**

3 EMERGING MARKET OPPORTUNITIES.

When it appears that your products and services are of a "sunset" type, you have to consider which "sunrise" industries will be easiest to penetrate.

Checklist:

- **Do you know the difference between a sunrise and a sunset industry? Yes [ ]; No [ ]**

- **Do you know how to find a sunrise industry in which you can participate? Yes [ ]; No [ ]**

Participation in a sunrise industry usually requires that you have some of the resources or experience associated with the business. The alternative is having the cash to buy them.

- **Have you made a list of your resources such as people, technology and facilities? Yes [ ]; No [ ]**

RESOURCES

People

One of the most valuable resources you have is your people.

Checklist:

- **Your employees may be aware of opportunities for diversification based on their experience. Have you solicited them for ideas about diversification? Yes [ ]; No [ ]**
- **Do your employees work for a paycheck or a future? Yes [ ]; No [ ]; Don't know[ ]**
- **Do you have a reward system which would encourage employees to come forward with diversification ideas? Yes [ ]; No [ ]**
- **Unknown experience and skill may be nurtured into new company products and services. Do your employees have skills of which you are not aware? Yes [ ] ; No [ ]; Don't know[ ]**
- **New products and processes may require new people. Is your company capable of attracting good people to participate in diversification efforts? Yes [ ]; No [ ]; Don't know[ ]**

Management

Checklist:

- **Good management survives diversification. Can you call on your present management to assist in the diversification process? Yes[ ]; No[ ]; Don't know [ ]**

Technology

Checklist:

- **The technology you possess may be transferable to other industries. Are you aware of these diversification opportunities? Yes[ ]; No[ ]**
- **You may be able to obtain new technology which can assist you in your present line of business and provide a bridge to other industries. Are you aware of any possibilities in this area? Yes [ ]; No [ ]**

Facilities and Equipment

Checklist:

- **Growth of any kind will require facilities and equipment. Are you at or near your operational capacity. Yes [ ]; No [ ]**
- **Considering future orders, do you know what operational capacity will you be at a year from now? Yes [ ]; No [ ]**

Money

You have profits and borrowing power while you are stable or growing. This resource may dry up if there are cutbacks in your industry.

Checklist:

- **Do you know what it will cost to diversify? Yes [ ]; No [ ]**
- **Do you have the funds necessary for diversification? Yes [ ]; No [ ]; Don't know [ ]**
- **Can you find equity funds to assist you in diversifying? Yes [ ]; No [ ]; Don't know [ ]**
- **If you do not have the funds, do you know how to acquire a technology or a company for no cash? Yes [ ]; No [ ]**

A Written Business Plan

Equity funding sources, if not common sense, demand that you have a written business plan.

Checklist:

- **Do you have a written business plan? Yes [ ]; No [ ]**
- **Do you have a procedure for periodically revising your business plan? Yes [ ]; No [ ]**

Time

There are two issues here. One is the day-to-day time necessary to develop a diversification plan. The other has to do with the time to implement a diversification plan before the business fails.

Checklist:

- **Do you know when you will have to diversify or close the doors? Yes [ ]; No [ ]; Don't know [ ]**

Between reading industry trade journals and attending conferences or professional meetings, the average company invests 5% of its management and professional payroll seeking relevant information.

- **How much time (dollars of payroll) are you presently investing in information gathering? $(_____)**
- **How much is 5% of your management and professional payroll? $(_____)**
- **Are you getting your money's worth? Yes[ ] No[ ] Don't know[ ]**

PROBLEMS/NEEDS

Ben Franklin said that the secret to success was to find a need and fill it. Your task is to find needs which you can fulfill with your resources.

Checklist:

- **Do you have a system for finding out the needs of your customers? Yes [ ]; No [ ]**
- **Do you have a system for finding out the needs of potential customers, matching your capabilities? Yes [ ]; No [ ]**

INFORMATION GATHERING

Sophisticated information gathering capabilities usually exist only in larger firms. They maintain vast libraries and employ researchers and analysts. Nothing happens without a study.

A typical University Library may contain as many as 1 million documents. The World's "library" contains in excess of 500 million documents.

Checklist:

- **Are you satisfied that you have all of the information necessary to diversify your business? Yes [ ]; No [ ]; Don't Know [ ]**
- **Do you maintain a library of information about your industry? Yes [ ]; No [ ]**
- **Do you have a researcher? Yes [ ]; No [ ]**
- **Do you have a business analyst? Yes [ ]; No [ ]**

DIVERSIFICATION ASSISTANCE PROGRAMS

All of the following are resources to assist you in diversification efforts.

- **Are you aware of their programs? Yes [ ]; No [ ]**

Industrial Development Bonds
Defense Department
State of California, Department of Commerce
California Employment Development Department
NASA
Small Business Administration
CaliforniaTechnology Transfer Programs
Local Economic Development Authorities

CONCLUDING REMARKS

The companies which survive economic recessions will have answered yes to most of the questions listed above. For further information on how to diversify your company, contact:

M. L. Warrick & Associates
1048 Fairbrook Lane
Santa Ana, CA 92706 - 1106
714/953-2731

(123)

441

DEFENSE CONVERSION

U.S. defense companies have two non-defense business opportunities in the international market: 1.) selling commercial products or services; and 2.) using the capabilities they have developed in defense work to produce new commercial products or services.

The following describes the steps necessary to obtain technical assistance or raise money from United States companies for defense conversion. It is presented in the reverse sequence in which things must be accomplished. If any of the steps are omitted, there is a poor chance of raising money or finding a joint venture partner. Where defense business has been conducted using contracts, most, U.S. businesses require a written description of the business proposal.

OUR SERVICES

We have a data base consisting of more than 500 million documents including information on several million companies internationally.

This data base is the key to services we provide. It assures clients that they are receiving quality information in their business endeavors.

6. Defense conversion or commercial product distribution requires money.

Money is required for labor, equipment, facilities, marketing, preparation of agreements and market research. An investor will require some performance guarantee. If you have no collateral, a well-written business proposal can be an effective substitute.

We can assist you in finding funds or bartering with a joint venture partner.

5. If you need funds, a joint venture partner may be able to supply them.

Once found, the prospective joint venture partner is presented with a summary of the business proposal by your company. After a joint agreement to pursue, both sides submit letters of intent. Upon signing of the letters, both sides submit written details of their business proposals.

We can present your business proposal to potential joint venture partners in the United States and internationally.

4. Find an experienced joint venture partner researcher.

You need a partner with a similar interest. With more than a million companies in the U.S. alone, searching for a partner through associates is inefficient.

We can provide you with a list of prequalified joint venture prospects. We can verify that they have the resources you need and are willing participants.

3. Prepare a business proposal before you search for a partner.

Many defense company representatives approach prospective joint venture partners without a written business proposal. Before you contact a prospective joint venture partner, you must prepare a written business proposal describing what you have to offer, what you need, and what rewards you expect. Without a well-planned offering, either nothing will happen or you will not receive a fair share of the profits.

We can write your business proposal acording to U.S. standards for presentation to a potential joint venture partner.

Appendix V

A STRATEGIC OUTLINE

FOR THE STATE OF CALIFORNIA

JOBS RETENTION
&
MAINTAINING
CALIFORNIA'S MANUFACTURING BASE
VIA
DIVERSIFICATION

PREPARED BY:

M. L. WARRICK

SEPTEMBER 1991

THE URGENCY FOR A COMPREHENSIVE EFFORT

The current recession may be near an end, but industrial production is stalled and inflation is beginning to rise. California has been hurt more than the rest of the nation this time and is recovering more slowly. The current recession and unforeseen cutbacks in defense spending are certainly major factors in the erosion of California's manufacturing base, but corporate flight is a close second and as a combined result, California is losing more jobs faster than any other state. Unemployment in California is approaching 8%, corporations are leaving the state in alarming numbers and there is no end in sight to this dilemma, our economic emergency.

Each job lost in the defense industry, aerospace or in high-technology costs almost three additional jobs in the community, thereby eroding the state's revenue base, but most of that impact could be avoided altogether or recovered through diversification. Though every job lost as a result of corporate flight is lost forever. For every two jobs lost in California an additional dwelling unit goes on the market, which will eventually lead to a surplus of housing and to lowering of real estate values which further erodes the state's revenue base.

One step in the right direction with respect to our economic crisis, caused by unforeseen cutbacks in defense spending is diversification. Whereas any solution to the problems created by corporate flight can only be addressed by enacting common sense legislation.

Our diversification program will unite federal, state and local government to address this economic crisis in a meaningful manner. It will also require a willingness by community organization to help promote diversification in all segments of our business community, but primarily in defense, aerospace and high-tech. This does not necessarily mean attracting new companies, but will require working with existing companies in a concerted effort to keep as many of them as possible in California and to help those in need to diversify into other markets.

Defense contractors, aerospace and high-technology are an invaluable part of our state's economy and our international posture. If we allow any of them to die, we will be more vulnerable to the ambitions of other states and other countries. The activities involved in the defense industry, aerospace and high-tech also provide the skilled work force which will lead California in international economic competition in the future.

DIVERSIFICATION

The basic premise which makes our Diversification Program cost-effective is that the resources already exist to help businesses in job retention and creation, but that the business community in general is not aware of all of these resources or how to use them effectively.

An effective Diversification Program requires:

1. **Willing Business Owners**
2. **Computerization of Diversification Opportunities**
3. **Libraries with access to Computerized Bibliographic Information**
4. **Training Programs in how to Diversify**
5. **Diversification Assistance Agents**

Willing Business Owners

Nothing enthuses a business person to take advantage of an opportunity faster than dwindling sales and seeing someone else's success. Examples of successful diversification efforts are attached as "Exhibit A" and will be presented at each diversification seminar.

Computerization of Diversification Opportunities

The opportunities are contained in on-line computer bibliographic computers, which contain most of the world's published information (more than 500 million documents) and are easily accessible in a matter of minutes. Very few businesses know they exist or how to use them effectively to develop their business.

These resources contain not only the surplus inventions of industry, but literally tens of thousands of products invented by government contractors. These inventions are available for licensing on a royalty-free basis. A description of some of the various data bases is attached as "Exhibit B."

Libraries with Access to Computerized Bibliographic Information

Many libraries already have the proper equipment and many librarians have already been trained in the use of on-line bibliographic computers.

Training Programs in how to Diversify

A typical diversification seminar includes the following elements:

1. **Diversification types and issues. Which type is best for you?**
   - **a. New products and services for existing customers.**
   - **b. New customers for existing products and services.**
   - **c. Emerging market opportunities outside of your field.**
   - **d. Emerging market opportunities utilizing the bartering system in Eastern Europe**

2. **A description of the computerized base of opportunities and how to use it.**
   - **a. Products and Services**
   - **b. Technology**
   - **c. People**
   - **d. Markets**

3. **How to catalogue your current resources and match them to available opportunities**

4. **How to prepare a diversification plan**

5. **Strategic alliances with other companies**

6. **Preparing the financial plan for your diversification**

7. **Sources of diversification funds**

8. **Government diversification assistance programs**

9. **Diversification pitfalls**

Diversification Assistance Agents

Some if not all companies which have a need to diversify will require help in the necessary steps prior and during the diversification process.

