

May 1999

# Department of Energy Workforce Reduction Community Assistance Can Be Better Targeted



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**Resources, Community, and  
Economic Development Division**

B-282320

May 7, 1999

The Honorable John Warner  
Chairman  
The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Floyd D. Spence  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

Since 1993, the Department of Energy (DOE) has reduced its contractor workforce by 46,000 employees from a high of about 149,000. Brought on by the end of the Cold War,<sup>1</sup> this downsizing has been carried out using the benefits authorized by the National Defense Authorization Act for Fiscal Year 1993. The act requires DOE to develop workforce restructuring plans for minimizing the impact of downsizing at its affected defense nuclear facilities. These plans provide assistance—retraining, early retirement, and other options—for workers affected by the downsizing. DOE also provides assistance to surrounding communities so that they can create and attract new businesses to compensate for the jobs lost in DOE's downsizing.

The Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 required that we, among other things, describe the funds DOE committed to spend (obligated) and spent (expended) for workforce restructuring, compare the separation benefits paid to DOE contractor employees with other organizations' benefits, and describe the criteria used in providing community assistance. The act also required that we describe the length of service for contractor workers separated during fiscal years 1997 and 1998 and analyze the number of jobs created.

To address these matters, we focused on three questions: (1) How much funding has DOE obligated and expended to support its worker and community assistance program for fiscal years 1994 through 1998? (2) Who received benefits during fiscal years 1997 and 1998 and how did

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<sup>1</sup>DOE recognizes Sept. 27, 1991, the date of the first announcement of a unilateral reduction in the nation's nuclear stockpile, as the Cold War's end.

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the separation benefits compare with the benefit packages of other federal and nonfederal organizations? (3) What effect did DOE's criteria have on determining which communities received assistance?

Appendix I describes the length of service for DOE's defense facility contractor workers separated during fiscal years 1997 and 1998. Appendix II describes the length of service for the remaining DOE defense facility contractor workers. As agreed with your offices, in order to assess DOE's job creation efforts, we analyzed the methodology of a 1998 study on the number of jobs created or retained through DOE's program. This analysis is in appendix III.

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## Results in Brief

DOE's assistance to separated contractor workers is reasonably consistent with the types of benefits offered by other government and private employers. However, its community development assistance funds did not necessarily go to those communities most affected by downsizing or those with the highest unemployment. For fiscal years 1994 through 1998, DOE obligated and spent about \$1.033 billion on benefits for the contractor workers and communities affected by its downsizing. About \$853 million was spent on worker assistance and the rest on community assistance. About \$460 million of the \$1.033 billion was provided by DOE's Office of Worker and Community Transition and the remainder by other DOE programs, such as defense and environment. At the end of fiscal year 1998, DOE had a carryover balance of \$72 million, including \$10 million in unobligated funds and \$62 million in funds that were obligated but not yet spent.

Most of the contractor workers separated during fiscal years 1997 and 1998 received benefits under DOE's workforce restructuring program. While DOE generally offered its separated contractor employees a large range of benefits, the value of the benefits varied widely, primarily because of the differences in the benefits packages among sites and in the employees' length of service and base pay. These benefit packages are reasonably consistent with the types of benefits offered by public and private employers. However, the benefit formulas in some of DOE's workforce restructuring plans, such as those determining voluntary separation benefits and extended medical coverage, potentially allow more generous benefits than those offered for federal civilian employees.

DOE's community assistance criteria, which focus on the merits of individual projects and not on a community's relative economic need, do

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not necessarily result in the most assistance going to the communities most affected by its downsizing or with the highest unemployment. For example, for fiscal years 1995 through 1998, the communities surrounding DOE's Richland, Washington, facility had more than twice the unemployment rate and nearly twice the DOE job loss of those surrounding the Rocky Flats, Colorado, facility; but Richland received \$18 million, or 25 percent less than the \$24 million that Rocky Flats received. Had DOE used the unemployment and job lost criteria<sup>2</sup> used by the Department of Commerce's Economic Development Administration to evaluate the request for community assistance, Rocky Flats would have been ineligible for funding, given the strength of its employment. In addition, five of the eight DOE sites that received community assistance would have been ineligible under these criteria at the time of the funding decisions. Furthermore, because most DOE assistance went to communities with relatively strong economies, the extent to which DOE's assistance aided in creating or retaining jobs is not clear.

This report makes a recommendation to improve the criteria that DOE uses in allocating assistance funds among communities.

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## Background

To carry out its mission, DOE relies on contractors for the management, operation, maintenance, and support of its facilities. Since the end of the Cold War, DOE's employees' skill requirements have shifted because the mission at its defense nuclear facilities has expanded from focusing primarily on weapons production to also focusing on cleanup and environmental restoration. In addition, DOE facilities have had to reduce their workforce in response to overall cuts in the federal budget. At the end of fiscal year 1998, total employment by contractors at both DOE defense and nondefense facilities was estimated at about 103,000, down from a high of nearly 149,000 since the beginning of fiscal year 1993. DOE plans to reduce its contractor workforce by another 4,000 employees by the end of fiscal year 2000, leaving it with 99,000 contractor employees.

Section 3161 of the National Defense Authorization Act for Fiscal Year 1993 requires DOE to develop a plan for restructuring the workforce for a defense nuclear facility when there is a determination that a change in the workforce is necessary. These plans are to be developed in consultation with the appropriate national and local stakeholders, including labor,

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<sup>2</sup>The Economic Development Administration, which helps communities to deal with the negative effects of job loss, has threshold criteria that are based on the economic needs of the community.

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government, education, and community groups. The act stipulates, among other things, that

- changes in the workforce should be accomplished to minimize social and economic impacts and, when possible, should be accomplished through the use of retraining, early retirement, attrition, and other options to minimize layoffs;
- employees should, to the extent practicable, be retrained for work in environmental restoration and waste management activities, and if they are terminated, should be given preference in rehiring; and
- DOE should provide relocation assistance to transferred employees and should assist terminated employees in obtaining appropriate retraining, education, and reemployment.

While the act refers only to defense nuclear facilities, the Secretary of Energy determined that, in the interest of fairness, the workforce restructuring planning process would be applied at both defense nuclear facilities and nondefense facilities. DOE's Office of Worker and Community Transition is responsible for coordinating restructuring efforts, reviewing and approving workforce restructuring plans, and reporting on the status of the plans.

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## DOE Has Spent Over \$1 Billion on Its Downsizing Efforts

For fiscal years 1994 through 1998, DOE obligated and spent about \$1.033 billion to provide benefits to contractor workers and communities affected by its downsizing efforts. At the end of fiscal year 1998, DOE had not used all workforce restructuring funds, resulting in a carryover balance of \$72 million. These funds included \$10 million that was unobligated and \$62 million that was obligated but not yet spent (called uncosted balances). The Office of Worker and Community Transition and other DOE programs each provided about half the total funding. Combined, these programs spent about \$853 million on worker assistance, and the remaining \$179 million went to community assistance.

Of the \$1.033 billion spent on worker and community assistance, about \$460 million was provided by the Office of Worker and Community Transition.<sup>3</sup> Roughly two-thirds (\$311 million) of the \$460 million funded assistance to separated DOE contractor employees. More than \$227 million, or 73 percent, of the \$311 million was spent on one-time separation payments and early retirement incentives.

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<sup>3</sup>The \$460 million includes expenditures the Office of Worker and Community Transition classified as administrative.

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The remaining third (\$148 million) assisted local community transition activities, such as new business development. Over the years, the amount of funds available for community assistance has grown. In fiscal year 1994, this assistance accounted for only 6 percent of the funds spent by the Office of Worker and Community Transition. However, by fiscal year 1998, this assistance had grown to 68 percent of funds the Office spent. Meanwhile, overall appropriations for this Office have been declining, from a high of \$200 million in fiscal year 1994 to \$61 million in fiscal year 1998.<sup>4</sup>

At the same time, most of the uncosted balances are attributed to community assistance. Of the \$62 million in uncosted balances at the end of fiscal year 1998, almost \$51 million was for community assistance. Over half of these balances are for communities surrounding two facilities—\$14 million at Oak Ridge and \$13 million at Savannah River.

The remaining \$573 million came from other DOE programs, such as defense and environmental management. According to the Office of Worker and Community Transition, about \$542 million of this amount was spent on worker benefits, and the remaining \$31 million was spent on community assistance.

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## Benefits Went to Most Separated Workers and Contained Similar Types of Benefits Provided in Public and Private Plans

DOE provided separation benefits to about 88 percent of the 5,469 defense facility contractor employees separated during fiscal years 1997 and 1998.<sup>5</sup> While DOE generally offered these employees a wide range of benefits, the value of the benefits varied because of differences in benefit packages among the sites and in the employees' length of service and base pay. DOE offered its separated contractor workers severance packages that were relatively consistent with the types of public and private sector benefits we analyzed. Although, we did not compare the value of the benefits offered to DOE contractor employees with all of the benefits offered by the other public and private employers we reviewed, the benefit formulas in some DOE workforce restructuring plans potentially allow more generous benefits than those offered for federal civilian employees.

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<sup>4</sup>The Office of Worker and Community Transition received an appropriation of \$28.2 million in fiscal year 1999 and has requested a \$30 million appropriation for fiscal year 2000.

<sup>5</sup>Apps. I and II provide information on the lengths of service for defense contractor employees hired before and after the end of the Cold War who (1) received separation benefits during fiscal years 1997 and 1998 and (2) remained as DOE contractor employees.

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## Benefits Were Provided to Most Separated Employees

While the 1993 act focused benefits on defense facilities, DOE provided separation benefits to most of its separated contractor employees. Of the 5,469 contractor workers separated during fiscal years 1997 and 1998, 4,788 received separation benefits. According to DOE, the remaining 681 workers had relatively low seniority and were not eligible for benefits. DOE decided that in the interest of fairness, similar benefits should also apply to contractor workers separated at nondefense facilities. According to our analysis of 10 defense facility workforce restructuring plans for fiscal years 1997 and 1998, almost all plans offered the same types of benefits. While DOE guidance has been updated periodically, the criteria for separation benefits were derived primarily from the fiscal year 1993 legislation.

DOE's criteria require that workforce restructuring plans for each facility minimize impacts for all workers and recognize a "special responsibility" to Cold War workers. One of these criteria is to minimize layoffs through early retirement incentives, voluntary separations, and retraining. However, if layoffs are to occur, the restructuring plans are to provide for adequate notification and funding for education, relocation, and outplacement assistance. DOE criteria were not prescriptive and gave field offices substantial autonomy to determine benefit levels. These plans had to be approved by the Secretary of Energy.

For fiscal years 1997 and 1998, we found that the 10 plans we reviewed offered the same types of benefits. Separation benefits were provided under three types of programs: enhanced retirement, voluntary separation, and involuntary separation. Enhanced retirement provided for full retirement benefits with fewer years of eligibility or service. One plan had provisions that enhanced workers' eligibility by adding 3 years to both their age and years of service. Nine plans had some type of separation payment based on length of service and base pay for those employees voluntarily or involuntarily separated. All plans also included extended medical benefits,<sup>6</sup> which require the contractor to pay its full share of a separated employee's medical insurance payments for the first year after separation and half the contribution during the second year. In all plans, educational assistance was available, usually for up to 4 years after separation. All of the plans included outplacement assistance, some of which consisted of resume-writing workshops, job bulletin boards, and employment search strategies—many provided by an outside contractor. A hiring preference for involuntarily separated workers at other DOE

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<sup>6</sup>Of the 10 plans, 7 provided extended medical coverage to both voluntarily and involuntarily separated workers, and 3 plans offered coverage to voluntarily separated workers.