The parallel for this help can be found in the agricultural community. Agricultural agents, employed by agricultural schools, have been teaching farmers the latest farming techniques for over 100 years.

In the business community, no such has been available, but the closest parallel for an agricultural agent is called a technology transfer agent. These people have existed for decades in the space research business. Their charter has been to bring the results of government research to the business community.

Recently, the State of California has set up a cadre of technology transfer agents in universities and community colleges.

These agents, and the staff of school-supported Business Development Centers can be utilized to help businesses in the diversification process.

DIVERSIFICATION PROGRAM PARTICIPANTS AND THEIR ROLES

FEDERAL GOVERNMENT

U. S. Department of Commerce

Commerce Department's Economic Development Agency already has many programs to help local communities when they request help. Additionally, the department of Commerce maintains the National Technical Information Service which is the repository of most government research programs. This research is extremely valuable in the diversification process.

U. S. Department of Defense

The Defense Department provides both financial and technical assistance to companies in the defense industry in need of diversification through its Office of Economic Adjustment.

Federal Laboratory Consortium

Comprised of major research laboratories such as the Jet Propulsion Laboratory, this consortium stands ready to help businesses in transferring technology from defense and space research into private industry.

SBIR

Twelve participating agencies such as NASA and the Departments of Energy, Transportation and Agriculture have programs to provide research funds to help companies in commercializing the results of government-funded research. These organizations provide grants up to $500,000 for commercialization of technology.

NASA

Since 1964, NASA has had a secondary charter to see that the results of space research are commercialized. They provide information and technical help for businesses wishing to participate.

Small Business Administration

The Small Business Administration is an obvious participant because of business assistance programs in general.

Technology Transfer Agents

One method the government has developed to bring federal technology into the hands of the business community is the technology transfer agent. Most government agencies, who fund research and development, and their major contractors have appointed technology transfer agents to carry out this charter.

STATE GOVERNMENT

Employment Development Department

Among other activities, this department is the administrator of state and federal retraining funds through the federal Job Training Partnership Act. In 1990 funding for their programs totaled almost $3 billion. Job Training Partnership Act funds accounted for $279 million.

Community Colleges Chancellor's Office

During 1990, this office controlled nearly $700 million in funds to the community colleges. Management classes at these colleges are vital to the diversification process. Additionally, their efforts in setting up Business Development Centers, Technology Transfer Agents and Small Business Innovative Research Interns can be used in diversifying companies.

COUNTY GOVERNMENT

The types of economic development units in county government vary from one area to another. Some have economic planning activities while others have set up economic development corporations to bring money into the community. The County Government can and should actively propose diversification efforts.

CITY GOVERNMENT

Within the city boundaries are many of the elements necessary to complete the diversification process. City government officials can make their local resources aware of the public's interest in diversification to maintain a stable employment base. The City can sponsor seminars and even special programs in the libraries which they control. In addition, their libraries and library technology should be promoted as a valuable resource for the local business community. Some cities have economic development programs which could and should contain a diversification element.

LOCAL BUSINESS

The focal points for most businesses are the local Chambers of Commerce and specialized committees. Chambers of Commerce can sponsor seminars on diversification. They can also have a special task force within their economic development committees which addresses the problems associated with cut-backs in the aerospace/defense industry. In Los Angeles, there is an Aerospace Task Force organized by the County Community Development Department. This task force is already making recommendations on ways to support the aerospace industry. Additionally, the County of Los Angeles has organized a President's Roundtable made up of management representatives fom 43 major aerospace businesses. This roundtable is working on the problem as well. Historically, the Orange County Chamber of Commerce and the Merchant's & Manufacturer's Association teamed up together to form the Orange County Management Council which addressed this same problem in the late 60's and early 70's.

ACADEMIC COMMUNITY

University of California Universities have programs to commercialize the results of their research and development. They are also a focal point for the research and development results contained at all institutions of higher learning. They need to provide special seminars on diversification and encourage the local business community to use their resources. In addition, their libraries and library technology are a valuable resource for the local business community.

California State Universities

Many State universities have developed Business Development Centers to help local businesses in their communities. In addition, their libraries and library technology are a valuable resource for the local business community.

California Community Colleges

The community colleges in California have been designated as the leading element in supporting the needs of the smallest businesses in the State. Aside from semester-long classes, they offer a wide variety of seminars on topics which can help any business owner. Some community colleges such as Rancho Santiago College in Santa Ana, California, have taken a further step by setting up a Business Development Center to provide one-on-one consulting for local businesses. The State has developed an additional program which will add a technology transfer agent to each of the more than 100 community colleges. Later, it has been proposed that they also add an SBIR (Small Business Innovative Research) intern. These interns would work with local businesses to get federal research grants of $50,000 to $500,000 for small businesses. In addition, their libraries and library technology are a valuable resource for the local business community.

AEROSPACE/DEFENSE PRIME CONTRACTORS

The prime contractors are always diversifying and they have the resources to do so. When they bid on major contracts, they need sub-contractors. It would pay them to stabilize their subcontractor base, which would then be readily available when needed. Unfortunately, their diversification needs may require different sub-contractors both in type and geography. They could and should be encouraged to sponsor diversification programs.

UNIONS

The labor unions, such as the United Aerospace Workers, can influence their companies on the local level and politicians on the national level in advance to help insure that the present emergency will never repeat itself.

AEROSPACE/DEFENSE SUBCONTRACTORS

A primary role of any subcontractor is to make every attempt to diversify.

FUNDING

Department of Defense

The Department of Defense has had a program for decades which helps local communities in overcoming the economic impacts of military base closures (The Office of Economic Adjustment). They have provided financial support to communities.

More recently they have become concerned about the closing of a major contractor such as Lockheed and the effect on its surrounding community. They have promised $200 million to help solve problems. These funds can be used for retraining including the training of business people affected by cutbacks in defense spending.

Most of the money will be distributed through the U.S. Department of Labor and through to the States. In California, most of the funds will be administered by the Employment Development Department and the State Department of Commerce.

Educational Community

A large percentage of the money can go to the local colleges for retraining under the Job Training Partnership Act. Again, these funds can be used to train business people whose businesses are most affected by cutbacks in defense spending.

Prime Aerospace/Defense Contractors

Prime contractors such as Northrop, Lockheed, Douglas, and Rockwell should contribute some efforts to this activity for two basic reasons:

1. **The subcontractors are the product of their activities.**

2. **These same subcontractors are a valuable resource for the prime contractors.**

Subcontractors

The subcontractors and other support businesses will contribute time and money to implement diversification programs if the local community will bring together the resources to teach them how to diversify.

ECONOMICS

Various government programs have awarded as much as $6,000 per job to companies for jobs created in depressed areas. This speaks to the economics of job creation.

The proposed diversification program for California has already been successfully tested in California and retains or creates jobs at costs in the hundreds of dollars rather than in the thousands.

Submitted By Robert Stark

NATIONAL TECHNOLOGY TRANSFER NETWORK



"Technology . . . from the lab to the marketplace."

NATIONAL TECHNOLOGY TRANSFER NETWORK

"If America is to maintain and strengthen our competitive position, we must continue not only to create new technologies but learn to more effectively translate those technologies into commercial products."

- President George Bush
November 13, 1990

PURPOSE AND OBJECTIVES

- The Federal R&D base -- involving over 600 laboratories and centers -- produces a robust supply of proven and promising technologies that have secondary applications throughout the commercial and industrial sectors.

- The purpose of the National Technology Transfer Network is to provide an effective, market-oriented means of deploying technologies from the Federal R&D base to meet the technology needs of the U.S. private sector.

Objectives of the network include:

- Facilitate rapid access by U.S. firms and industry to the Federal R&D base and to the full range of technology transfer capabilities and services available throughout the United States; and,

- Foster cooperation and partnerships with Federal, state and local organizations and programs working to advance the technological competitiveness of U.S. firms and industry.

NETWORK ELEMENTS

The National Technology Transfer Center (NTTC) and the six Regional Technology Transfer Centers (RTTCs) form the core structure for the overall network. Other key elements are:

- Federal agency technology transfer programs and activities;

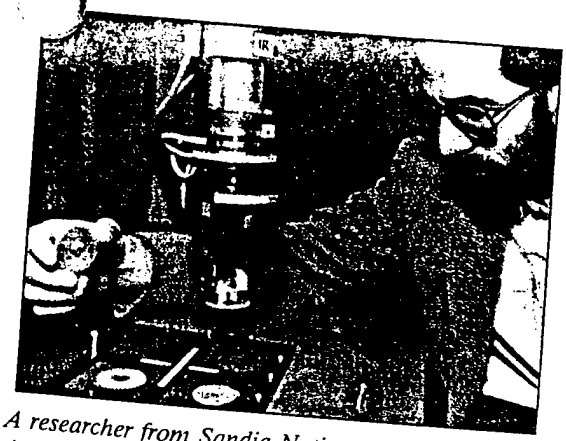
- Federal laboratories and centers;

- Federal Laboratory Consortium for Technology Transfer;

- State and local agencies and programs, including technology centers and business/technical assistance services; and,

- Business and industry consortia, associations, and communities.

Overall, the network provides a national framework for the public and private sectors to work together productively to enhance the economic competitiveness of the United States.



A researcher from Sandia National Laboratories demonstrates a robot using a new software program that enables the robot to "program itself."

NATIONAL TECHNOLOGY TRANSFER NETWORK

R WEST RTTC*

West Technology Transfer Center
versity of Southern California
16 South Hope Street, Suite 200
s Angeles, CA 90007-4344
.: (213) 743-6132 (local)
(800) 642-2872 (CA only)
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. Robert L. Stark, Director

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(800) 225-0308 (national)

Mr. J. Ronald Thornton, Director

NATIONAL TECHNOLOGY TRANSFER CENTER

At the direction of Congress, NASA initiated in April 1991 a five-year development program to establish the NTTC as a national resource for Federal technology transfer.

The NTTC's principal mission is to assist all Federal agencies in executing the Federal-wide technology transfer mandate as a means of enhancing U.S. competitiveness. To this end, the NTTC serves as the national "hub" for the network, providing core capabilities and cross-cutting services that accelerate and expand the transfer of Federal technologies to the U.S. private sector.

The NTTC, now in its initial phase of development, is currently establishing key capabilities and services to:

- Serve as the national clearinghouse for Federal technology transfer, linking U.S. firms and industry with Federal agencies and laboratories, the RTTCs, and state and local agencies;

- Provide training and education services to government and industry to develop the individual skills and organizational approaches critical to technology transfer.

In addition, the NTTC conducts national outreach and promotional activities to improve U.S. private sector awareness of technology transfer resources and opportunities. Overall, NTTC activities in these and other areas complement and support private and public sector technology transfer efforts across the United States.

REGIONAL TECHNOLOGY TRANSFER CENTERS

The RTTCs, established in six regions spanning the United States, began operations in January 1992. The new centers, which replaced NASA's longstanding network of Industrial Applications Centers, reflect NASA's initiative to upgrade and restructure its technology transfer program in order to better serve U.S. business and industry in the 1990s and beyond.

The regional deployment, aligned with the six Federal Laboratory Consortium regions and covering all 50 states, allows the centers to work closely with a wide range of Federal, state and local programs in serving the technology and related business needs of firms and industry in each region.

The RTTCs also utilize the NTTC and the national network to access technologies from throughout the Federal R&D base and link together additional capabilities and services from the NTTC and others across the United States to best meet their client's technology and related needs.

The RTTCs provide value-added services to meet the technology needs of individual business and industrial clients. These include:

- Information Services: computerized searches of Federal technology databases and other technology sources.

- Technical Services: assessment of technology requirements, analysis of technology applications, and engineering reports.

- **<u>Commercialization Services</u>: technology brokering, business analyses and venture capital sourcing.**

In addition to these core services, the RTTC also conduct industry or technology based initiatives and activities addressing the particular needs and conditions of each region's industrial base and overall economy.

The surgeon is using a self-contained instrument, derived from NASA technology, that offers greater freedom in the operating room.



"Working together to strengthen U.S. competitiveness. . ."

For further information, contact the National Technology Transfer Network.

National Society of Professional Engineers

SKILLS CONVERSION TASK GROUP
1775 MANZANITA DRIVE
OAKLAND, CALIFORNIA 94611

SUBMITTED BY MR. DONALD LEDBETTER
DID NOT SPEAK - JUST DROPPED LTR OFF

August 5, 1992

Mr. Greg Hartung
Defense Conversion Commission
U.S. Department of Defense
Suite 310, 1825 K Street NW
Washington, D. C. 20006

Dear Mr. Hartung,

Thank you for the information which you sent to me concerning the Long Beach hearings. The National Society of Professional Engineers (NSPE) shares your deep concern about the need to generate **new jobs** in order to utilize the vast resources of technical personnel made available by the restructuring of American defense forces and industries.

We understand that the job creation programs are now under consideration in the Senate and that joint Senate/House resolution discussions will begin soon. We would like to contribute to these discussions. **We want to help!**

NSPE, teamed with the major engineering technical societies, has roots in and communicates with every geographic location and all industries and businesses in the nation. In the early 1970's when the aerospace industry "crashed", we demonstrated through the **Skills Conversion Program** that the engineering profession can help in times of national need. Our member - volunteers, working with leaders from government, education and industry, conceived and provided leadership for the **Skills Conversion Program** which included implementation of nationwide career transition projects funded through the U. S. Department of Labor.

The success of the **Skills Conversion Program** is attested to in the Comptroller General's Report to Congress of December 5, 1973 which said, in part:

- "one aspect ... which appeared to be successful was the ... skills conversion studies."
- " From the lessons learned, Labor should develop a plan ... performing and using skills conversion studies ...."
- " The skills conversion study was one of the more successful activities ...."

The NSPE team which implemented the 1970's program was disbanded as the economy improved. In 1990, the NSPE President reactivated the Skills Conversion Task Force to develop mechanisms to mitigate waste of technological resources by opening up new areas of engineer employment. In her introduction of *HR 5116, The Defense Economic Adjustment, Conversion and Reinvestment Act of 1992*, Ms. Mary Rose Oakar, Representative from Ohio included provisions for a Skills Conversion Program and said "*It would utilize innovative techniques pioneered by the private sector, such as the successful Skills Conversion Program of the 1970's*

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developed by the National Society of Professional Engineers." Other bills, including HR 5010 and HR 4839 include provisions relatable to Skills Conversion for engineers.

While the legislation noted above specifies programs for engineers, we concur with the conclusion of the Comptroller General's 1973 report that the same techniques should also be considered for other professional disciplines. Further, it is a generally held belief that each professional position generated **spawns 5 to 10 supporting jobs** in the community. We have a sore need to take advantage of this multiplier effect, improving the utilization of our available professional resources, to maximize creation of other new jobs and solve the nation's critical problems in the environment, infrastructure, industrial development and many other areas.

NSPE, a membership professional organization does not usually perform funded contract work; but in cases of widespread emergency, such as the early 1970's and today, the combination of volunteer advisors with funded project personnel can be effectively mobilized. In this regard, our current status is:

- The Skills Conversion Task Group has been reactivated.

- Communications networks between industry, government and NSPE, developed during the 1970's Skills Conversion Program, have been reactivated and a number of conferences have been held to develop approaches for the society to pursue. The attached *Skills Conversion Task Group Report, July 20 - 22, 1992* provides more detailed status information.

- Presentation of information concerning the Skills Conversion Task Group to the California Society of Professional Engineers and NSPE/Industry work shops triggered action by the Los Angeles County Private Industry Council (PIC) to develop and propose a project which follows the format of the NSPE Skills Conversion Program for one industry. Funding for this PIC program has been approved by the California Employment Training Panel. The draft of the program announcement is attached. NSPE will participate in the steering group for this program and will provide the needed certification of Continuing Education Units (CEUs) for graduates of the approved program. NSPE is also investigating replication of the PIC project in other cities.

- A new nationwide Skills Conversion Program, which covers many sectors of employment, is described in the NSPE proposal currently under review by the U. S. Department of Labor. As described in that proposal, the earlier experience of NSPE, coupled with two years work by the volunteer **Skills Conversion Task Group**, will permit early start up and implementation of a program to generate and fill many meaningful jobs on an expedited basis.

How may we help?

Sincerely;

Donald L. Ledbetter

Donald L. Ledbetter, P.E.
Chairman

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National Society of Professional Engineers

SKILLS CONVERSION TASK GROUP
1775 MANZANITA DRIVE
OAKLAND, CALIFORNIA 94611
TELEPHONE 510 339-0795

August 13, 1992

Mr. Greg Hartung
Defense Conversion Commission
U. S. Department of Defense
Suite 310, 1825 K Street NW
Washington, D. C. 20006

Dear Mr. Hartung;

The Defense Conversion Commission hearings in Long Beach on August 6 provided additional insight to and verification of the urgent need for action to generate new jobs to fill the voids left by the restructuring of our defense forces and industries.

My letter of August 5, 1992 to you gave a brief background and summary of current National Society of Engineers (NSPE) programs and stated the desire of NSPE to help in developing solutions to the employment problems.

In the course of the Long Beach hearings, I had the opportunity to speak briefly with Commission members Ms. Robin Higgins and Mr. David Berteau concerning NSPE's action programs. Both requested that I send additional information to you along with a request that you "flag" the material for their immediate attention.

In response to their request, attached are:

1. *NSPE Skills Conversion Task Group Report, July 20 - 22, 1992.*

2. ***Environmental Engineering for Engineers,*** Announcement and information concerning Los Angeles County Private Industry Council Training Program.

3. ***NSPE Proposal for Research and for Conduct of Skills Conversion Program,*** dated February 29, 1992 and transmitted by letter to Mr. Robert T. Jones, U. S. Department of Labor on March 11, 1922.

Enclosure 3, the Skills Conversion Program proposal, on page 9, lists a number of employment sectors which may need additional engineering input and which may have the potential for significant new jobs. The Los Angeles County Private Industry Council program, Enclosure 2, is expected to provide valuable information and experience for planning transition programs for other employment sectors.

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It will be appreciated if you will send a copy of the transcripts of the Commission hearings to me at the above address .

Thank you again for inviting NSPE to participate in the Commission hearings. We look forward to the opportunity to contribute to successful completion of your important mission.

Sincerely;

Donald L. Ledbetter P.E.

Donald L. Ledbetter
Chairman

National Society of Professional Engineers

SKILLS CONVERSION TASK GROUP
1775 MANZANITA DRIVE
OAKLAND, CALIFORNIA 94611

July 4, 1992

SUBJECT: Skills Conversion Task Group Report, July 20 - 22, 1992

AOP CODE: 33 - 40 - 006, Skills Conversion

PROJECT
01 Review and analyze the impacts of reductions in the aerospace/defense employment initiated by the restructuring of national defense posture and other related events.

Status: The budget approved for Task Group actions through the January, 1992, Board of Directors meeting was completely expended at the conclusion of that meeting. Action on this project by the Task Group since that time has been limited to communication of information concerning the accumulated reports of the employment situation and of the status of the proposed NSPE actions to interested members and friends of the NSPE.

The increasing impact of major layoffs in defense/aerospace and the concurrent need for engineers in other sectors of the economy continue to emphasize the urgency of providing means to rapidly redeploy technological resources with a minimum of waste.

PROJECT
02 Provide recommendations with regard to possible NSPE actions toward mitigation of these impacts.

Status: Cooperative effort with the Los Angeles County Private Industry Council (PIC) has continued in development of a pilot Career Transition project to prepare engineers to move from Defense/Aerospace employment to new positions in Environmental Management. This will provide training for 40 engineers. On June 26, 1992 the California Employment Panel approved funding for two sessions of training for approximately 14 weeks duration. The training will be directed by Dr. Mike Pirbazari, Associate Director of Environmental Engineering Program, University of Southern California. PIC has requested that CSPE and NSPE endorse and support the program in the following areas:

- The NSPE to provide for and issue continuing education certificates to the engineers who successfully complete the courses.

- CSPE endorse and support through it's communications resources, the Los Angeles County Private Industry Council mini-skills conversion project. This would include assistance by the CSPE

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Chapters in the Los Angeles County area in distribution of information and applications for the program, in screening candidates for admission to the courses and in providing counsel and assistance to the students.

- CSPE provide support to the Los Angeles County Private Industry Council mini-skills conversion project by participation in the steering group for that project. Some funding for travel, telephone, postage and copies of information is being provided by CSPE.

- CSPE provide for further investigation of the potential of replicating the Los Angeles County Private Industry Council mini-skills conversion project in other locations in California and/or in additional sectors of employment in California. Some funding to cover travel, telephone, postage and copies of information is being provided by CSPE.

PROJECT 03

Complete a proposal for a federal grant to fund mitigation efforts and submit it to the funding agency by December 31, 1991.

Status: The smooth copy of the Skills Conversion proposal was submitted to the U. S. Department of Labor on March 11, 1992. The Department has circulated the proposal for review which is ongoing at this time.

On May 7, 1992, Ms. Mary Rose Oakar, Representative from Ohio introduced H.R. 5116, The Defense Economic Adjustment, Conversion and Reinvestment Act of 1992. This act included Section 103 "Skills Conversion Program for Technicians and Engineers" which incorporated the intent of the NSPE Skills Conversion program. At the press conference for signing of the bill, reference was made to NSPE as "-- *It would utilize innovative techniques pioneered by the private sector, such as the successful 'Skills Conversion* Program' of the 1970's developed by the National Society of Professional Engineers --".

H.R. 5010, the Industrial Revitalization Act of 1992, also includes the Skills Conversion language used in H.R.5116. Action on these and other bills introduced in Congress is being monitored.