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contractors' work sites was provided for in 8 of the 10 restructuring plans. The other two plans did not offer rehiring preference because they did not call for involuntarily separating any contractor workers. Eight plans included relocation assistance.

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### The Value of Benefits Varied Widely

While DOE generally offered its separated contractor employees the same types of benefits, the value of these benefits varied because of the differences in the packages among sites and employees' length of service and base pay (which reflects employee job and skill level). For example, in fiscal year 1997, the restructuring plan for the Portsmouth Gaseous Diffusion Plant in Ohio (which covered facilities in both Portsmouth and Paducah, Kentucky) based voluntary separation pay on years of service, with a limit of \$25,000 per worker. Lawrence Livermore National Laboratory in California based its voluntary separation pay on years of service, with employees receiving 2 weeks' pay for each year of service, subject to a limit of 52 weeks. With the 52-week limit on separation payments, Lawrence Livermore's average voluntary separation payment of \$43,939 exceeded Portsmouth's cap of \$25,000.

Table 1 identifies the lowest and highest average benefit amount offered separated contractor workers at defense nuclear sites for fiscal year 1998. For example, the lowest average voluntary separation benefit was \$5,523 (at the Fernald facility in Ohio) and the highest was \$64,907 (at Sandia National Laboratory in New Mexico). The table also identifies the number of separated workers receiving benefits among DOE's defense facilities and the average cost of these benefits. For example, 748 employees at eight sites received voluntary separation payments that averaged \$23,659 per worker.

**Table 1: Range of Average Benefit Costs at Defense Nuclear Facilities, Fiscal Year 1998**

| Type of benefit                  | Lowest average cost per separated worker | Highest average cost per separated worker | Number of workers receiving benefits | Average cost of benefits provided per worker |
|----------------------------------|--|---|--------------------------------------|--|
| Enhanced retirement <sup>a</sup> | \$31,999                                 | \$49,507                                  | 14                                   | \$33,250                                     |
| Voluntary separation             | \$5,523                                  | \$64,907                                  | 748                                  | \$23,853                                     |
| Involuntary separation           | \$2,097                                  | \$67,252                                  | 699                                  | \$10,685                                     |
| Extended medical coverage        | \$979                                    | \$6,657                                   | 1,501                                | \$3,154                                      |
| Relocation assistance            | \$1,583                                  | \$3,577                                   | 19                                   | \$2,052                                      |
| Educational assistance           | \$793                                    | \$2,781                                   | 1,644                                | \$1,662                                      |
| Outplacement assistance          | \$106                                    | \$2,754                                   | 3,213                                | \$603  |

<sup>a</sup>Enhanced retirement benefits generally provided full annuity with fewer years of eligibility or service. The cost figures for the enhanced retirement benefit represent incentive payments provided to workers who retired early.

Source: GAO's analysis of DOE's data.

**DOE Generally Offered Types of Benefits That Were Similar to Those of Other Plans**

DOE generally offered its separated contractor workers benefits that were similar to those offered in public and private sector severance packages—such as education assistance and preference in rehiring. However, some of DOE's voluntary separation benefits were greater than those offered federal employees. For example, the formula for extended medical coverage and the provisions for relocation assistance offered by DOE were more generous than the benefits offered to separated federal civilian employees.

Table 2 shows the types of benefits generally offered and compares these generic benefits with the benefits offered in DOE's workforce restructuring plans, the plans offered by DOE contractors in the absence of DOE's plans, and the plans offered by the military, the federal government to its civilian employees, DOD contractors, and 25 other public and private sector organizations, including DOE-provided information on a survey of private company benefits.

**Table 2: DOE Benefits Compared With Other Public and Private Sector Severance Packages Offered From 1993 Through 1998**

| Type of benefit                        | Workforce restructuring plans  | DOE contractors   | Federal military  | Federal civilian   | DOD contractors   | Public and private organizations  |
|--|--|---|---|--|---|---|
| Early and enhanced retirement benefit  | One plan adds 3 years to age and/or eligibility to allow for early retirement, plus separation payment                             | Two contractors conducted early retirements prior to workforce restructuring plans  | Officers may retire early with 15-20 years service with reduction in annuity                            | May be eligible to retire early at specified age/service combinations with a reduction in annuity, plus separation payment   | Two companies offered early retirement programs; other studies show contractors offered early retirements | Seventeen offered early retirement; 10 with additional incentives; 9 with reduced annuities |
| Voluntary separation benefit           | Lump sum payment, 1-2 weeks per year of service, some with limits of up to 40.5 to 52 weeks of base pay                            | One contractor conducted voluntary separations prior to workforce restructuring plans   | Based on years of service (6-20 years) paid over twice the years of service                             | Lump sum payment based on years of service; \$25,000 maximum   | DOE provided two examples where benefits averaged \$63,000 and \$74,000                                   | Fourteen offered payments, often more than federal government                               |
| Involuntary separation benefit         | Lump sum payment, generally about 1 week a year of service, some with limits of up to 26 weeks of base pay                         | Lump sum payment, 1 week a year of service, no maximum; some hourly employees get no payments   | May receive separation pay if between 6-20 years service; based on years of active service and base pay | Payments at same interval as salary; based on years of service—up to one-year's salary   | Five offered payments in 1997; seven in 1998  | Private survey states that 82% of companies offer involuntary separation benefits           |
| Extended medical coverage <sup>a</sup> | Employer pays its full contribution for first year, about 50% the second, and no contribution for subsequent years (not all plans) | DOE directed in 1992 that employers pay the full contribution for first year about 50% the second, and no contribution for the third year | Both voluntary and involuntary receive extended medical and dental benefits                             | Non-retirees may retain temporary coverage under current plan at worker's expense; <sup>b</sup> retirees may be eligible to retain current medical plan with same contribution | Four combinations offered extended medical benefits in 1997   | Four packages offered extension of medical and/or insurance benefits                        |
| Educational assistance <sup>c</sup>    | All plans include about \$2,000 to \$2,500 a year, for about 1-4 years   | In fiscal years 1991 and 1992, educational assistance was provided to some facilities   | Involuntarily separated workers eligible for Montgomery GI Bill funds                                   | No additional benefits identified  | Two combinations offered educational assistance in 1997   | Four packages offered tuition reimbursement; 23 packages offered some job training          |

(continued)

| Type of benefit         | Workforce restructuring plans   | DOE contractors  | Federal military  | Federal civilian  | DOD contractors   | Public and private organizations   |
|-------------------------|---|--|---|---|---|--|
| Relocation assistance   | All plans reimburse from \$2,000-\$5,000, some up to 1 year after separation (under certain conditions)                 | In fiscal years 1991 and 1992, relocation assistance was provided to some facilities | Travel and transportation allowances for involuntary separations  | May be offered to DOD civilian employees hired by private sector firms                        | None identified   | Twenty-three packages offered relocation assistance to workers separated involuntarily   |
| Outplacement assistance | All plans provided, included access to jobs bulletin board and assistance offices with staff and resources              | Outplacement assistance available for all employees                                  | Employment assistance offered   | Employees are eligible to receive career transition assistance                                | Four combinations provided outplacement assistance in 1997  | Twenty-three packages offered outplacement assistance to workers separated involuntarily |
| Rehiring preference     | Involuntarily separated workers meeting eligibility requirements get hiring preference at all DOE contractor facilities | Collective bargaining agreements require rehiring preference for separated workers   | Priority affiliation with the National Guard and Reserves for involuntary separation                                  | Employees are eligible for reemployment priority  | None identified   | Some had rehiring preferences  |
| Other benefits          | Three plans specifically offer employee counseling services   | All employees offered counseling services  | Continued use of military housing and dependents schools; excess leave and temporary duty for involuntary separations | Ability to convert to individual life insurance and to enroll in employee assistance programs | GAO survey of non-federal employers (which included DOD and some contractors) found use of job and family counseling and other benefits | Twenty-three out of 25 employers offered employee and job counseling or other benefits   |

<sup>a</sup>Under the Consolidated Omnibus Budget Reconciliation Act of 1985, separated employees may retain their health insurance at a rate equal to the full premium for group insurance plus an administrative surcharge.

<sup>b</sup>Benefit limited to 18 months if separated by other than retirement. Worker must also pay full cost and an administrative fee.

<sup>c</sup>Benefits under the Job Training Partnership Act, as amended, are available to separated workers.

**We did not compare the value of the benefits offered to DOE contractor employees with all of the other benefit packages offered by the public and**

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private employers we considered. However, table 2 shows that formulas in DOE's workforce restructuring plans allow for potentially more generous benefits than offered in some of the other benefit plans highlighted in the table. For example, we noted that some of DOE's workforce restructuring benefits had formulas that could provide more benefits than the amount separated federal civilian employees could expect to receive. Some of DOE's benefit formulas would allow for larger severance payments than do federal civilian packages. Voluntarily separated federal civilian employees received a one-time severance payment of 1 week of annual salary per year for up to 10 years' service and 2 weeks of salary per year for more than 10 years' service; with an adjustment for age. This benefit was paid out in a lump sum and was capped at \$25,000. In contrast, while half of the DOE defense workforce restructuring plans we reviewed for fiscal years 1997 and 1998 had caps based on weeks of pay, these caps could exceed \$25,000, depending on a contractor worker's base pay and years of service. As a result, seven workers who received voluntary separation payments at one DOE defense facility averaged \$64,907 each in fiscal year 1998. Furthermore, 65 percent of the 748 employees voluntarily separated during fiscal year 1998 received an average separation payment of over \$25,000.

Among the DOE plans we reviewed, one plan offered enhanced retirement benefits that added years to a contractor worker's age and eligibility to allow for early retirement without penalty and with a cash payment. While federal workers could retire early and receive a separation payment, they were not given added years of age or eligibility and their annuity amount was reduced.

In addition, the formula for extended medical coverage and the provisions for relocation assistance offered by DOE were more generous than the benefits offered to separated federal civilian employees. For extended medical coverage for eligible contractor workers, DOE pays the full employer cost for the first year of separation and about half of that cost in the second year.<sup>7</sup> Separated federal workers who are eligible and wish to retain extended medical coverage must pay the full cost, plus an administrative fee, for the coverage upon separation.

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<sup>7</sup>Of the 10 plans, 7 provided extended medical coverage to both voluntarily and involuntarily separated workers, and 3 plans offered coverage to voluntarily separated workers.

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## DOE's Criteria Do Not Ensure That Most Assistance Goes to the Communities Most Affected by Downsizing or Those With the Highest Unemployment

The use of DOE's criteria does not result in the most assistance going to the communities most affected by DOE's downsizing or those with the highest rate of unemployment. Several communities with low unemployment rates and comparatively fewer DOE job losses received more funds than did communities that had higher rates of unemployment and lost more DOE jobs. Unlike DOE's criteria, the criteria used by the Department of Commerce's Economic Development Administration (EDA) include specific provisions for determining the distribution of economic assistance on the basis of local unemployment and job loss. In applying EDA's criteria to the eight communities that received DOE assistance,<sup>8</sup> we found that only four would have received funds at the time of the decision. Furthermore, because most DOE assistance went to communities with relatively strong economies, the extent to which DOE's assistance aided in the creation or retention of jobs is not clear.