ACTION: Action by the Board of Directors cannot be anticipated at this time until the future role of the Skills Conversion Task Group is defined.

Earl Ferguson, P. E.
Bob Smorada, P. E.
Bill Middleton, P. E.
John G. Heit, P. E.

Lloyd McQueary, P. E
Al Ingersoll, P. E.
Don Ledbetter, P. E., Chairman
160 Donald L. Ledbetter

ANNOUNCING

E^3

Environmental Engineering for Engineers

A Los Angeles County Private Industry Council Training Program

E^3 provides intensive, integrated training in environmental engineering for unemployed aerospace, defense, and other engineers.

Environmental engineering is a growing occupation. Employers in that field have both defined the required training and made commitments to hire successful program graduates. Environmental engineering instruction will be directed by Dr. Mike Pirbazari, Associate Director of Environmental Engineering Program, University of Southern California. The National Society of Professional Engineers will issue certificates to all who successfully complete the program. **This training program is provided at no cost to participants or employers.**

California employer contributions to Unemployment Insurance provide the Employment Training Panel (ETP) funds for this program. Participants must either be currently eligible for Unemployment Insurance or have exhausted unemployment benefits within the last 24 months. Additionally, qualified applicants must have a bachelor's degree or higher in engineering from an accredited institution of higher education; a GPA of 2.5, or higher, in engineering coursework; and at least one college level, or higher, course in chemistry; at least five (5) years of experience in an engineering position; be able to use a personal computer, and communicate fluently in English, both orally and in writing.

Fall 1992 training schedule: August 31, 199 December 8, 1992, 6 hours per day, five days a w possibly including one or more Saturdays. T training: 425 hours of intensive coursework. D starting and ending hours will vary, depending on activities scheduled.

Training will take place in a central Los Ange facility, proximate to the intersection of the 10 a 110 freeways. Job placement with a participati employer will follow successful completion training. Job locations will vary with employers

Applications will be screened and evaluated. Selec individuals will be invited to an assessment, b written and oral. Finalists will be invited to interview panel.

Successful applicants must commit themselves to time attendance, the completion of all assignmen and to employment with a participating employer the environmental engineering science field for least 90 days after the completion of training.

Applications are available from Experier Unlimited, the job club for professionals, at following State of California Employme Development Department locations:

Hollywood - 1116 N. McCaddan Place, 90038
Lancaster - 1420 West Avenue "I", 93534
North Hollywood - 11049 Magnolia Blvd., 916
Pasadena - 1207 E. Green Street, 91106
Torrance - 1220 Engracia, 90501
West Covina - 933 South Glendora Avenue, 91

Application Deadline: Applications accept only on August 4 & 5, 1992

Completed applications must be returned to the j club at one of the above locations.

Spring 1993 training schedule: January 19,1993 April 28, 1993.

The training will be repeated for a second group the spring. Applications for the spring 1993 traini will be available in December 1992.

COUNTY OF LOS ANGELES

Aug. 4, 1992

PRESS CONTACT: Judy Hammond
Public Affairs, (213) 974-1311

FREE RETRAINING OFFERED UNEMPLOYED ENGINEERS

Applications are being accepted today and Wednesday (Aug. 4 and 5) from unemployed engineers seeking to participate in a free retraining program in environmental engineering.

Applications are available between 8 a.m. and 5 p.m. at the California Employment Development Department offices in Hollywood (1116 N. McCaddan Place), Lancaster (1420 West Avenue I) , North Hollywood (11049 Magnolia Blvd.), Pasadena (1207 E. Green St.), Torrance (1220 Engracia) and West Covina (933 S. Glendora Ave.).

To qualify for the program, engineers must have a minimum five years full-time engineering experience; and must either be eligible for unemployment insurance or have exhausted benefits within the last 24 months.

Placement services are part of the 15-week full-time program.

Fifty persons will be accepted in the program.

Employers have defined the required training and made commitments to hire successful program graduates.

The project is sponsored by the Los Angeles County Board of Supervisors and the Los Angeles County Private Industry Council, with funding ($311,746) provided by the California Employment Training Panel.

Jacobs Engineering is the lead participating employer.

Engineering curriculum will be conducted by faculty from the Schools of Engineering from USC and UCLA, with LA Trade Technical College providing the career professional development and skills transition training.

Applicants must have a bachelor's degree or higher in engineering from an accredited institution of higher education; a grade point average of 2.5 or higher in engineering course work; and at least five years of experience in an engineering position; be able to use a personal computer; and communicate fluently in English, both orally and in writing.

Participating/Supporting Organizations

Distribution of Applications and/or Information

Society of Women Engineers
40 Plus
California Society Professional Engineers
National Society of Professional Engineers
- Issuing certificates upon completion of training

Society Hispanic Professional Engineers
- SHPE magazine article planned

Mexican American Engineers Society
- MAES magazine article planned

L.A. County Military and Veteran Affairs Department
- Providing space for training program.

Los Angeles Council of Black Professional Engineers
Los Angeles Council of Engineers and Scientists
- Assisting with employer contacts

Institute for Electrical and Electronic Engineers
California Employment Development Department
- Experience Unlimited professional job clubs will receive and screen applications

Employers of Individuals Who Successfully Complete Training/Panel Interviews of Applicants For Training

Jacobs Engineering
Converse Envirolab
Brown & Caldwell
Lockman & Associates
Bechtel Environmental, Inc.

Training Resources

USC School of Engineering
- Dr. Mike Pirbazari is coordinating environmental engineering curriculum
- Participating instructors will be drawn from USC School of Engineering

UCLA School of Engineering
- Participating instructors will be drawn from UCLA School of Engineering

L.A. Trade Technical College
- Hilda Tomberlin, Dean - Career and Technical Education is coordinating total program
- Providing training venue including computer lab
- Participating instructors and counselors for professional development and career transition skills training will be drawn from L.A. Trade Technical College
- Contractor with L.A. County Private Industry Council

Sponsors

Los Angeles County Board of Supervisors
Los Angeles County Private Industry Council
- Contractor with California Employment Training Panel

Funding Source

California Employment Training Panel (ETP)
- ETP approves projects and administers California unemployment insurance training fund

California Employers
- 1/10 of 1% of employers' unemployment insurance contributions go into training fund

PROPOSED CALENDAR

May 27, 1992	Curriculum development meeting at USC School of Engineering.
June 10, 1992	Proposal submitted by Los Angeles County PIC to California ETP.
June 25, 1992	Proposal on agenda for California ETP approval in concept.
July 1992	Submit and receive ETP approval of final proposal.
July 1992	Los Angeles County Board of Supervisors approves contracts for program coordination and instruction with Los Angeles Trade-Technical College (LATTC) and for teaching support from the UCLA and USC Schools of Engineering.
July-August 1992	Advertise retraining and employment program for unemployed engineers.
August	Assess and screen candidates for the retraining program, including employer panel interviews.
August 31, 1992	Retraining program starts for first group of 20-25 participants at LATTC with instructors from UCLA and USC Schools of Engineering, LATTC, and participating employers, including Jacobs Engineering, Brown & Caldwell, Converse Envirolab, Lockman & Associates, and Bechtel Environmental, Inc.
mid-November - mid-December 1992	Interviews and job offers by participating employers. Graduates will receive a certificate from the National Society of Professional Engineers.
December 1992 - January 1993	Advertise second session of program.
January 1993	Assess and screen candidates for the retraining program, including employer panel interviews.
late-January 1993	Retraining program starts for second group of 20-25 participants.
mid-April - mid May 1993	Interviews and job offers by participating employers.

California Employment Training Panel - Los Angeles County
Private Industry Council Training Program

E'

ENVIRONMENTAL ENGINEERING FOR ENGINEERS

Time	Topic
8hrs	Issues and Foundation of Environmental Science & Engineering: An Integrated Approach to Environmental Engineering
30hrs	Chemistry, Biology, and Geology of the Environment
30hrs	Chemistry, Biology, and Geohydrology applied to Hazardous Waste and Materials
4hrs	Modular vs. Linear Thinking
4hrs	People Skills Competency
2hrs	Identifying Transferrable Skills
24hrs	Hazardous Materials Laws and Regulations
30hrs	Air Quality and Controls
4hrs	Understanding the Dynamics of Change
30hrs	Water Quality and Controls
4hrs	Sampling Techniques and Lab Analyses
4hrs	Laboratory Job Shadowing - Field Experience
6hrs	Administer CAPS, COPS, COPES, and Introduction to Stress Management
36hrs	Hazardous Waste Management: Materials, Air, Water, Underground Storage Tanks, Handling, Transport & Disposal
6hrs	Waste Water Treatment Facility field experience
12hrs	Environmental Remediation Communication: Community/Media/Agencies
12hrs	Subsurface Migration of Pollutants
6hrs	Avoiding Crises: Workplace Culture, Sexual Harassment
6hrs	Subsurface Remediation
6hrs	Superfund Clean-up Site - Landfill field experience
22hrs	Pollution Prevention, Incineration, and Solid Waste

3hrs	Oral Presentations
·rs	Field experience at a refinery
·nrs	Regulatory Agencies: Functions and Compliance
12hrs	Environmental Risk Assessment
6hrs	Water Quality Site field experience
6hrs	Field experience - SCAQMD Laboratory
3hrs	Time Management
18hrs	Project Management: Budgeting & Scheduling; Health & Safety; Risk & Liability Management
6hrs	Extemporaneous Presentations & Critiques on Project Management Topics - Videotaped
3hrs	TQM, Workforce in perspective, Working as a team, Leading a team
6hrs	Environmental Engineering/Environmental Science Reports
4hrs	Transferrable Skills, Resume Writing
·hrs	Environmental Remediation Problem Solving: break-out groups in Air, Water & Solid Waste with computer simulations, environmental reports, and oral presentations
6hrs	Interview Techniques: on camera interview and critique
Total 425:	340 hrs environmental science & engineering classes 34 hrs environmental science & engineering field experiences 51 hrs professional development and career transition skills training



National Society of Professional Engineers

March 11, 1992

Mr. Robert T. Jones
Assistant Secretary, Employment and Training
U. S. Department of Labor
200 Constitution Avenue, N. W.
Washington, .D. C. 20210

Dear Mr. Jones:

The National Society of Professional Engineers is pleased to submit the attached proposal entitled "Skills Conversion Program" dated February 29, 1992 to the Department of Labor for consideration and discussions leading to contract award.

We all share concern over the employment situation engineers and scientists are facing today. This valuable resource is being allowed to dissipate and large numbers of talented, highly skilled and well educated problem solvers are being forced into less productive jobs. This situation will result in further reductions in our nation's broad technological base as well as the engineering and technical leadership which will be required in the decades ahead.

The problems of environmental management, transportation, infrastructure rehabilitation and assistance to the former Soviet bloc, to name a few, will require a degree of ingenuity an order of magnitude more than was required in our space programs and in Desert Storm. Our engineers and scientists can solve these problems; however, the jobs to accelerate these efforts must be located and developed.

This proposal outlines actions to be taken which will provide the means for the engineering profession and the Department of Labor to develop necessary basic information concerning the potential for and means of conversion of professional technical skills from one technical employment sector to another. Placing the available persons on an employer's payroll will achieve the following:

1. Stimulate the Nation's sluggish economy.

2. Achieve a higher rate of technology retention and transfer to the commercial economy, adapting the Nation's investment in the defense and space programs to deal with the changing nature and scale of evolving domestic and world problems.

3. Start positive action towards solution of some of the Nation's more pressing problems.

4. Reduce the economic dependence on unemployment compensation and welfare that would otherwise result.

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The results of the research and training performed by NSPE in the successful Skills Conversion Program of the 1970's have been reviewed and, along with the information developed in our current conferences with major employers and government agencies provide a basis for rapid start-up and early results from the proposed program.

Two levels of program are presented for discussion in Appendix A to the proposal. First, a pilot program of two years duration can be effective in plotting a course for future action. Second, the Skills Conversion Program, conducted over a three year period, will expand the pilot program to provide the means for transition of a substantial portion of the unemployed engineers to new areas of need and employment.

Cost estimates for the two levels of program are shown in terms of cost per engineer processed. When the level of program to be conducted is agreed on, detailed cost estimates and funding schedules can be submitted.

The changing requirements for continued employment in an evolving society is affecting all elements of the work force. The Skills Conversion Program proposed can become a model for disciplines other than engineering as suggested by the GAO in the "Report to Congress, December 5, 1973" in regard to the Skills Conversion program of the 1970's.

The value of such a continuing program to both employees and employers may provide a basis for considering future funding for Skills Conversion through sources other than public funds. This might be through employer/employee subscription or through arrangements similar to the current student loan programs.

Please contact Donald L. Ledbetter, P.E. at 510 568-7769 or me at 314 636-5340 if you have questions concerning this proposal. We look forward to your early consideration of this proposal so that we may begin working in a formal way with you leading to arrangements to proceed on the Skills Conversion Program. Through this Skills Conversion Program, we can proceed with early development of the information and means required to expedite the transfer of engineers and scientists from the Defense/Aerospace industries, with their supporting industries and services, to other more pressing segments of the economy.

Very Truly Yours,

Donald L. Ledbetter

Donald L. Ledbetter, P.E.
for
Donald L. Hiatte, P.E.
President, NSPE

S0229a26



National Society of Professional Engineers

PROPOSAL FOR RESEARCH AND FOR

CONDUCT OF

SKILLS CONVERSION PROGRAM

FOR ENGINEERS IMPACTED BY

REDUCTION IN DEFENSE PROGRAMS AND BY

RESTRUCTURING OF U. S. BUSINESS

Prepared for

THE DEPARTMENT OF LABOR

by

THE NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS

February 29, 1992

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National Society of Professional Engineers

SKILLS CONVERSION TASK GROUP
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OAKLAND, CALIFORNIA 94611

SKILLS CONVERSION PROGRAM
PROPOSAL INDEX

~~0. Executive Summary~~

1. Introduction
2. Proposed Program Approach
3. Discussion of Problem
4. Discussion of Program
   a. Definition of Engineer Personnel Pool
   b. Definition of Career Transition Requirements/Target Employment Sectors
   c. Program Organization and Operations
5. Benefits
6. Schedule
7. Fiscal Information
8. Linkage to Other Programs and Organizations
9. National Society of Professional Engineers Experience
10. Team Experience
11. Additional Comments

Appendix A — Student Load, Staffing and Funds Estimate

Appendis B — Representative Current News Articles Concerning Employment

CORRECTED FILE COPY
3/18/92

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National Society of Professional Engineers

SKILLS CONVERSION TASK GROUP
1775 Manzanita Drive
Oakland, California, 94611
(510) 339-0795

GRANT APPLICATION

February 29, 1992

A. **TO:** Mr. Robert T. Jones
Assistant Secretary, Employment and Training
U. S. Department of Labor
200 Constitution Avenue, N. W.
Washington, D. C. 20210

B. **FROM:** National Society of Professional Engineers (NSPE)
1420 King Street
Alexandria, Virginia 22314 - 2715

C. **PROGRAM TITLE:** Skills Conversion Program

D. **PROGRAM NARRATIVE:**

1. INTRODUCTION

Current changes in the economy are resulting in substantial and long-range changes in employment opportunities for engineers and related technical professionals (referred to hereafter as engineers). Two major elements are driving these changes:

First, the breakup of the Eastern Bloc of nations and changes to a capitalistic society have dictated a major reduction in our defense needs and have provided the impetus for new business activity.

Second, the organizational needs of U. S. businesses have been profoundly changed by international competition, changes in management techniques, regulatory reform and mergers.

Both of these elements are causing major current and long-term changes in technical manpower requirements, resulting in substantial unemployment in traditional areas for engineers. The pool of unemployed engineers represents a major loss to the problem solving capacity of the nation. Conversely, if properly addressed, opportunities for job development in areas such as international business, entrepreneurial small business and in expanding technical employment

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areas such as waste management may be developed to fill new niches in the economy. Problem solving engineers are very productive contributors to the economy and are highly adaptive to new business areas. Under the current conditions of widespread restructuring and unemployment in the engineering workplace, however, assistance is needed in the transition to new career paths.

There are many sectors of employment (referred to hereafter as sectors) which have urgent needs for engineers. The existing career development and employment services provide adequate placement services when jobs viewed as traditional are available and the jobs match the usual discipline job descriptions. Several major evolving sectors are identifying needs for technology requiring combinations of skills and experience not covered by current job descriptions. Since the new job descriptions do not match the profiles of engineers who are searching for work, these active job openings remain unfilled for a long period of time. Currently there is no organization in place to identify the conditions under which the available engineers may adapt to the requirements of the available jobs and to demonstrate their adaptability to these areas of need.

The NSPE proposes to build on the successful Skills Conversion Program conducted for the DOL in 1971 through 1973 and on the current series of conferences with major employers and government agencies to:

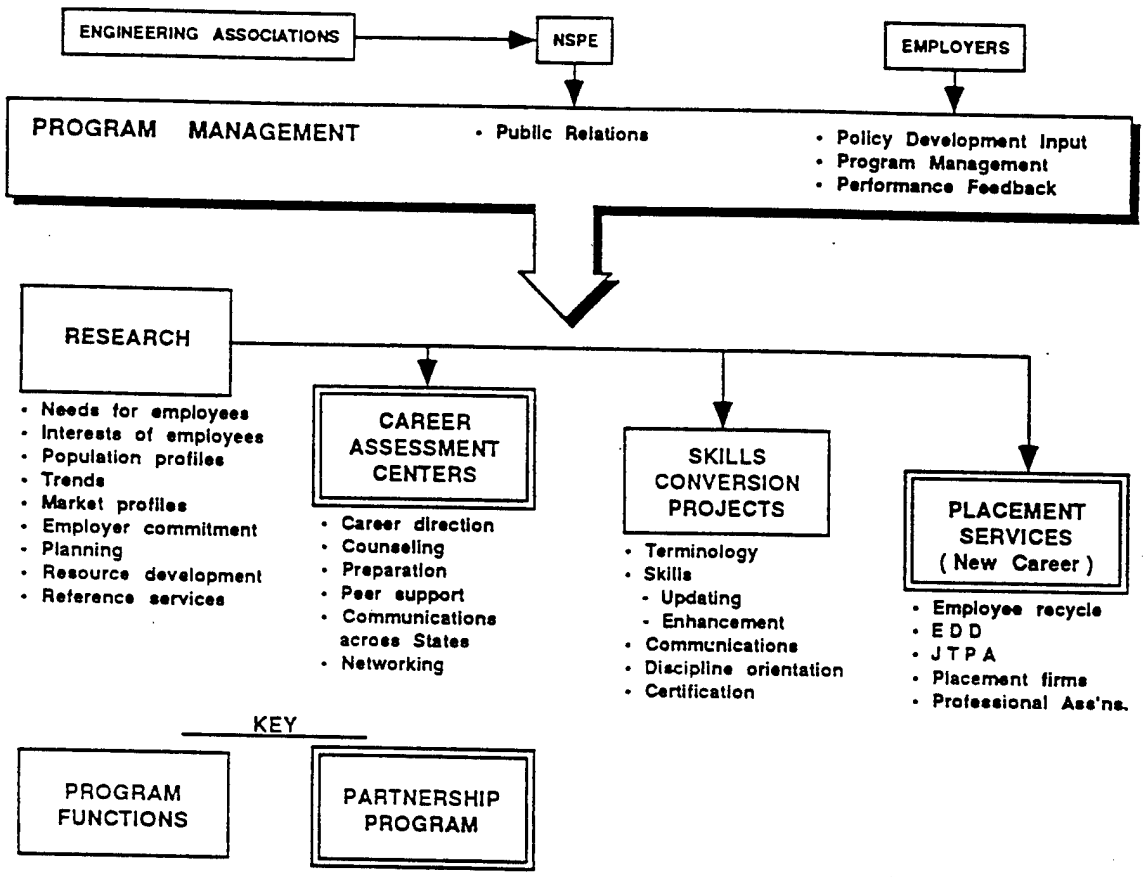
- categorize sectors with significant employment potential.
- develop profiles of the available engineer pool.
- determine the preparation required for engineers in the pool to successfully seek, obtain and perform the available jobs.
- develop and conduct skills conversion courses to meet the preparation needs.
- manage the overall program, including providing information to and maintaining communications with appropriate existing career assessment and personnel placement services.

The proposed program is outlined in the following sections. For purposes of discussion, Appendix A defines a program plan, schedule and preliminary cost estimate for a pilot program under the stated assumptions.

The details of the program and the number of engineers to be included in the Skills Conversion transition process can be adjusted to meet DOL requirements, including scale - up to a full operation which will provide services to a significant portion of the engineering employment pool.

2. PROPOSED PROGRAM APPROACH

The elements and functions of the Skills Conversion Program are shown on Figure 1. The existing Career Assessment Centers and Personnel Placement Organizations with which the program interfaces are included to illustrate operation of the total transition process.



CAREER TRANSITION PROGRAM - ELEMENTS AND FUNCTIONS

DLL - 5/15/91

FIGURE 1

The proposed program provides the research, planning and implementation steps needed to develop and open up significant new opportunities for unemployed/underemployed engineers and to capitalize on their current availability in order to accelerate work toward solution of some of the problems of the nation.

Under the program this assistance will be provided by:

- identifying and cultivating new areas of opportunity.

- developing new types of productive jobs.

- providing brief educational / orientation programs to ease the transition process into the new employment.

The overall program is described in a single proposal in order to define relationships and interactions between the several elements and to establish the program management for integration of the elements to produce optimum end results. It is understood by NSPE that funding and contract administration may come from different sources for each element. Once the overall approach is found acceptable, a separate cost proposal can be prepared for each of the following elements:

Program Management: Program Management provides for policy development; overall technical, fiscal and schedule management; public relations and contract and sub-contract administration.