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## Neediest Communities Have Not Received the Most Benefits

DOE's criteria does not result in the most assistance going to the communities most affected by the Department's downsizing. DOE's community assistance guidance has evolved since the program's inception in 1993. DOE's February 1997 Policy and Planning Guidance for Community Transition Activities refined the Department's criteria for evaluating all project and program funding requests in community transition plans.<sup>9</sup> DOE requires communities requesting funds to submit plans describing the impact of the Department's downsizing. These plans "may be based upon community needs and may incorporate an analysis of the socio-economic strengths, weaknesses, opportunities, and threats." In developing their plans, communities are asked to identify the primary and secondary economic impacts likely to result from DOE's downsizing. Communities are instructed to use local information sources to establish a baseline of primary impacts and project factors, such as net job loss, changes in unemployment, loss of wages and disposable income, and business closings. In addition, communities should identify secondary impacts, such as decreases in tax revenues and property values.

Although DOE requires communities to develop plans that include economic impact, DOE focuses its review on the merits of a plan's

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<sup>8</sup>In addition to these eight communities, the communities surrounding the Fernald and Idaho sites received assistance. However, they were not included in this analysis. The communities surrounding the Fernald site were not included because Secretarial decisions justifying assistance are only required for funding over \$1 million. The communities surrounding the Idaho site were not included because they are not within a standard metropolitan statistical area.

<sup>9</sup>This revision responded in part to findings contained in our report entitled Energy Downsizing: Criteria for Community Assistance Needed (GAO/RCED-96-36, Dec. 27, 1995).

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individual projects, not on a community's relative economic need. DOE uses a number of written criteria to evaluate individual projects. These include the project's ability to create at least one job for each \$10,000 to \$25,000 received and to provide jobs for separated DOE workers, induce investment or growth in the production of goods and services, and reduce the community's dependency on DOE. In addition to DOE's written guidance, the Director of the Office of Worker and Community Transition told us that DOE formally uses four criteria prior to submitting a recommendation to the Secretary: (1) economic distress measured by unemployment and the loss of income; (2) job loss relative to the size of the community affected as a measure of economic dependence on DOE; (3) the diversity of employment within a community and the impact of job loss on the economic base; and (4) the overall size of the workforce reduction. However, while the Director said that these are formal criteria, they are not published in the Department's guidance nor are the communities evaluated against these four criteria in the memorandums sent to the Secretary for funding approval.

After completing its review, DOE submits a community's plan to EDA for its independent review. Under the National Defense Authorization Act of 1998, EDA is required to review and approve DOE's community plans. However, rather than using its own criteria, EDA evaluates the community plans using DOE's criteria, set out in DOE's February 1997 guidance.

Table 3 shows the relative disparity between DOE's assistance to the affected communities and communities' unemployment rates or job losses. For example, the communities surrounding Rocky Flats had an average unemployment rate of 3.3 percent for fiscal years 1995 through 1998, lost 2,922 contractor jobs, and received about \$25 million in DOE assistance. In contrast, the communities surrounding Richland had more than twice the unemployment rate and nearly twice the job loss of Rocky Flats during this same time but received only about \$18.5 million in community assistance.

**Table 3: Comparison of Allocated Community Assistance Funds, Fiscal Years 1995 Through 1998**

| Location       | Unemployment rate <sup>a</sup> | Number of separations | Allocated            | Community assistance allocated per job lost |
|----------------|--------------------------------|-----------------------|----------------------|---|
| Fernald        | 3.95                           | 434                   | \$ 411,921           | \$ 949                                      |
| Idaho          | <sup>b</sup>                   | 1,392                 | 20,325,000           | 14,601                                      |
| Kansas City    | 4.00                           | 373                   | <sup>c</sup>         | <sup>c</sup>                                |
| Lawrence       |                                |                       |                      |   |
| Livermore      | 5.89                           | 525                   | <sup>c</sup>         | <sup>c</sup>                                |
| Los Alamos     | 4.55                           | 1,229                 | 10,665,160           | 8,678                                       |
| Mound          | 4.13                           | 398                   | 4,100,000            | 10,302                                      |
| Nevada         | 4.94                           | 2,564                 | 12,320,000           | 4,805                                       |
| Oak Ridge      | 4.17                           | 2,832                 | 16,800,000           | 5,932                                       |
| Pantex         | 3.79                           | 342                   | <sup>c</sup>         | <sup>c</sup>                                |
| Pinellas       | 3.86                           | 812                   | 7,154,700            | 8,811                                       |
| Portsmouth     | <sup>b</sup>                   | 246                   | 5,000,000            | 20,325                                      |
| Richland       | 7.92                           | 5,964                 | 18,475,382           | 3,098                                       |
| Rocky Flats    | 3.33                           | 2,922                 | 24,835,624           | 8,500                                       |
| Savannah River | 6.23                           | 4,734                 | 40,525,625           | 8,561                                       |
| <b>Total</b>   |                                | <b>24,521</b>         | <b>\$160,613,412</b> | <b>\$ 6,486</b>                             |

Note: To compare job creation in nearby communities with the job creation and retention associated with the DOE-approved community organizations, we used statistical areas that included counties similar to the affected counties identified by these organizations.

<sup>a</sup>The average unemployment rate nationwide during this period was 5.19 percent.

<sup>b</sup>DOE facilitates in these parts of Idaho and Ohio do not have standard metropolitan statistical areas.

<sup>c</sup>Did not apply for funds.

Source: GAO's analysis of DOE's and the Department of Labor's information.

### Some Community Assistance Would Have Been Ineligible Under Other Criteria

Applying EDA's job loss and unemployment criteria to DOE's community assistance funding decisions for fiscal years 1995 through 1998, we found that some communities that received assistance under DOE's criteria would not be eligible under EDA's criteria. EDA—which helps communities recover from the effects of job losses—has threshold criteria for its economic assistance that are based on job loss and unemployment. Under EDA's regulations in effect during this period, communities in a standard metropolitan statistical area suffering from sudden and severe economic distress were eligible for EDA's assistance if, among other things, they met

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one of the following tests: (1) the area's unemployment rate was equal to or less than the national average and 1 percent of the employed population, or 8,000 jobs, were lost or (2) the area's unemployment rate was greater than the national average and .5 percent of the employed population, or 4,000 jobs, were lost. While EDA's internal guidance further stated that employees subject to DOE downsizing were eligible for assistance, this provision was not a legal requirement until February 1999.<sup>10</sup> Using EDA's criteria to assess DOE's funding decisions for the eight communities that received assistance for the fiscal year 1995 through 1998 period and where comparable data were available, we found that nine of the 21 decisions (some communities had more than one funding decision), representing four of the eight communities, did not meet these criteria. Appendix IV shows this analysis.

These nine decisions provided about \$51 million to five communities surrounding the Mound, Pinellas, Nevada<sup>11</sup>, Oak Ridge, and Rocky Flats facilities. The remaining 12 decisions provided about \$57 million to the four other communities surrounding the Los Alamos, Nevada, Richland, and Savannah River facilities. In the Secretarial decision memorandums we reviewed, DOE justified awarding some of its funds on the basis of economic conditions at the county level and impacts on the economic diversity of the communities surrounding a facility, rather than on the standard metropolitan statistical areas. However, these criteria are not in DOE's written guidance.

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### The Effect of DOE's Assistance Is Uncertain Because of a Strong Economy

Since 1993, jobs in the national economy have grown rapidly, bringing unemployment rates to their lowest levels in decades. Because of the strong national and local economies, DOE's contribution to job growth was uncertain in communities that received its assistance. For example, table 3 shows that six of the eight communities (excluding communities surrounding the Fernald and Idaho facilities) that received community assistance had a local unemployment rate lower than the national average of 5.19 percent for the 1995 through 1998 period. As discussed in appendix

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<sup>10</sup>In response to the Economic Development Administration Reform Act of 1998, EDA revised its regulations. After Feb. 11, 1999, the criteria are no longer limited to an event-related job loss but include per capita income, prevailing unemployment, and other factors. Specifically, an area meets the criteria if it has (1) 80 percent or less of the national average per capita income, (2) an unemployment rate of at least 1 percent greater than the national average, or (3) a special need. Special need criteria include, among other things, economies that are injured by Department of Energy defense-related funding reductions.

<sup>11</sup>DOE made three community assistance funding decisions for its Nevada facility during the fiscal year 1995 through 1998 time period. Our analysis shows that two of these decisions would not have met EDA's criteria, while one would have met the criteria.

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III, defining DOE's contribution to community job creation is difficult because job creation measurements have not differentiated between jobs that DOE created, those created by other assistance, or those created by the economy as a whole.

While determining DOE's contribution to overall job growth is difficult, comparing the number of jobs created in the local communities with the ones DOE reports it has created or retained provides a rough measure of DOE's impact. In doing this comparison, we found that DOE's contribution had a relatively small impact on the growth of jobs in three of the six communities surrounding nuclear defense facilities for which we had comparable data. For the six sites for which comparable data on local job creation were available, DOE was responsible for about 1.8 percent of the total jobs created. For example, although the overall economy in the Denver area surrounding the Rocky Flats facility created 170,367 jobs, DOE's contribution to that growth was 1,191 jobs, or .7 percent. However, in Richland, DOE's contribution appears to be more significant. At this location, DOE contributed to about 36.1 percent of the job growth. Table 4 compares the increase in the number of jobs created in local economies with the number of jobs that were created or retained by DOE's community assistance program.

**Table 4: Comparison of Increase in Employment in Local Economy to DOE Job Creation and Retention, Fiscal Years 1994 Through 1997**

| <b>Location</b> | <b>Increase in employment in local economy<sup>a</sup></b> | <b>Jobs DOE helped to create or retain<sup>b</sup></b> | <b>Percentage of DOE-created jobs in local economy</b> |
|-----------------|--|--|--|
| Los Alamos      | 2,360  | 570  | 24.2   |
| Nevada          | 151,075  | 1,645  | 1.1  |
| Oak Ridge       | 13,485   | 2,901  | 21.5   |
| Pinellas        | 113,529  | 1,323  | 1.2  |
| Richland        | 2,108  | 762  | 36.1   |
| Rocky Flats     | 170,367  | 1,191  | .7   |
| <b>Total</b>    | <b>452,924</b>   | <b>8,392</b>   | <b>1.9</b>   |

Note: To compare the increase in employment in nearby communities with the job creation and retention associated with the DOE-approved community organizations, we used Office of Management and Budget Bulletin 98-06 to identify statistical areas and counties for comparison with the affected counties identified by these organizations. For Idaho Falls, Mound, Fernald, and Savannah River, it was difficult to identify similar counties; therefore we did not provide a comparison. For Lawrence Livermore National Laboratory, Kansas City Plant, and Pantex Plant, there were no DOE community organizations.

<sup>a</sup>Information on jobs created in the local economies was provided by the Bureau of Labor Statistics. We calculated local job creation for fiscal years 1994 through 1997 by subtracting the number of persons employed as of Sept. 30, 1993, from the number of persons employed as of Sept. 30, 1997.

<sup>b</sup>The DOE data on job creation and retention was obtained from a report entitled Study on the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs (Germantown, Md.: Booz, Allen & Hamilton, Inc., Sept. 30, 1998). Because the DOE data identify jobs created and retained, while the Bureau of Labor Statistics data identify only job creation, the data are not directly comparable.

While DOE estimated that it helped to create or retain 8,392 jobs in the communities surrounding the sites listed in table 4, it is difficult to directly link DOE's community assistance to job creation and retention. To illustrate this point, the Director of DOE's Office of Worker and Community Transition mentioned the difficulty in showing a direct relationship to job creation at the Bridgestone/Firestone, Inc. plant near Savannah River. Bridgestone/Firestone, Inc. is investing \$435 million in a new tire facility that will eventually employ 800 workers. The company received assistance from DOE as well as from other government sources; however, without a strong national economy, it might not have expanded its tire production.

## Conclusions

DOE's criteria for assessing community assistance requests focus on the merits of individual projects and not on a community's relative economic need. This focus has resulted in some communities with relatively lower job losses or unemployment rates receiving more financial assistance than

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those with higher job losses or unemployment rates. The most effective and efficient use of federal resources would be to provide relatively more funding to those communities that have a greater need. Need-based criteria exist for DOE to use in developing an allocation formula that targets needs to these communities, such as that used by the Department of Commerce's Economic Development Administration. Furthermore, if DOE believes that other factors, such as diversity of employment within a community, more accurately reflect the economic impact of DOE restructuring, then it needs to identify these factors in its criteria. In addition, DOE should demonstrate that these other factors document the best allocation of community assistance resources to those with the greatest economic need.

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## Recommendation

In order to target financial assistance to those communities that need it the most, we recommend that the Secretary of Energy revise the Department's criteria for administering community assistance so that aid is more focused on economic need. One way of doing this would be to develop community financial assistance criteria similar to those used by the Economic Development Administration in its existing guidance. These could include such factors as a community's unemployment rate and the impact of federal job loss on the local economy.

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## Agency Comments

We sent a draft of this report to the Department of Energy for its review and comment. The Department stated that the draft report inaccurately portrayed its worker and community transition program because it contained numerous factual errors and inappropriate comparisons.

First, the Department questioned our recommendation because it believes that the criteria it uses for providing community transition assistance are consistent with the statutory direction provided by the Congress and the regulations developed by the Department of Commerce. Furthermore, the Department said that it does consider economic need in awarding community assistance grants. We are not disputing the criteria's conformance with statute or regulation. However, we believe that these criteria could be improved. While approval memorandums for individual projects discuss some of the affected communities' economic conditions, DOE's written criteria do not. For example, DOE's March 18, 1998, memorandum allocating \$4.5 million for fiscal year 1998 for assistance to communities surrounding the Department's Portsmouth facility, found that a four-county area surrounding the facility experienced unemployment

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rates double the state's average and that one in four people in this area lived in poverty. If DOE believes such county-level economic factors are important, then it needs to make these factors part of its written criteria for allocating community assistance. DOE should also demonstrate that these factors document the best allocation of community assistance resources to those with the greatest economic need. Therefore, we believe that DOE's criteria could be improved by explicitly describing the economic factors it will consider in determining relative need when allocating funds among affected communities.

Second, the Department said that the benefits it provides to separating contractor employees were consistent with the practices of other private and public organizations and are comparable in value. On the basis of additional information provided by DOE, we revised our report to show that the types of benefits offered were reasonably consistent with the practices of other private and public organizations. We did not compare the value of the benefits offered to DOE contractor employees with all the other benefit packages offered by the public and private employers we reviewed. However, some of the formulas in DOE's workforce restructuring plans, such as those determining voluntary separation benefits and extended medical coverage, potentially allow for more generous benefits than offered in some of the other benefit plans we describe in the table.

DOE's comments and our evaluation of them are provided in appendix V.

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## Scope and Methodology

To determine the amount of funds DOE has obligated and expended in support of its worker and community assistance program for fiscal years 1994 through 1998, we reviewed budget records and talked to officials in DOE's Office of Worker and Community Transition and the Office of the Chief Financial Officer.

To determine who received benefits during fiscal year 1997 and 1998 and to compare the types of benefits with the benefit packages of other federal and private organizations, we reviewed program criteria and reports from the Office of Worker and Community Transition, federal laws, and Office of Personnel Management publications governing federal civilian and military benefits. In addition, we reviewed DOE's workforce restructuring plans for nuclear defense facilities for fiscal years 1997 and 1998, GAO and DOE Inspector General reports, the National Defense Authorization Act of 1993, and other relevant legislation. We also discussed with DOE officials the benefits provided under their restructuring efforts. However, we did

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not attempt to compare the value of DOE's benefits with the value of the benefits provided by other federal and private organizations.

To examine the results of DOE's criteria for determining which communities should receive assistance, we interviewed officials in DOE and the Department of Commerce's Economic Development Administration. We also reviewed DOE's policy, operating guidelines, and documentation of the approval process; the interagency agreement between DOE and Commerce; and individual communities' transition plans. We obtained economic information from an online database containing Department of Labor and Department of Commerce statistics. We used these statistics in conjunction with the statistics provided in DOE's Office of Worker and Community Transition annual reports for fiscal years 1993 through 1998.

To describe the contractor workforce in terms of length of service for Cold War workers and non-Cold War workers, we used data that the Office of Worker and Community Transition requested from its contractors' databases. This information identified those individuals who were separated during fiscal years 1997 and 1998 and those currently employed at defense facilities.

To analyze the extent to which the methodology used in a 1998 consultant study can be relied upon to evaluate the number of jobs DOE created or retained through its worker and community assistance program, we reviewed the study and the consultant's supporting workpapers. We also interviewed the consultant's investigators.

We did not independently verify the data provided by DOE, its contractors, or DOE's consultant. The consultant verified a sample of DOE's job creation data. Data on community assistance and job creation and retention are contained in DOE's annual reports to the Congress on its workforce restructuring activities. We used Department of Labor data, which is commonly used, to estimate job growth in surrounding communities. We conducted this work in accordance with generally accepted government accounting standards from January 1999 through April 1999.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days after the date of this letter. At that time, we will send copies of this report to Senator Ted Stevens, Chairman, and Senator Daniel Inouye, Ranking

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Minority Member, Subcommittee on Defense, Senate Committee on Appropriations; and Representative Jerry Lewis, Chairman, and Representative John Murtha, Ranking Minority Member, Subcommittee on Defense, House Committee on Appropriations. We will also make copies available to others on request.

If you or your staff have any questions about this report, please call me at (202) 512-3841. Major contributors to this report were Jeffrey Heil, Tim Minelli, Robert Antonio, Greg Hanna, Kendall Pelling, and Sandy Joseph.



Susan D. Kladiva  
Associate Director, Energy,  
Resources, and Science Issues

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**Abbreviations**

DOE      Department of Energy  
 EDA      Economic Development Administration

# Length of Service of Workers Separated at DOE Defense Facilities, Fiscal Years 1997 and 1998

As table I.1 shows, the Department of Energy (DOE) separated 5,469 defense nuclear workers during fiscal years 1997 and 1998, with Cold War workers—those workers hired on or before September 27, 1991—accounting for 4,094 of the separations and non-Cold War workers—those hired after September 27, 1991—accounting for 1,375 separations. For all separated workers, the overall average length of service was 8.6 years. Cold War workers averaged 14.6 years of service overall, ranging from an average of 8 to 26.5 years among the 13 sites. Non-Cold War workers averaged 2 years of service overall, ranging from an average of 1.1 to 4.9 years among the sites. The percentage of Cold War workers separated at individual sites ranged from 100 percent to 33 percent.

**Table I.1: Separations at Defense Sites, Fiscal Years 1997 and 1998**

| Site                 | All workers       | Cold War workers |                          |                              | Non-Cold War workers |                          |                              |
|----------------------|-------------------|------------------|--------------------------|------------------------------|----------------------|--------------------------|------------------------------|
|                      | Total separations | Number separated | Average years of service | Percent of total separations | Number separated     | Average years of service | Percent of total separations |
| Idaho                | 0                 | 0                | 0                        | 0                            | 0                    | 0                        | 0                            |
| Kansas City          | 373               | 363              | 25.8                     | 97                           | 10                   | 2.3                      | 3                            |
| Lawrence             | 253               | 219              | 17.3                     | 87                           | 34                   | 3.7                      | 13                           |
| Los Alamos           | 2                 | 2                | 16.0                     | 100                          | 0                    | 0.0                      | 0                            |
| Nevada               | 545               | 282              | 11.2                     | 52                           | 263                  | 1.1                      | 48                           |
| Oak Ridge            | 1516              | 1307             | 20.2                     | 86                           | 209                  | 4.3                      | 14                           |
| Ohio (Fernald)       | 3                 | 1                | 8.0                      | 33                           | 2                    | 2.0                      | 67                           |
| Ohio (Mound)         | 174               | 162              | 17.7                     | 93                           | 12                   | 3.4                      | 7                            |
| Pantex               | 342               | 268              | 24.6                     | 78                           | 74                   | 3.3                      | 22                           |
| Richland             | 882               | 423              | 13.5                     | 48                           | 459                  | 3.4                      | 52                           |
| Rocky Flats          | 455               | 327              | 13.0                     | 72                           | 128                  | 3.0                      | 28                           |
| Sandia               | 375               | 352              | 26.5                     | 94                           | 23                   | 4.9                      | 6                            |
| Savannah River       | 549               | 388              | 9.1                      | 71                           | 161                  | 4.5                      | 29                           |
| <b>Total/average</b> | <b>5,469</b>      | <b>4,094</b>     | <b>14.6</b>              | <b>75</b>                    | <b>1,375</b>         | <b>2.0</b>               | <b>25</b>                    |

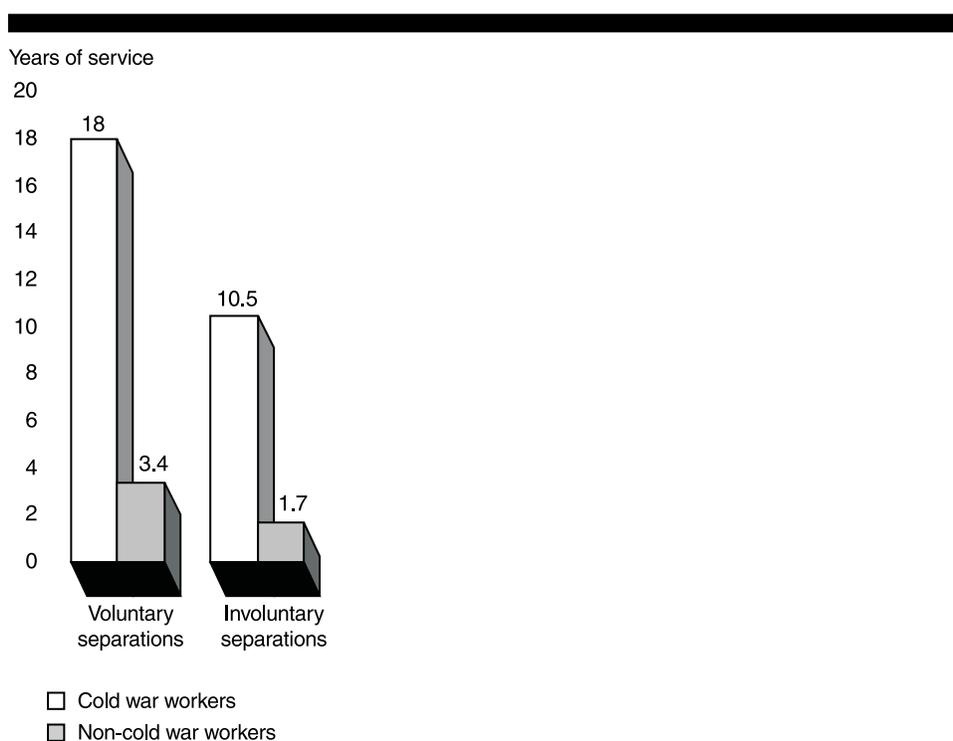
Source: DOE's Office of Worker and Community Transition.