The Research Element: Research Teams which make up The Research Element work with representatives from the employment sector and with the local Employment Advisory Committee (EAC) described below to:

- identify changing trends in current and future needs for new technologies and in the employment demands for technical professional personnel.

- determine and define the characteristics of the potential employment sectors including the opportunities for using technically trained personnel in non-traditional positions.

- develop the profile of the available technical professional personnel pool.

- develop and specify activities and projects to demonstrate efficient transition of such personnel from the pool to the new sectors of employment.

- develop and coordinate a public information program for the engineering associations and the employment sectors to stimulate utilization of the Skills Conversion Program to attract those affected by the loss of employment.

Skills Conversion Projects: Where research results show a need for significant formal academic and field orientation or training short of graduate level degree education in the target employment sector, Skills Conversion Projects will be sub-contracted to recognized education/training institutions. Skills Conversion Projects will, in cooperation with representatives of the employment sector:

- develop the transition curriculum to meet the specifications established by Research.

- select and recruit personnel from the pool as trainees for the project.

- conduct the transition academic and field orientation or training activities.

- provide assistance in matching the students to the needs of the target employment sector.

Career Assessment Centers: These existing organizations already provide a vital function in preparing unemployed personnel for their job search. The Skills Conversion Program will establish communications with the existing organizations to assure that experience, information and communication links developed by the Skills Conversion Program receive wide utilization.

Placement Services: These organizations already exist as government agencies, employer outplacement activities, personnel placement companies and association job match organizations. Where requested, the Skills Conversion Program will establish communications with the Placement organizations to assure that experience, information and communication links receive wide utilization.

Employment Advisory Committee (EAC): This committee of volunteers from the family of engineer associations provides assistance and counsel at every level of the program. At the local level they are a major networking component and will provide assistance in:

- selection of personnel from the pool for the research team.

- location and provision of facilities and equipment.

- provision of counsel and encouragement to the Teams and to individual students and participants.

- helping students and participants to obtain employment.

At the national level, the EAC is made up of senior executives in the engineering community. In addition to the functions listed for the local level, the national EAC provides access to and communication with senior executives of the potential employers.

3. DISCUSSION OF THE PROBLEM

a. Description of Need

The international situation has turned dramatically as the Eastern Bloc has changed. Once again we are moving toward a major dismantling of our mass employers of engineers; the defense and aerospace (D/A) industries. Engineer employment conditions are similar to those of the 1960 - 70 era. Expanding requirements in the public sector, such as waste management and infrastructure rehabilitation are generating need for expanded application of technologies generated in the D/A industries. Small specialty firms are forming to fill niches in new industries which are beginning to serve new technical needs. The transition from large employers to public sector contractors, to new small firms and to individual employment is

frequently inefficient due to lack of communications on a nationwide and world wide basis in language which is understood by both the potential employers and the employees. As a result,there is much waste of valuable technical resources increasing the potential for further serious loss of our national competitive edge in technology.

The presently degenerating job market has created significant problems for unemployed engineers in the location of new job opportunities. Engineers, because of their basic scientific knowledge and formal training in problem definition and solution, possess the adaptability to transfer technologies and successfully apply problem solving techniques to areas of national concern with a minimum loss of productivity. The impact on the Nation's economy by the reduction in the technical work force is much greater than indicated by numbers of unemployed engineers alone, since engineering activity tends to support significant numbers of technical, subprofessional and supporting personnel, up to 10 other jobs for each engineer job.

There is a need to make available the talents of the American engineering capabilities to other endeavors, achieving an efficient and expeditious transfer of technology. This will provide new employment opportunities for the currently displaced technical professionals and the supporting industrial work forces.

Effective transition is hindered however by a serious lack of information regarding opportunities for such transitions, a lack of awareness of the potential value to the economy of the available professional resources and a lack of definition of the process for orientation (or additional education) required for these transitions. This lack of information, combined with the large numbers of engineers currently unemployed and looking for work, points up the need for development and proof testing of mechanisms for skills conversion. Real new needs may not yet have been firmed into specific opportunities.

b. Employers/Industries Affected by Layoffs:

The changing defense posture as the United States responds to dramatic changes in relations with other major powers is impacting essentially all of the primary D/A contractors. The impacts cascade to sub-tier contractors, non-profit and government laboratories, infrastructure companies and services and communities. Compounding these impacts, international competition, coupled with the overall malaise in the domestic and world market is forcing reductions in other primary sections of employment.

(1) Representative of the primary companies severely impacted are:

Defense/Aerospace	Lockheed
	North American/Rockwell
	Northrop
	General Dynamics
	Boeing
	General Electric
Transportation	Ford
	General Motors
	Chrysler

Computers	Apple IBM

paragraph revised 3/18/92

(2) Representative data regarding companies and targeted workers affected are contained in Appendix B, News Releases. While these data represent only a small portion of the total engineer work force, the numbers of engineers who are apparently unemployed represent a significant part of the nation's critical technical work force and leadership. For high technology firms, a conservative estimate is that at least 10% of the persons proposed for release are technical professionals and managers.

(3). The employment status of affected workers is becoming very critical, especially for older and more experienced professionals. The magnitude and distribution of the cut-backs over most/all of the major employers within the affected D/A industries precludes widespread movement of technical professionals and managers from one employment to another within the same industry. The affected employees must seek employment in other industries or types of employment. The success of this transition to employment where their skills can be used for new applications is severely inhibited by the "barriers to direct movement" discussed in Paragraph 2d below.

In 1990, the rule-of-thumb for estimating the time for an experienced technical professional to make such a transition, was one month for every $10,000 of annual salary expected. For the technical professional at the average wage of $60,000 per year, this meant six months of unemployment. Today, the number is approaching two months per $10,000 salary; or one year of lost productivity, salary and taxes for the average technical professional.

c. Employees affected by layoffs

Engineers and other technical professional employees have typically been salaried, exempt employees who are not members of trade or craft unions. Many engineers move into managerial positions where the line between being treated as "labor" or "management" is blurred.

The organization restructuring being implemented by many employers is pushing more engineers toward employment under short term / task order employment contracts in lieu of full time employment. This transition necessitates knowledge and consideration of whole new fields of employment terms by the engineer.

Data from a small sample of the unemployed engineers surveyed in the Cincinnati, Ohio area indicated that the impact of the current cutbacks are hitting engineers at all ages, levels of experience and fields of practice. Appendix B contains representative news articles concerning the current employment problems of both engineers and other professionals.

d. Barriers to Direct Movement of Workers to New Employment

Inhibiting any movement between sectors of the economy are several barriers which occur owing to the general perceptions of employers concerning D / A employees. These

occur owing to the general perceptions of employers concerning D / A employees. These barriers to direct movement of engineers to new types of employment are essentially the same as those encountered during the NSPE research in the early 1970's which occurred due to the perception that the technical professionals from D/A were:

- Overqualified
- Too High Priced
- Not Flexible
- Too Specialized
- Unwilling to Move
- Likely to Return to Prior Employer

Some differences from the situation in the 1970's were noted in the discussions of the NSPE Task Group, but the general impression is that the above perceptions are still prevalent and are resulting in barriers to mobility of engineers from D/A into other career paths. An essential part of the Skills Conversion Program will be to determine the extent to which these perceptions are still widespread and, if their impact is significant, to develop information to assist engineers and employers to overcome problems engendered by the perceptions.

4. DISCUSSION OF THE PROGRAM

a. Definition of the Engineer Pool

In the absence of a central source of data covering the profile of the unemployed and underemployed engineers, one Research Team will conduct an extensive analysis of the multiple data sources. The conclusions drawn from this data will cover:

- Number of engineers covered by the data
- Estimate of number of unemployed engineers
- Age distribution
- Average experience
- Education
- Prior earnings
- Disciplines and sectors of employment affected

The results of this analysis define the characteristics of the individuals who are seeking employment. The studies of the sectors will define the requirements for employment. Comparison of the requirements with the characteristics of the profile will provide the basis for defining the curriculum of the Skills Conversion Projects.

b. Definition of Evolving Needs and Career Transition Requirements

In May, 1991 the NSPE Skills Conversion Task Group met for continuing discussions

of the need for the Skills Conversion Program. Employment sectors which may need additional engineering input and which may have potential for significant new jobs were identified as:

- Environmental Assessment
- Environmental Remediation/Waste Management
- Waste Management
- Environmental Management
- Permitting and Regulatory Requirements
- Software Management Engineering
- Records Management/Litigation Support
- Entertainment Facilities and Systems
- Alternative Energy Sources
- Potable Water Management
- Waste Water Management
- Technology Transfer
- Individual Specialty Consulting
- Technical Business Development
- Technical Management Assistance Groups (especially for Eastern Bloc)
- Process Plant Safety Engineer
- Manufacturing Technology
- Infrastructure and Life Cycle Management
- Air Quality Management
- Engineering Modeling and Performance Assessment
- Systems Engineering and Quality Management

Transitions of experienced professionals to other career fields may be eased by orientation and training in a number of supporting capabilities which are becoming increasingly important to many fields. Some of these require extensive training, while others may require only a few days training. Typical are:

- Computer Technology and Use
- CAD/CADD
- CAM
- Automated or Robotic Construction
- Robotics
- Total Quality Management (TQM)
- Presentation Techniques
- Foreign Business Practices
- Brainstorming Techniques

Today the potential for structural changes in national and international affairs and in technology is bringing about many skill/knowledge changes in a career lifetime. An understanding of these cycles is needed for guidance of individuals and organizations in logical planning and development of career paths and for development and management of cost effective transitions.

The Research Team will work in cooperation with representatives of potential employers and associations from the assigned sectors to complete a study of the technical needs of the sector, the benefits to the sector of having those needs met, the number of potential jobs which need to be filled and the requirements for orientation/training of personnel in the pool of unemployed engineers to certify their capability to obtain the jobs.

The challenge in developing a program for SKILLS CONVERSION involves:

- Reducing time wasted in periods of transition. This will be accomplished by involvement of potential employers in development of the program requirements, selection of students and in conduct of the Skills Conversion Project classes so that there is generally agreement in advance to hire the students contingent on satisfactory completion of the courses.

- Improving international competitiveness by maximizing effective use of our technological resources in solution of domestic problems and in cooperative efforts to solve world wide problems. This will be accomplished by minimizing the "dead time" and resultant loss of technical knowledge of engineers/scientists as they transition from one career path to another.

c. Program Organization and Operations

To implement the program, research teams selected from the pool of unemployed engineers, augmented as required with professionals from other fields and working with volunteer assistance from the family of engineer and employer associations and firms, will:

- Define the characteristics of the engineer manpower pool.

- Identify and characterize selected areas of potential employment where additional technology, technology transfer and technical input may be desirable and beneficial to the employer and to the economy.

- Develop the mechanism to effect the transition of pilot groups of engineers into the target employment.

- Implement the transition of the pilot groups of engineers into new employment.