DOE data show that contractor employees who were voluntarily separated had more years of service than those who were separated involuntarily in fiscal years 1997 and 1998. The Cold War workers who voluntarily separated had an average of 18 years of employment. The Cold War workers who were involuntarily separated had 10.5 years of employment.

**Appendix I**  
**Length of Service of Workers Separated at**  
**DOE Defense Facilities, Fiscal Years 1997**  
**and 1998**

Overall, the non-Cold War workers separated averaged 2 years of employment. Non-Cold War workers who voluntarily separated averaged 3.4 years of employment, while those who were involuntarily separated averaged only 1.7 years of employment. Figure I.1 shows the lengths of service for these groups of workers.

**Figure I.1: Length of Service for Cold War and Non-Cold War Workers, Fiscal Years 1997 and 1998**

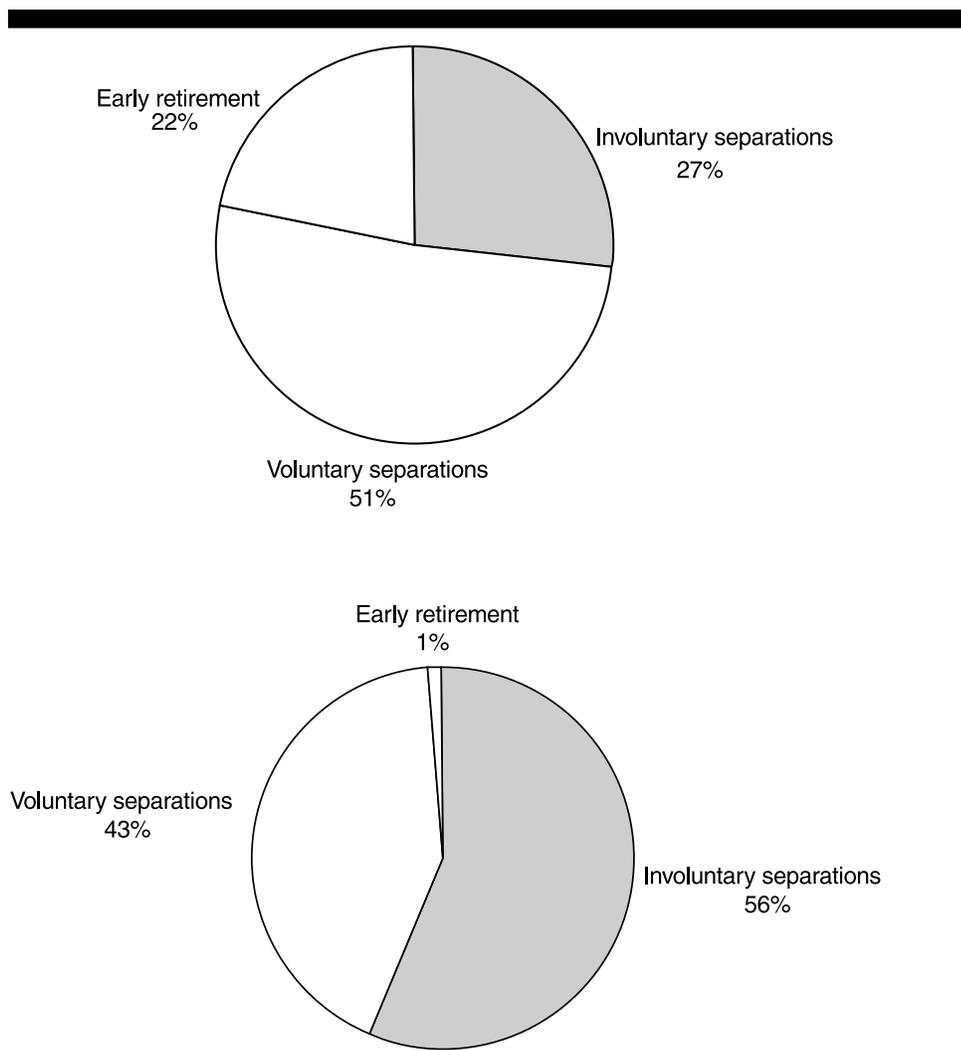


Source: DOE's Office of Worker and Community Transition.

Figure I.2 shows that the number of involuntary separations has been increasing as a percentage of all separations. Between fiscal year 1995, when most of the restructuring actions took place, and fiscal year 1998, the percentage of involuntary separations increased from 27 percent to 56 percent. DOE reported that because the number of older, eligible individuals in the workforce has decreased, there is a trend toward a greater use of involuntary separations.

**Appendix I**  
**Length of Service of Workers Separated at**  
**DOE Defense Facilities, Fiscal Years 1997**  
**and 1998**

**Figure I.2: Composition of Separations at Defense Sites, Fiscal Years 1995 and 1998**



Note: Top figure shows 1995 separations and lower figure shows 1998 separations.

Source: DOE's Office of Worker and Community Transition.

# Length of Service of Remaining Work Force at DOE Defense Facilities, Fiscal Year 1998

In table II.1, DOE data show that the remaining 76,010 defense nuclear workers reflect roughly the same percentage of Cold War and non-Cold War workers as the recently separated workforce. The overall average length of service is 14 years, 16.7 years for Cold War workers and 4.4 years for non-Cold War workers. Individual site averages ranged from 12.6 to 20.2 years for Cold War workers and from 2.1 to 5 years for non-Cold War workers. At individual sites, the percentage of Cold War workers ranged from 33 percent to 91.3 percent.

**Table II.1: Length of Service of Remaining Work Force at DOE Defense Facilities, Fiscal Year 1998**

| Site                 | All remaining workers |                          | Cold War workers |                          |                          | Non-Cold War workers |                          |                          |
|----------------------|-----------------------|--------------------------|------------------|--------------------------|--------------------------|----------------------|--------------------------|--------------------------|
|                      | Number                | Average years of service | Number           | Average years of service | Percent of total workers | Number               | Average years of service | Percent of total workers |
| Idaho                | 5,743                 | 13.0                     | 4,679            | 15.0                     | 81                       | 1,064                | 4.0                      | 19                       |
| Kansas City          | 3,256                 | 18.7                     | 2,972            | 20.2                     | 91                       | 284                  | 2.8                      | 9                        |
| Lawrence Livermore   | 6,608                 | 15.8                     | 5,566            | 18.0                     | 84                       | 1,042                | 4.0                      | 16                       |
| Los Alamos           | 7,009                 | 13.4                     | 4,916            | 17.3                     | 70                       | 2,093                | 4.2                      | 30                       |
| Nevada               | 2,515                 | 12.4                     | 1,795            | 16.5                     | 71                       | 720                  | 2.1                      | 29                       |
| Oak Ridge            | 12,367                | 17.1                     | 10,695           | 19.0                     | 86                       | 1,672                | 4.6                      | 14                       |
| Ohio (Fernald)       | 1,977                 | 6.6                      | 653              | 12.6                     | 33                       | 1,324                | 3.7                      | 67                       |
| Ohio (Mound)         | 667                   | 16.5                     | 579              | 18.4                     | 87                       | 88                   | 3.8                      | 13                       |
| Pantex               | 2,856                 | 12.8                     | 1,718            | 18.5                     | 60                       | 1,138                | 4.2                      | 40                       |
| Richland             | 9,309                 | 11.1                     | 6,203            | 14.9                     | 67                       | 3,106                | 3.6                      | 33                       |
| Rocky Flats          | 3,120                 | 12.1                     | 2,452            | 14.5                     | 79                       | 668                  | 3.4                      | 21                       |
| Sandia               | 7,501                 | 15.4                     | 5,880            | 18.3                     | 78                       | 1,621                | 5.0                      | 22                       |
| Savannah River       | 13,082                | 12.9                     | 11,258           | 14.3                     | 86                       | 1,824                | 4.4                      | 14                       |
| <b>Total/average</b> | <b>76,010</b>         | <b>14.0</b>              | <b>59,366</b>    | <b>16.7</b>              | <b>78</b>                | <b>16,644</b>        | <b>4.4</b>               | <b>22</b>                |

Source: DOE's Office of Worker and Community Transition.

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# Consultant's Study Estimated the Number of Jobs DOE Helped to Create and Retain

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Under the National Defense Authorization Act for Fiscal Year 1998,<sup>12</sup> the Secretary of Energy was required to have an independent auditing firm study the effects of DOE's workforce restructuring plans. Booz-Allen & Hamilton, Inc., which was awarded the contract, issued its report on September 30, 1998. While the study's methodology reasonably estimates the number of jobs that DOE "was helping" to create or retain, it is difficult to know the extent to which DOE should receive full credit for these jobs because the consultant was not asked to (1) measure the impact of other assistance in creating or retaining jobs or (2) analyze the extent to which a strong economy helped to produce these jobs.<sup>13</sup> The consultant's report, Study of the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs, was based upon the consultant's visits to affected DOE sites, related communities, and their new businesses. The consultant verified and/or estimated that about 22,000 jobs were created or retained in those communities.

The act required that the study include an analysis of the number of jobs created by any employee retraining, education, and reemployment assistance and any community impact assistance provided in each workforce restructuring plan. However, the consultant used the category job retention because DOE collected information for jobs retained and one of the objectives of the act that originally authorized the worker transition program was, to the extent practicable, to retain workers in other jobs at the site to avoid layoffs. DOE defined created jobs as those that did not previously exist and retained jobs as those that held the existing work force in place and provided substitute employment for at-risk or displaced workers within a defined geographic area. The consultant's report concluded that DOE had a positive impact on mitigating the social and economic impacts of the DOE transition by helping to create or retain more than 22,000 jobs.

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## Consultant's Methodology Reasonably Estimates the Number of Jobs Created or Retained

The consultant used a reasonable methodology to determine that jobs were created or retained in the communities that received DOE assistance. The consultant employed several approaches in its evaluation. It validated DOE's reported job creation and retention figures by surveying DOE field offices and community reuse organizations to collect data on business development and job creation. It visited the Oak Ridge, Mound, and

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<sup>12</sup>Section 3153 of Public Law 105-85 included the requirement for the study.

<sup>13</sup>DOE defines job creation as "the act of creating jobs that did not previously exist in a defined marketplace" and defines job retention as "holding in place the existing work force and providing substitute employment for at-risk or displaced workers within a defined geographic area."

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Richland facilities and about 60 businesses receiving DOE assistance. It also conducted telephone interviews with all DOE sites participating in the program. Furthermore, it reviewed DOE and the communities' methodologies for determining created and retained jobs

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**Scope of the Consultant's**  
**Job Creation and Retention**  
**Analysis Limited**

While this methodology provides reasonable results for the jobs created or retained, the consultant's scope of work did not include an analysis of (1) the impact of other assistance in creating or retaining jobs and (2) the extent to which the strong economy helped to produce these jobs.

First, the methodology did not include the impact of other assistance. Both the consultant and DOE acknowledged the difficulty in estimating job creation and retention for specific programs. Therefore, the consultant and DOE both used the qualifier that the Department's program "was helping" to create or retain these jobs. The Director of DOE's Office of Worker and Community Transition told us that it is difficult to directly link program stimulus to job creation and retention. To illustrate this point, Bridgestone/Firestone, Inc. is investing \$435 million in a new tire facility that will eventually employ 800 workers near Savannah River. South Carolina, Aiken County, the Department of Commerce, and DOE are also contributing funding for infrastructure development in support of this facility. In this case, DOE, along with three other government entities, each helped to create these jobs.