- Monitor results of the transition of the pilot groups and report results in the engineer and employment sector media to encourage further transitions.

The objectives of the proposed effort are to develop, on a nationwide basis, information necessary to improve this situation in the following areas:

- identification of needs for formally educated problem-solving personnel, the skills needed in the near future (one to two years) and the industrial and other fields in which they will be needed.

- Identification of specific skills of unemployed or under-employed engineers. which can be transferred or re-orientated to the current and predicted needs.

- Creation of a data base of specific information indicating which skills are transferable, and under what conditions, to alternative occupations.

- Development of an outline for the mechanism for accomplishing the conversion, including training, reorientation, job identification, etc.

- Provision of communications network nationwide through linkages with engineering association and career development organizations, to make the information concerning findings of the project available to both employers and potential employees.

- Implementation of the conversion process, on a pilot basis with selected employers, to include:

  - assisting the employer in definition of the job profile into available job

registries.

- working with the registries in screening of candidates for the jobs.

- providing technical assistance to the potential employers in defining the need for and setting up on-the-job conversion training, where needed.

- providing continuing assistance and counsel to engineers during the conversion process.

• Evaluation and analysis of results and preparation of recommendations for continuing improvement of the program and for continuous operation of the mechanisms for updating and dissemination of the evolving data base.

Major steps in mobilization and operation of the program are shown on Figure 2 and are summarized for one employment sector below:

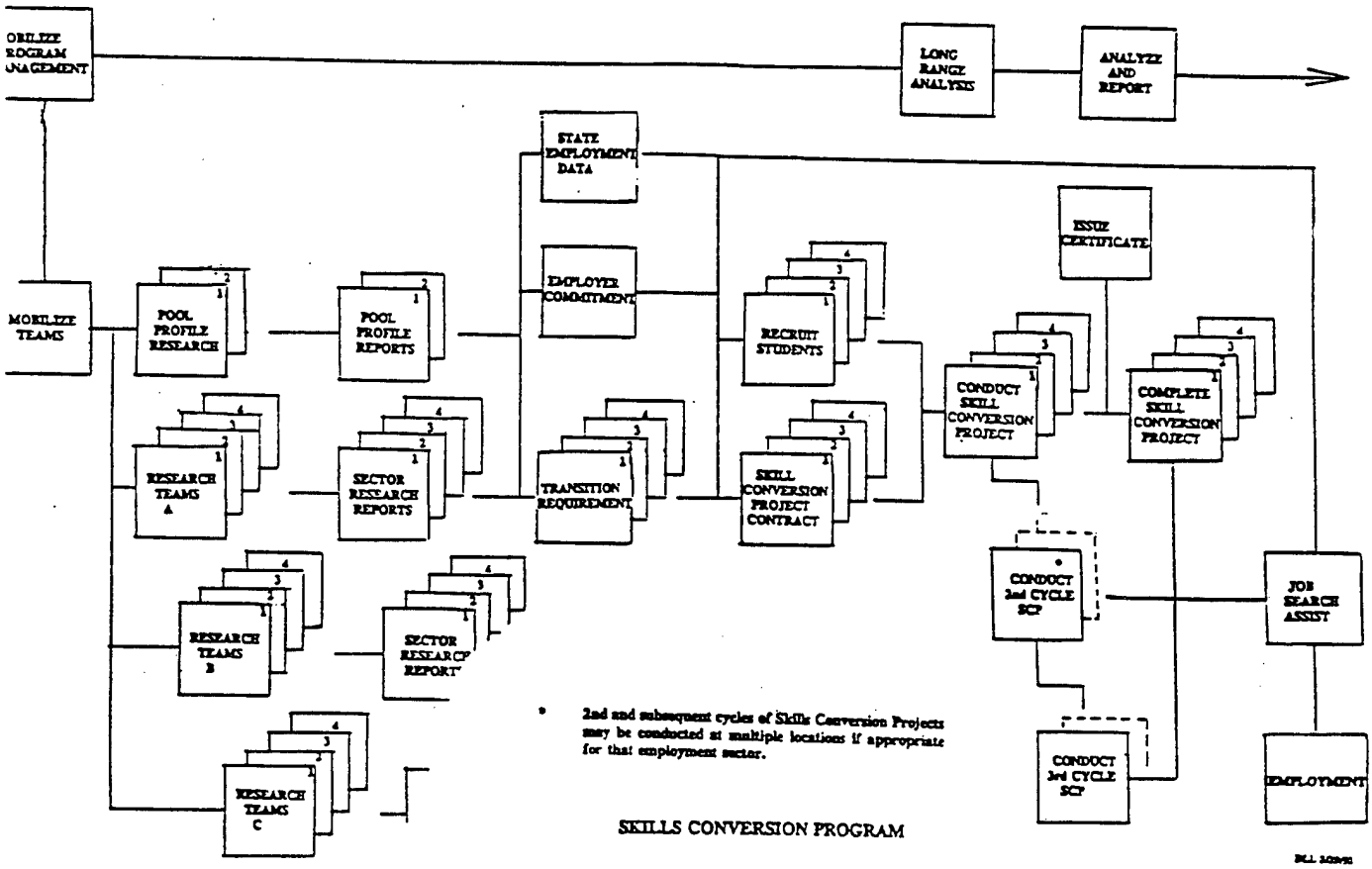


FIGURE 2

a. The NSPE Program Management staff is assigned and works with the assigned DOL Manager to finalize agreement on major parameters of the program, including team locations and employment sectors to be evaluated early in the program.

b. The NSPE Program Manager (PM) sets up the Program Plan and Procedures.

c. Program Management activates EACs in the cities selected for the initial Research Team locations. Criteria for team selection are established.

NOTE: For preliminary planning purposes, a total of fourteen Research Teams is assumed. Two 20 person teams are assigned to complete the profile of the employment pool as well as to conduct research in assigned employment sectors. Twelve 10 person teams, mobilized in groups of four teams at approximately four week intervals, are assigned to research for other employment sectors.

d. The local EAC at each Team location recruits and screens candidates for Team Leader from the employment pool.

e. The PM interviews and selects the Team Leader and defines the objectives and plans for team operations.

f. The Team Leader, working with the EAC, recruits and screens candidates for Team Member from the employment pool. Program Management reviews and approves selection.

g. Research Teams assigned to develop a profile of the engineers in the pool complete their study and issue the profile report.

h. Research Teams conduct their assigned work in cooperation with representatives of the employment sector and EAC. A report is prepared for each sector covering a description of the sector, quantifying job potential and setting forth the requirements for transition of engineers from the pool to the jobs.

i. Research Teams, in conjunction with the Program Manager discuss potential Skills Conversion Project courses with academic institutions in their vicinity when transition requirements are defined.

j. The PM selects Coordinators for the Skills Conversion Projects.

k. The PM and the Research Team prepare a subcontract with the academic institution for the planned Skills Conversion Project.

l. The Research Team in conjunction with representatives of the employment sector and with EAC recruits and selects students for the Skills Conversion Project. Employer commitment to hire the students, contingent on satisfactory completion of the Skills Conversion Project course will be obtained if possible.

m. The academic institution conducts the Skills Conversion Project.

n. NSPE issues a "Certificate of Completion" for each student who satisfactorily completes the required course work.

o. The research Team, EAC, academic institution and potential employers provide job search assistance to students and, when their teams are demobilized, to the Research Teams.

p. The Research Team will identify and propose additional sectors for research and when authorized will repeat the cycle outlined above.

q. The Program Manager will demobilize Teams and Skills Conversion Projects as their functions are completed. Staff members will be made available for other employment.

5. BENEFITS

The anticipated success of the pilot groups is expected to enhance the acceptability and desirability of utilizing additional engineering input in the target sectors. This should then result in further significant recruitment of engineers by other employers in the target sectors with little or no special transition assistance.

For the research teams, the experience of the NSPE with similar programs in the early 1970's showed that the extensive contact of the research team members with employers in their target sector during the research resulted in warm acceptance of the engineers and a high rate of employment in the target sectors.

In summary, the Skills Conversion Program will result in three categories of employment opportunity:

- Research Team, employed at the end of their research assignments.
- Students, employed on completion of Skills Conversion Project orientation and training.
- Others, employed as a result of publicity given by the engineering associations and the participating employers to the success of the transition of the first two groups and through the network contacts developed by the EAC.

In addition to the benefits incurred in the job search and placement process, the following factors will have an impact on preservation of the nation's technology base:

- The technical professionals are kept fully active during the transition period and the loss of knowledge, interest and competitive edge is minimized.
- The period of unemployment is reduced, reducing the financial impact on the community and the individual.
- Typically, each new technical professional job created results in from 5 to 10 new

craft and technician jobs. It should apply then, that if the time for transition to a new job for the technical professional is reduced, then the time for transition of the craft and technician workers is reduced. The leverage effect should reduce overall unemployment costs significantly and assure earlier return of the engineers to the tax rolls.

- The job search energy is applied to improvements in the overall economy rather than to the churning of paper in the job search.

- Technology developed in the public financed aerospace/defense work is more effectively transferred to the other sectors of the economy.

6. SCHEDULE

Major events of the Proposed Program Master Schedule, with assumptions, are included in Appendix A.

7. FISCAL INFORMATION

The estimated cost for the initial contract release, a summary of items included in the estimate, and the basis for the estimate are included in Appendix A. Because of the interaction of the Study Teams and the Project Office, and the developmental nature of the early effort, detailed time phased estimates and schedules for effort beyond that of completion of the first Skills Conversion Project class will be provided during the early phase of the program.

It is anticipated that incremental funding will be provided throughout the period of performance. In view of the level of funding required for the project, funding in advance, equivalent to the amount required for the following month, is requested. A letter report and voucher will be submitted on a monthly basis to support the payment.

The changing requirements for continuing employment in an evolving society is affecting all elements of the work force. The Skills Conversion Program proposed can become a model for disciplines other than engineering as suggested by the GAO in regard to the Skills Conversion program of the 1970's. The value of such a continuing program to both employees and employers may provide a basis for considering future funding for Skills Conversion through sources other than public funds. This might be through employer/employee subscription and arrangements similar to the current student loan programs.

8. LINKAGES TO OTHER PROGRAMS AND ORGANIZATIONS

The project will work closely with the DOL and the designated area and state agencies at all levels in the conduct of this contract. Information and data currently available from DOL sources and their field staff, including current lists of employers in the area will be utilized by the project. Technical assistance by the DOL, engineering association and other organization sources in developing survey formats and in collecting and analyzing the data will be utilized where available, to maximize the potential benefits of the project by applying the best expert assistance available.

9. NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS EXPERIENCE

The NSPE has direct experience in successful development and implementation of a program of this type in the Skills Conversion Project conducted under contracts with the Department of Labor in the 1968 - 1972 time period. Of that program the Comptroller General of the United States, in the Report to the Congress on December 5, 1973, said:

- " One aspect of the program which appeared to be successful was the series of studies called skill conversion studies. These identified industries and public service areas that have significant potential for new job creation for former aerospace and defense workers in the immediate or near future.

- " Under a contract stemming from one of these studies, 329 persons had enrolled in courses to retrain workers and, as of January 12, 1973, 302 had obtained employment, most of them in training - related jobs.

- " Recommendations or Suggestions. -- -- Labor should develop a plan ---- should provide for:

  -- performing and using skills conversion studies which would be given a high priority and

  -- implementing a monitoring system automatically with the implementation of the program.

- " -- the TMR program was designed primarily to retrain ESTs for existing jobs or to provide financial assistance to enable them to obtain existing jobs, the program also included a skill conversion study to identify new opportunities for employment and to explore the problems of converting current available skills to new occupations.---- The skill conversion study which cost about $2 million represented the major effort to identify new occupational opportunities.

- " One aspect of the TMR program which appeared to be particularly productive was the Skill Conversion Study made by the National Society of Professional Engineers under contract with Labor.

- " The skill conversion study was one of the more successful activities undertaken to assist ESTs in starting new careers, and Labor should consider that concept in similar undertakings. Such a study, however, should be considered at the earliest possible time, once a problem industry has been identified, and a high priority should be placed on completing and using study results.

- " AGENCY COMMENTS ----we believe that skill conversion studies should be an ongoing function of the Department in order to better utilize the nation's skills. Not only are engineers, scientists and technicians a surplus commodity, but so are language specialists and a variety of teachers with special expertise. In the absence of job creation efforts like the Public Employment Program, alternative means of integrating skilled professionals into the work force are a necessity."

10. TEAM EXPERIENCE

The reports, data and some of the personnel from that Skills Conversion program are available to assist in the formation and implementation of the proposed project on an accelerated basis.

The Employer-Executive advisors and NSPE members responsible for the Skills Conversion Task Group include several persons who were intimately involved with the 1970's Skills Conversion program. Their experience is available for guidance and assistance in successful completion of this proposed program. Their 1970's experience includes:

- Ms. Elayne Brower, Nuclear Engineer, Research Team Member
- Mr. Earl Ferguson, P.E., Consultant, Research Team Leader
- Mr. Al Ingersoll, PhD, P.E., Dean Emeritus, School of Civil Engineering, UCLA, Chairman of EAC and VP, NSPE
- Mr. Kay Kiddoo, Human Relations Consultant, Industry advisor
- Mr. Donald Ledbetter, P.E., Engineering Project Manager, Skills Conversion Program Manager and VP, NSPE
- Mr. Bill Middleton, P.E., Communications Consultant, EAC Chairman and liaison with IEEE
- Mr. Neil Norman, P.E., Engineering Project Manager and Past President of NSPE, EAC Chairman

11. ADDITIONAL COMMENTS

Concepts for the Skills Conversion Program and this Proposal have been developed with assistance and input from a Task Force which included industry, state and federal government and engineering profession personnel. The Task Force members have concluded that:

- The unemployment problem is real.
- Many of the personnel who will probably be laid off assumed that the problem has gone away because of the military build up in the Middle East.
- The PROBLEM in the D/A sector can be turned into an **OPPORTUNITY** to accelerate the infusion of D/A technology into other industry.
- Technology transfer from the state of the art D/A projects to the commercial sector of U. S. industry is needed to put the U. S. economy back on track and to regain our

lead in the utilization of our technology. We cannot permit our superior D/A technology, demonstrated so dramatically in Desert Storm and in our aerospace achievements, to be commercially implemented by other nations while we sit as observers. Aggressive U. S. policy actions need to assure that our best and brightest engineers are utilized for the common good in the U. S. commercial sector.

- There are known and postulated needs for engineers and scientists in many areas of the economy, but the delivery system for efficient matching of the available D/A personnel still needs much improvement.

- The hidden jobs which could use available D/A personnel, are still masked by the same barriers to transition as were overturned by the 1969-1973 NSPE projects.

- Preliminary cost/benefit analyses show that funds presently being expended on unemployment benefits could more than cover the costs of programs which have a high probability for generating new jobs.

- Because NSPE is a multi-discipline organization with experience in leading this type of effort, it should take the leadership role in solution of this problem.

- Many of the conditions experienced in the 1969-1973 D/A crash differ from today's conditions. However, the experience gained during that time still provides a head start in developing programs for today. Action is urgently needed.

After World War II, D/A became one of America's leading industries. This field attracted thousands of the country's best minds and employment in aerospace became the goal of many others.

Beginning in 1968 national priorities changed:

Industry's biggest customer, the Department of Defense cut spending.

The National Aeronautics and Space Administration reduced space efforts.

Development of the supersonic transport was halted.

Disengagement from the war in Vietnam was completed.

The economic slump affected demand for expansion of the airlines and orders for aircraft were reduced.

D/A sales slumped and the industry was forced into an austerity program. For the first time, D/A professionals, who had been courted by employers since entering the job market, were without jobs and found their talent unsalable.

The engineering profession developed a number of programs during the period 1969-1973 in an effort to deal with the increasing unemployment of engineers, scientists and technicians (ESTs). Most of the efforts were aimed at assisting the unemployed professionals

to seek and compete for existing new jobs in a very tight labor market.

There were indications of widespread needs for engineers, but demand, in the form of open job requirements, was almost non-existent. The NSPE Employment Committee proposed a two part project to:

- define the needs for problem solving personnel in selected target industries and develop the mechanisms for reorientation of the aerospace/defense personnel and potential employers to create new job opportunities.

- develop and conduct pilot transition programs. Seven engineering societies, with the NSPE as the contracting agency proposed and completed two contracts with the DOL.

- the Skills Conversion Project, whose objective was to collect and analyze information concerning needs for problem solving technical personnel; to develop the profile of the available population; to develop concepts, plans and communications networks needed to effect the transitions and to establish the basis for transition training.

- the Technology Utilization Project, which developed and pilot tested the mechanisms for conversion of D/A personnel to fill these needs. A key element in the rapid start up and operation of the projects was the availability and continuing support of the in-place communications network provided by the local chapters of the participating engineering societies.

Through the programs and with the assistance of the many local engineering societies' chapters, the engineers participating in the Skills Conversion Project and engineer/students completing the Technology Utilization Project classes were very successful in obtaining new employment and in opening up new opportunities for other ESTs. The project teams were disbanded as their work assignments were completed. No provision was made for follow - up analysis of results. therefore, the only measure of the success of the program was in the Comptroller's report discussed in Section 9 above.

In July, 1990, the NSPE established a Task Force of the Professional Employment Committee to evaluate the current employment situation for engineers and scientists brought about by cuts in the D/A industry. The Task Force was also to review the Skills Conversion and Technology Utilization project results to determine the degree to which the previous work may provide a "head start" for development of efforts to mitigate the current problems. This proposal has been prepared by the Task Force to initiate the step up of action needed to provide for pilot jobs development activities.

APPENDIX A

SKILLS CONVERSION PROGRAM

Student Load, Staffing and Funds Estimate

1. Two levels of effort are considered as a basis for review of this proposed program. The second level, the Skills Conversion Program, includes the Pilot Program.

   Pilot Program: provides for necessary research of the target sectors and for conduct of as many Skills Conversion Projects classes as can be completed within the two year total time period. In this case, one project will be devoted to each sector considered, except that multiple subcontracts may be activated for two high potential sectors, such as Environmental Remediation.

   Skills Conversion Program: provides for necessary research of the target sectors and conduct of multiple Skills Conversion Projects classes for each sector to be completed during a three year total time period. This program is built on and includes the Pilot Program.

2. The cost and the number of engineers who will complete the Skills Conversion process under the two levels of program are:

	Pilot Program (two years)	Skills Conversion Program
Students completing Skills Conversion Project	2,340	7500
Research Team members returned to job market	260	500
TOTAL engineers processed	2,600	8,000

3. The cost for each engineer processed is estimated to be:

	Pilot Program	Skills Conversion Program
Research and Operations	$4,800	$1,125
Skills Conversion Project	2,000	2,000
SUB TOTAL Skills Conversion	$6,000	$3,125
Unemployment Compensation Supplement	3,000	3,000
TOTAL COST/ENGINEER	$9,800	$6,125

4. Major schedule milestones during the early phases of the programs are:

Notice to proceed	Week 0
First Research Team activated	4
First Skills Conversion Project subcontract release	8
All Research Teams active	20
First class of 30 students complete	30

5. The general assumptions, applicable to the above estimate, provide a basis for review and approval of a total program wherein all of the elements are balanced. It is understood that these assumed requirements are flexible as needed to match funding and time constraints, but changes to requirements under the purview of one funding source may impact activities under other funding sources. The assumptions which apply to both levels of program are:

- Approximately 20 employment sectors will be selected for research.
- Fourteen research teams will be formed, with one team at each geographic location which has been selected because of high engineering unemployment.
- Two teams, staffed with 20 persons, will develop the profile of the engineer population, as well as do research for one or more employment sectors.
- Twelve teams, with 10 persons each will conduct research for one or more employment sectors.
- Program staff and trainees will be recruited and selected from the pool of unemployed engineers.
- Research Team members are compensated at the rate of $35,000 per year.
- Students receive $200 per week to supplement their unemployment benefits.
  NOTE: If this educational living allowance is available from other sources, the number of students can be nearly doubled for the same program cost.
- The average cost of Skills Conversion Projects at the academic institutions is assumed to be $60,000 for a 15 week course for 30 students.
- Research for each employment sector will be limited to a maximum of 8 months.
- Trends evaluation and information dissemination is anticipated to operate on a continuous basis with the provision that staffing will be rotated on a two-year cycle.
- Fourteen Skills Conversion Projects (sub-contracts) will be formed.

- Each Skills Conversion Project class cycle will be 15 weeks in duration.

- Within the limitations imposed by staggering class start-up and the two-year total program duration, each class will be repeated as many times as necessary.

- Approximately 50% of required office space and equipment for the Research teams and for Program Management is to be provided by employers and public agencies at nominal or no cost to the program.

- Volunteer engineer support groups (Employment Advisory Committee - EAC) will be formed at each Research Team and Skills Conversion Project location to provide assistance and counsel. A small budget will be provided to cover out-of-pocket expenses for these groups.

- The total program, except for continuing trends evaluation, results tracking and dissemination of program information, will be scheduled for two years.

In addition to the assumptions which apply to both levels of effort, the following apply to the full Skills Conversion Program:

- The program duration will be three years.

- Each Skills Conversion Project class will be replicated at three additional institutions, or multiple classes will be conducted at each institution.

APPENDIX B

SKILLS CONVERSION PROGRAM

Representative Current News Articles Concerning Employment

The following current news articles demonstrate the depth and breadth of the impact on engineers and other professionals of cutbacks in the Defense/Aerospace industry and of the general restructuring of American business.

- Electronic Engineering Times, January 13, 1992
- San Francisco Examiner, January 9, 1992
- Business Week, October 7, 1991
- San Jose Mercury, September 22, 1991
- Santa Cruz Sentinel, August 4, 1991
- Weekly Reader, Third Grade Edition, March, 1992

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