Second, another difficulty is separating DOE's contribution to job creation from the effects of a strong economy. Since 1993, jobs in the national economy grew rapidly, bringing unemployment rates to their lowest levels in decades. While Bridgestone/Firestone, Inc. received government assistance, the company may not have been looking to expand its tire production capacity without a strong national economy in which to sell its tires. Furthermore, the local economy can be a significant factor in creating jobs. As discussed earlier in the report, table 4 shows the relatively small impact DOE had on job creation in some communities.

# Application of Economic Development Administration Criteria to DOE Funding Decisions, Fiscal Years 1995 Through 1998

| Decision place | Date of decision | Regional unemployment rate for 2 years leading up to decision date | National unemployment rate for 2 years leading up to decision date | Number of DOE separations for 3-year period surrounding decision date <sup>a</sup> | Average number of people employed for 2 years up to decision date in metropolitan statistical area | Met overall EDA eligibility? |
|----------------|------------------|--|--|--|--|------------------------------|
| Mound          | 10/21/94         | 5.37   | 6.72   | 824  | 443,005  | No                           |
| Richland       | 11/1/94          | 7.36   | 6.66   | 5,082  | 84,800   | Yes                          |
| Richland       | 4/16/96          | 7.47   | 5.72   | 5,557  | 86,844   | Yes                          |
| Richland       | 1/20/98          | 8.35   | 5.17   | 882  | 85,706   | Yes                          |
| Pinellas       | 12/20/94         | 5.93   | 6.58   | 766  | 997,404  | No                           |
| Pinellas       | 4/15/96          | 4.64   | 5.72   | 812  | 1,039,430  | No                           |
| Pinellas       | 7/11/97          | 4.15   | 5.50   | 621  | 1,063,758  | No                           |
| Nevada         | 2/22/95          | 6.86   | 6.43   | 2,919  | 518,514  | Yes                          |
| Nevada         | 3/25/96          | 5.82   | 5.75   | 2,451  | 555,462  | No                           |
| Nevada         | 1/20/98          | 4.80   | 5.17   | 545  | 617,700  | No                           |
| Los Alamos     | 11/17/95         | 3.48   | 5.93   | 1,210  | 70,677   | Yes                          |
| Los Alamos     | 11/9/95          | 3.48   | 5.93   | 1,210  | 70,677   | Yes                          |
| Los Alamos     | 5/13/96          | 3.92   | 5.68   | 1,210  | 70,518   | Yes                          |
| Oak Ridge      | 5/9/97           | 4.38   | 5.44   | 2,286  | 326,147  | No                           |
| Oak Ridge      | 4/3/98           | 4.26   | 5.06   | 1,516  | 325,050  | No                           |
| Rocky Flats    | 7/2/97           | 3.61   | 5.38   | 1,418  | 1,023,731  | No                           |
| Savannah River | 4/23/96          | 6.40   | 5.72   | 4,953  | 189,093  | Yes                          |
| Savannah River | 5/22/97          | 6.77   | 5.44   | 1,659  | 188,058  | Yes                          |
| Savannah River | 12/2/97          | 6.54   | 5.21   | 975  | 189,210  | Yes                          |
| Savannah River | 8/20/98          | 6.07   | 4.88   | 975  | 191,155  | Yes                          |
| Savannah River | 9/29/98          | 6.00   | 4.86   | 975  | 191,433  | Yes                          |

<sup>a</sup>Represents the separations for a 3-year period before, during, and after, the decision date. Separations for some decisions in fiscal year 1995 may be overstated because DOE reports separation numbers for fiscal years 1993 and 1994 together. Separations for decisions made in fiscal year 1998 may be understated because potential separations for fiscal year 1999 were not included.

Source: GAO Analysis of EDA criteria, and DOE's Office of Worker and Community Transition's and Department of Labor's statistics.

# Comments From the Department of Energy

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



## Department of Energy

Washington, DC 20585

April 7, 1999

The Honorable David M. Walker  
Comptroller General of the United States  
General Accounting Office  
441 "G" Street, N.W., Room 7100  
Washington, D.C. 20548

Subject: Comments on GAO's Draft Report (GAO/RCED-99-135), *Department of Energy Workforce Reductions: Assistance to Communities Can Be Better Targeted*

Dear Mr. Walker:

We thank you for the opportunity to comment on the above referenced GAO draft report prior to publication. The Department of Energy is concerned that the draft report inaccurately portrays the Department of Energy's Worker and Community Transition program. The report contains numerous factual errors that, along with inappropriate comparisons, raise basic questions about the validity of the recommendation and major findings contained in the document.

The Department's community transition program is successfully mitigating the economic impacts of defense-related downsizing and helping accelerate cleanup, closure and reuse of unneeded facilities such as the Pinellas Plant in Largo, Florida. The Department's criteria for providing community transition assistance are consistent with statutory direction provided by the Congress and regulations developed by the Department of Commerce. And the Department carefully considers economic need in the award of grants to impacted communities.

The Department's work force restructuring program has successfully mitigated 46,000 reductions in our contractor work force over the past five years – a reduction of almost one-third. Benefits provided to separating employees were consistent with practices of other private and public organizations and are comparable in value according to an independent audit prepared by Booz-Allen & Hamilton in September 1998.

Attached is a summary of our comments on the report, a longer memorandum detailing our responses to your recommendation and specific statements contained in the report, and a document listing the basic factual errors we hope can be addressed prior to final publication. Again, we thank you for the opportunity to provide our comments.

Respectfully,

A handwritten signature in black ink, appearing to read "Bob DeGrasse".

Robert W. DeGrasse, Jr.  
Director, Office of Worker and  
Community Transition

**SUMMARY OF DOE RESPONSE TO GAO DRAFT REPORT**

**GAO RECOMMENDATION**

*In order to target financial assistance to those communities that need it the most, we recommend that the Secretary of Energy revise the Department's criteria for administering community assistance so that aid is focused on economic need. One way of doing this would be to adopt community financial assistance criteria similar to that used by the Economic Development Administration. These could include such factors as community unemployment rate and the impact of federal job loss on the local economy (page 20).*

**DOE RESPONSE**

The Department of Energy's criteria for awarding community financial assistance are consistent with Congressionally-mandated criteria as established by sections 209 and 301 of the Economic Development Administration and Appalachian Regional Development Reform Act of 1998, and assure that aid is focused on economic need. The Department of Commerce's Economic Development Administration (EDA) must approve each community proposal before funding is provided and economic need criteria are a key factor in their approval process.<sup>1</sup> The Department's *Policy and Planning Guidance for Community Transition Activities* contains explicit criteria for assuring that economic assistance is provided to communities suffering economic hardship.<sup>2</sup> Each Secretarial decision memorandum approving community assistance formally addresses the economic need fulfilled by the funding to be provided.<sup>3</sup> An independent audit last year found that: "The principal criteria for providing assistance to DOE sites and adjacent communities was degree of need, driven by how many workers were impacted by the transition."<sup>4</sup> DOE table 1 demonstrates that each community provided assistance by the Department of Energy meets at least one economic need threshold criteria established by the Congress for such assistance.

See comment 1.

See comment 2.

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<sup>1</sup> *Final Economic Development Administration Summary, Northern New Mexico Regional Development Corporation, Economic Development Administration, U.S. Department of Commerce, July 21, 1998.* "Of the three most affected counties, Río Arriba, Taos, and Santa Fe: the first two have double digit unemployment and an average PCI of 55 and 64 percent, respectively....the tri-county area has traditionally been heavily dependent on the Federal government."

<sup>2</sup> *Policy and Planning Guidance for Community Transition Activities, U.S. Department of Energy, February 1997, p. 5,* reads: "The purpose of this assistance is to fund the activities deemed most likely to reduce the community's dependence on the Department and to mitigate the negative impacts on communities resulting from the downsizing of defense nuclear facilities."

<sup>3</sup> See DOE Appendix II in our full response that lists the economic need determinations for each community assistance grant above \$1 million made by DOE for the past three years.

<sup>4</sup> *Study of the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs (Booz-Allen & Hamilton, Inc., September 30, 1998), p. 7.*

**Appendix V**  
**Comments From the Department of Energy**

**TABLE 1**  
**CRITERIA FOR ECONOMIC DEVELOPMENT ASSISTANCE**

| Site                     | Peak Annual Unemployment Rate between 1993-1998 | Average National Unemployment Rate <sup>1</sup> | Total Contractor Separations (1993-1998) | Economic Development Assistance Criteria Established by Congress <sup>2</sup> |                            |
|--------------------------|---|---|--|---|----------------------------|
|                          |   |   |  | Unemployment or Low Income  | Special Needs <sup>3</sup> |
| Fernald                  | 6.6% (1993)                                     | 6.9%  | 2,412                                    | ✓*  | ✓                          |
| Idaho                    | 4.4% (1993)                                     | 6.9%  | 2,158                                    |   | ✓                          |
| Rio Arriba (Los Alamos)  | 13.4% <sup>4</sup> (1996)                       | 5.4%  | 892                                      | ✓   | ✓                          |
| Mound                    | 5.4% (1993)                                     | 6.9%  | 1,043                                    | ✓*  | ✓                          |
| Nevada                   | 7.3% (1993)                                     | 6.9%  | 5,157                                    | ✓*  | ✓                          |
| Roane County (Oak Ridge) | 7.3% (1997)                                     | 4.9%  | 4,776                                    | ✓   | ✓                          |
| Pinellas                 | 6.0% (1993)                                     | 6.9%  | 1,382                                    | ✓*  | ✓                          |
| Richland                 | 8.4% (1996)                                     | 5.4%  | 7,942                                    | ✓   | ✓                          |
| Rocky Flats              | 4.5% (1993)                                     | 6.9%  | 4,757                                    | ✓*  | ✓                          |
| Savannah River           | 8.1% (1993)                                     | 6.9%  | 8,595                                    | ✓   | ✓                          |

\*Fernald, Mound, Pinellas, and Rocky Flats meet this criteria because each is scheduled for early site closure that will eliminate all DOE-related employment at the facility. Nevada qualifies based on the overall size and magnitude of the work force reduction.

<sup>1</sup> Source: Bureau of Labor Statistics, 1999 - national average in the year of peak unemployment at each site.

<sup>2</sup> An area is eligible if: (a) An unemployment rate that is at least one percent greater than the national average.

(b) Per capita income that is 80 percent or less of the national average per capita income.

(c) A special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term conditions such as military base closures or realignment, defense contractor reduction in force, or **Department of Energy Defense-related funding reductions**. (Public Law 105-393)

<sup>3</sup> The Economic Development Administration Regional Offices make a "Special Needs" determination when a preemptive action is needed to minimize the impacts of a site closure or reconfiguration.

<sup>4</sup> Data from the New Mexico State Department of Labor.

**COMMUNITY ASSISTANCE PROGRAM FINDINGS**

**GAO Assertion:** *DOE's community assistance criteria...do not result in the most assistance going to the communities most affected by its downsizing (Page 3). Table 3 shows the relative disparity between DOE's assistance to the affected communities and communities' unemployment or job loss (Page 15).*

**DOE Response:** Table 3 in the GAO report contains a basic factual error – it purports to compare the number of employees separated between 1995 and 1998 with the amount of community assistance allocated during the same period. However, GAO's chart skews the results by including *all* allocations for community assistance since the beginning of the program. Using data for comparable periods (1995 to 1998) for both measures yields starkly different results – DOE table 2 shows that communities which requested funding to mitigate the economic consequences of DOE restructuring *generally received between \$5,000 and \$10,000 per employee separated*. Idaho received a larger proportion due to a court settlement providing economic assistance in return for an agreement to continue allowing shipment of Naval nuclear waste to that State. Richland received somewhat less per person because its downsizing started later than in other communities. Even so, the Department has approved every formal funding request by the Richland Community Reuse Organization.

**GAO Assertion:** *...for fiscal years 1995 through 1998, the communities surrounding DOE's Richland, Washington, facility had nearly twice the unemployment rate and more than twice the DOE job loss of those surrounding the Oak Ridge, Tennessee, facility; but Richland received less than half of the \$49 million that Oak Ridge received. Had the Department of Commerce's Economic Development Administration criteria been used to evaluate the request for community assistance, Oak Ridge would have been ineligible for funding, given its economic strength (Page 3).*

**DOE Response:** GAO's assertion is inaccurate on two counts: (1) between 1995 and 1998, the Richland community received a greater amount of community assistance than did the Oak Ridge community (\$18.5 million for Richland versus \$16.8 million for Oak Ridge) and (2) the unemployment rates were both above the national average if the unemployment rate for Roane County, Tennessee at the peak of Oak Ridge restructuring (7.3% in 1997) is compared with the rate in Richland, Washington (8.4% in 1996).

See comment 3.

See comment 4.

**Appendix V  
Comments From the Department of Energy**

**TABLE 2  
AVERAGE ADJUSTMENT ASSISTANCE  
PER SEPARATION BY SITE  
FY 1995 to FY 1998**

| Site               | Number of Workers Separated <sup>1</sup><br>(FY 1995 - 1998) | Community Assistance Funding <sup>2</sup><br>(FY 1995 - 1998) | Community Assistance per Job Lost<br>(FY 1995 - 1998) |
|--------------------|--|---|---|
| Fernald            | 434  | \$411,921   | \$949   |
| Idaho              | 1,392  | \$20,325,000  | \$14,601  |
| Kansas City        | 373  | \$0   | \$0   |
| Lawrence Livermore | 525  | \$0   | \$0   |
| Los Alamos         | 1,229  | \$10,665,160  | \$8,678   |
| Mound              | 398  | \$4,100,000   | \$10,302  |
| Nevada             | 2,564  | \$12,320,000  | \$4,805   |
| Oak Ridge          | 2,832  | \$16,800,000  | \$5,932   |
| Pantex             | 342  | \$0   | \$0   |
| Pinellas           | 812  | \$7,154,700   | \$8,811   |
| Richland           | 5,694  | \$18,475,382  | \$3,245   |
| Rocky Flats        | 2,922  | \$24,835,624  | \$8,500   |
| Savannah River     | 4,734  | \$40,525,625  | \$8,561   |
| <b>Total</b>       | <b>24,251</b>  | <b>\$155,613,412</b>  | <b>\$6,417</b>  |

<sup>1</sup> DOE Office of Worker and Community Transition, Annual Reports, 1995-1998; GAO excludes attrition.  
<sup>2</sup> DOE Office of Worker and Community Transition, Annual Reports, 1995-1998; Other internal budget data.

**GAO Assertion:** *Because of the strong national economy and strong local economies, DOE's contribution to job growth was uncertain in communities that received its assistance....we found that DOE's contribution had a relatively small impact on the growth of jobs in three of the six communities surrounding nuclear defense facilities for which we had comparable data (Page 18).*

**DOE Response:** DOE job creation efforts are focused on assisting the workers displaced by defense-related reductions. GAO's claim inaccurately reflects how displaced workers have benefitted from community transition efforts. An independent program audit by Booz-Allen & Hamilton, Inc. in September 1998 stated that: "The Section 3161 Program has had a positive impact on mitigating the social and economic impacts of the DOE transition by helping to develop and create more than 22,000 jobs, provide a foundation for community economic development, and providing leadership for site closure."<sup>5</sup>

<sup>5</sup> *Study of the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs* (Booz-Allen & Hamilton, Inc., September 30, 1998), p. 9.

See comment 5.

## WORK FORCE RESTRUCTURING BENEFITS FINDINGS

**Overview:** DOE contractors provide work force restructuring benefits at defense nuclear facilities consistent with the objectives of section 3161 and common business practices. From the outset of the program, a benchmark of \$25,000 was established as the target for the average value of separation benefits provided to separating workers. The actual value of benefits has been consistently below that figure.<sup>6</sup> "Booz-Allen's review of work force separation benefits indicate that the DOE benefits are similar to those provided at contractor facilities undergoing defense restructuring in response to reduced DOD funding and procurement....The DOE average cost for voluntary and involuntary separations compares favorably to the benchmarks."<sup>7</sup>

**GAO Assertion:** *DOE's assistance to separated contractor workers included more types of benefits than other government and private sector packages... (page 2).*

**DOE Response:** DOE table 3, which is based on a review of available restructuring literature and existing statutory authority, shows that **there is no significant difference in the types of benefits offered to DOE contractor employees through work force restructuring plans and the other classes of employees identified by GAO.** Our full response to the GAO draft report discusses each class of employees in detail; a summary of major errors in GAO's analysis is listed below:

See comment 6.

The GAO draft incorrectly reports on enhanced retirement offerings. GAO's own survey in 1995 identified that 17 of 25 private and public sector organizations offered enhanced retirements. In addition, over 33,000 military service members have received early retirements and recent legislation specifically authorized early retirements for federal civilian employees.

See comment 7.

GAO draft report is also factually incorrect concerning involuntary separation benefits. **Severance is probably the most common benefit afforded to private sector workers in the United States.** Separation pay was authorized for military enlisted personnel in 1991, federal civilians have an involuntary severance package far more generous than typically offered by DOE contractors, and surveys show that 88 percent of defense and aerospace firms, and 82 percent of private sector firms, provide severance pay for workers involuntarily separated.

See comment 8.

Extended medical coverage is offered by all DOE management contractors through provisions included in their contracts implementing a decision made **prior to enactment of section 3161.** GAO table 2 fails to include extended medical coverage for federal civilians. GAO table 2 also fails to include offerings in a wide range of additional benefit categories by other organizations, which are discussed in detail in our comments, despite contrary information included in the 1995 GAO survey and other GAO reports.

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<sup>6</sup> *Annual Report on Contractor Work Force Restructuring, Fiscal Year 1998*, US Department of Energy, March 1999, p. 20.

<sup>7</sup> *Study of the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs* (Booz-Allen & Hamilton, Inc., September 30, 1998), p. 8.

**Appendix V  
Comments From the Department of Energy**

**TABLE 3  
DOE CONTRACTOR BENEFITS COMPARED WITH  
OTHER PUBLIC AND PRIVATE SECTOR SEVERANCE PACKAGES<sup>1</sup>**

| Type of Benefit         | DOE's Work Force Rest. Plans | DOE Contractors | Federal Military | Federal Civilians | DOD Contractors | Non-Federal Employees |
|-------------------------|------------------------------|-----------------|------------------|-------------------|-----------------|-----------------------|
| Enhanced Retirement     | ✓                            | ✓               | ✓                | ✓                 | ✓               | ✓                     |
| Voluntary Separation    | ✓                            | ✓               | ✓                | ✓                 |                 | ✓                     |
| Involuntary Separation  | ✓                            | ✓               | ✓                | ✓                 | ✓               | ✓                     |
| Extended Medical        | ✓                            | ✓               | ✓                | ✓                 | ✓               | ✓                     |
| Education Assistance    | ✓                            | ✓               | ✓                |                   | ✓               | ✓                     |
| Relocation Assistance   | ✓                            | ✓               | ✓                | ✓                 | ✓               | ✓                     |
| Outplacement Assistance | ✓                            | ✓               | ✓                | ✓                 | ✓               | ✓                     |
| Rehiring Preference     | ✓                            |                 | ✓                | ✓                 |                 | ✓                     |
| Other Benefits          | ✓                            | ✓               | ✓                | ✓                 | ✓               | ✓                     |

<sup>1</sup> Source: DOE Appendix III in full response document.

**GAO Assertion:** For fiscal years 1997 and 1998, we found that the 10 defense facility workforce restructuring plans we reviewed offered similar benefits (page 7).

**DOE Response:** GAO's report contradicts itself from page to page – contrary to the assertion above, GAO states in a footnote to table 2 that “*only 1 [work force restructuring plan] offered enhanced retirement.*” The GAO draft report combines the offerings of all ten work force restructuring plans approved during 1997 and 1998, and asserts that DOE contractors provide a wider range of benefits than other employers because at least one plan offered each of the benefit categories included in table 2 of the draft GAO report. DOE table 4 presents a comparison between the *frequency* that a specific benefit is provided by a DOE contractor, and the frequency similar benefits were provided by other employers surveyed by an earlier GAO study and a

See comment 9.

leading outplacement and career management firm.<sup>8</sup> In addition, the table illustrates that due to qualification requirements, a large number of separated DOE contractors were not provided certain benefits, even when offered at a site. *Overall, the frequency that DOE contractors offered classes of benefits is not substantially different than the offerings of other employers captured by these surveys.*

**TABLE 4**  
**DOE WORK FORCE RESTRUCTURING BENEFITS**  
 FY 1997 - FY 1998

| <b>BENEFITS</b>    | <b>Percent of DOE Sites<sup>a</sup> Offering Benefit</b> | <b>Percent of DOE Workers Receiving</b> | <b>Percent of Firms Offering in GAO Survey</b> | <b>Percent of Firms Offering in LHH Survey</b> |
|--------------------|--|---|--|--|
| Early Retirement   | 15%  | 6%                                      | 68%  | NA   |
| Enhanced Voluntary | 61%  | 30%                                     | 56%  | 40%  |
| Education          | 92%  | 53%                                     | 16% <sup>c</sup>                               | 80%  |
| Outplacement       | 85%  | 100% <sup>b</sup>                       | 84% <sup>d</sup>                               | 78%  |
| Relocation         | 15%  | 1%                                      | 84% <sup>d</sup>                               | NA   |
| Medical            | 92%  | 54%                                     | 16% <sup>c</sup>                               | 66%  |

GAO: Work Force Reductions Downsizing Strategies Used in Selected Organizations  
 LHH: Lee Hecht Harrison Severance Benefit Survey, 1996

<sup>a</sup> Does not include sites where less than 10 workers or 1% received benefits.

<sup>b</sup> Number of participants includes some separations prior to period due to availability for more than one year.

<sup>c</sup> GAO report notes these benefits provided for "at least" 4 of 25 firms.

<sup>d</sup> GAO survey shows 21 of 25 firms provided benefits "such as these."

<sup>8</sup> Lee Hecht Harrison, "Severance - A Benchmark Study," reprinted in *Downsizing Law and Practice*. The Bureau of National Affairs, Inc., 1995, pp. 874-875.

## GAO's Comments

Our comments on DOE's two main assertions are summarized in the body of the report. In its comments, DOE asserted the following:

- The report draft did not accurately portray the Department's Worker and Community Transition Program and contained numerous factual errors that, along with inappropriate comparisons, raises basic questions about the validity of the recommendation and major findings.
- The Department's criteria are consistent with statutory direction and Department of Commerce regulations, and the benefits provided to separated employees were consistent with the practices of other private and public organizations.

In this appendix, we address each of the comments made in the attachment to DOE's letter. In addition, DOE provided us with additional detailed comments that elaborated on the points made in the attachment to its formal response. We used this supplemental material where appropriate to revise our report.

1. DOE challenges our recommendation for four reasons. First, the Department commented that its criteria for awarding community financial assistance are consistent with the congressionally mandated criteria of the Economic Development Administration Reform Act of 1998 and ensure that aid is focused on economic need. The act makes communities affected by DOE's defense-related reductions eligible for the Economic Development Administration's (EDA) assistance, regardless of the local unemployment rate, or the per capita income in the affected communities. The Department commented that its criteria are consistent with the act, but it appears that DOE's claim to consistency is based on a provision of the act that allows communities affected by DOE's defense-related funding reductions to qualify for assistance. However, the act was not effective until February 11, 1999. Furthermore, DOE's guidance does not have any economic threshold criteria for determining affected communities' need. Most other communities that suffer economic hardships not caused by defense-related funding reductions are required to meet economic threshold criteria, such as an unemployment rate above the national average.

Second, DOE commented that EDA must approve each community proposal before funding is provided and that economic need criteria are a key factor in its approval process. While EDA assesses the economic condition of the DOE community applying for assistance, the degree of, or relative, economic need is not a criteria in determining funding levels. We noted in

our draft report that DOE submits the community plans to EDA for independent review and approval. However, EDA reviews the community plans using DOE's criteria for reviewing projects and programs, set out in DOE's Policy and Planning Guidance for Community Transition Activities. These criteria address projected job creation from the project, the amount of local participation in the project, and the ability of the project to become self-sufficient, not whether the communities requesting assistance meet threshold economic need.

Third, DOE notes that its Policy and Planning Guidance for Community Transition Activities contains explicit criteria for ensuring that economic assistance is provided to communities suffering economic hardship. Furthermore, DOE added that each Secretarial decision memorandum approving community assistance formally addresses the economic need fulfilled by the funding to be provided. As we noted in our draft report, DOE's criteria focus on the merits of the community's individual projects, such as projected job creation, and not on the community's relative economic need. Our analysis shows that communities differ in their degree of economic strength, and DOE's criteria for determining community assistance funding do not result in the most assistance going to the communities most in need. We do note that several Secretarial decision memorandums included a general discussion of economic conditions, including job losses, and loss of economic diversity. For example, the June 1997 decision for Rocky Flats stated, "Although unemployment in Colorado is comparatively low, new jobs are being created primarily in retail and service industries, not the high-wage manufacturing and engineering sectors. Wage growth is not keeping pace." However, none of the memorandums we reviewed considered threshold criteria or relative economic need.

Fourth, DOE notes that a 1998 independent audit found, "The principal criteria for providing assistance to DOE sites and adjacent communities was degree of need, driven by how many workers were impacted by the transition." On the basis of our review of Secretarial memorandums, we concur that the primary consideration for determining assistance was that workers were separated. However, our analysis shows that there was no correlation between the actual number of workers separated and the amount of assistance provided to communities.

2. DOE reports in its table 1 that each community it provided with community assistance met at least one economic threshold criterion established "by the Congress for such assistance." We disagree with DOE's

response on several points. First, DOE's table 1 uses criteria that did not exist at the time the Department made its funding decisions. These congressionally-mandated criteria, which included the DOE special need criterion, were not effective until February 11, 1999. However, our analysis applies economic threshold criteria, such as those used by EDA, to show funding decisions based on relative economic need. We used the administration's economic threshold criteria that were in existence during fiscal years 1995 through 1998, when the bulk of DOE's community assistance money was allocated. When we applied these criteria, the communities surrounding the Los Alamos, Richland, Savannah River, and Nevada facilities (one the three decisions for the Nevada facility) met EDA's criteria for economic need.

Second, DOE's analysis misapplies EDA's economic threshold criteria in two ways. DOE's comments applied EDA's 1999 criteria to individual counties around their Los Alamos and Oak Ridge facilities. If the facility is located within a standard metropolitan statistical area, then that area should be used to determine eligibility. As noted in the report, EDA uses standard metropolitan statistical area data when determining funding eligibility for communities located in these statistical areas. By using the larger standard metropolitan statistical areas as provided for in EDA's guidance, our analysis is more likely to reflect the total impact of separating workers in the communities surrounding those facilities. If DOE believes that the county-level analysis more accurately reflects the economic impact of its restructuring than does the use of metropolitan statistical areas, then it may want to consider using counties' economic strength in its community assistance allocation criteria.

Additionally, DOE's comments use the unemployment rate only for the year in which the majority of the workforce restructuring occurred at each DOE facility and compares it with the average national unemployment rate for that year. This provides a comparison for only one year out of the six that community assistance programs have been in existence. As shown in appendix IV, if economic and DOE restructuring information are compared against the appropriate administration criteria for each funding decision made since the beginning of fiscal year 1995 (soon after the Office of Worker and Community Transition was created), only four sites (Richland, Los Alamos and Savannah River, and one allocation decision for the Nevada facility) would have been eligible for funds.

3. According to DOE's comments, our table showing funding allocations to communities for the period 1995 through 1998 contained a basic factual

error by including funds that were spent since the beginning of the program. The data contained in table 3 of our draft report were derived from community assistance allocation figures contained in the Office of Worker and Community Transition's annual reports. Since the receipt of DOE's comments, the Office provided us with figures for the 1995-98 period. Table 3 has been revised accordingly but still shows that communities with relatively low unemployment rates generally received more funds per worker than those with higher rates of unemployment.

According to DOE, using data for comparable periods (1995 through 1998) yields starkly different results for total community assistance funding and funding per job lost. Even with the revised allocation figures, we disagree with DOE for two reasons. First, to support its assertion, DOE commented that its table shows that communities generally received between \$5,000 and \$10,000 per employee separated. However, DOE's table shows a wide disparity in the range of community assistance per job lost—ranging from \$949 to \$14,601. Importantly, DOE's table does not show the allocation amounts with the communities' unemployment rates. For example, the communities surrounding the Mound facility had an overall unemployment rate of 4.13 percent for the 1995-98 period and received \$10,302 in community assistance per separated worker. In contrast, while the communities surrounding the Richland facility, which had an unemployment rate of 7.92 percent, received only \$3,098 per separated worker. Even among communities with comparatively low unemployment rates, our revised table 3 shows that there is a wide range of community assistance allocations. For example, the communities surrounding the Oak Ridge and Rocky Flats facilities had aggregate unemployment rates of 4.17 percent and 3.33 percent, respectively, and separated roughly the same number of workers—2,832 and 2,922—respectively. However, the communities surrounding Oak Ridge received \$5,932 per separated worker versus \$8,500 per separated worker for communities around the Rocky Flats facility.

Finally, DOE states that Richland received less funding because its downsizing started later than in other communities. The fact that some facilities started their restructuring earlier than others may help explain some of the disparity in the allocation of community assistance funds. Nevertheless, because of the criteria DOE uses in providing community assistance, the disparity in the allocation of funds is not likely to be made up over time. In addition, the Secretary's memorandums approving community assistance allocations generally do not describe the

communities' economic conditions nor do they discuss threshold or relative economic need in the decisions to fund community development.

4. DOE asserted that our comparison of the assistance provided to Richland and Oak Ridge was inaccurate for two reasons—incorrect allocation and unemployment data. First, as discussed under comment 3, we incorporated DOE's community assistance figures. Even though Richland received more community funding than Oak Ridge, it received less per worker separated—Richland received \$3,098 per job lost<sup>14</sup> and Oak Ridge received \$5,932 per job lost. Second, DOE challenged our analysis of these two facilities by using a single county's (Roane) unemployment data for its Oak Ridge facility. As discussed in our second comment, this is a misapplication of EDA's criteria. Following EDA's criteria, we used the standard metropolitan statistical area for our analysis. Using the unemployment rate for the standard metropolitan statistical area surrounding Oak Ridge, rather than the unemployment rate for Roane County, results in an unemployment rate for Oak Ridge of 4.2 percent instead of 7.3 percent. Furthermore, DOE's May 9, 1997, Secretarial memorandum justifying \$10 million in community assistance does not even discuss Roane County. However, as discussed in comment 2, if DOE believes that the county-level analysis more accurately reflects the economic impact of DOE's restructuring than does the use of the standard metropolitan statistical area, then it should include this factor in its community assistance criteria.

5. DOE states that we inaccurately reflect how it assists workers displaced by defense-related reductions. It cites the consultant's study that shows DOE's program helped create more than 22,000 jobs. Like the consultant's study, our draft report concurred that DOE helped to create and retain these jobs. However, the consultant's study did not provide information on the extent to which DOE should receive credit for the jobs created and retained. We noted in the draft report that the DOE data contain jobs created and retained, while the local employment data we used from the Bureau of Labor Statistics include only jobs created. Therefore, our analysis is likely to overstate the impact of DOE's job creation efforts in any given area. Furthermore, the consultant's study did not measure the impact of other assistance in creating or retaining jobs, or analyze the extent to which a strong economy helped to produce these jobs. We maintain that DOE's contribution had a relatively small impact on the

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<sup>14</sup>Table 2 in DOE's comments shows that Richland separated 5,694 workers for the period 1995 to 1998, and the community received \$3,245 for each job lost. However, the Office of Worker and Community Transition's Annual Report shows that Richland separated 5,964 workers—which DOE subsequently confirmed as the correct number.

overall growth of jobs in three of the six communities surrounding nuclear defense facilities for which we had comparable data. However, for three other communities, our draft shows that DOE contributed significantly to job growth.

6. DOE commented that our draft report incorrectly characterized enhanced retirement offerings. DOE provided us with additional information comparing its enhanced retirement offerings with those of other organizations, and we have revised the report accordingly. However, the formula for extended medical coverage and the provisions for relocation assistance offered by DOE were more generous than the benefits offered to separated federal civilian employees. For extended medical coverage for eligible contractor workers, DOE pays the full employer cost for the first year of separation and about half of that cost in the second year.<sup>15</sup> Separated federal workers who are eligible and wish to retain extended medical coverage must pay the full cost, plus an administrative fee, for the coverage upon separation.

DOE also commented that 17 of the 25 public and private sector employers identified in our 1995 report offered enhanced retirement. DOE's interpretation is not exact. The report states that 17 of the 25 organizations offered early retirement programs and at least 10 of these programs offered some incentive for early retirement. The incentives generally gave employees credit for a specified number of years of service and/or a specified number of years added to their age; however, nine organizations also imposed penalties on the annuities of early retirees.

7. DOE said that the draft report is factually incorrect concerning involuntary separation benefits. DOE provided us with additional information on involuntary separation benefits offered at other organizations, and we revised our draft accordingly.

8. DOE contends that its management contractors offered extended medical benefits before the enactment of the worker and community transition program. The Office of Worker and Community Transition has since provided us with information supplementing its official comments indicating that a medical benefits program for displaced workers was approved by the Secretary of Energy on July 29, 1992. According to DOE's comments, these benefits are limited to contractor-separated employees

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<sup>15</sup>Of the 10 plans, 7 provided extended medical coverage to both voluntarily and involuntarily separated workers, and 3 plans offered coverage to voluntarily separated workers.

who cannot obtain coverage through an employer or spouse. We have revised our report accordingly.

DOE also commented that our draft report did not include the wide range of additional benefit categories offered by other organizations. Based on DOE's comments we revised table 2 that compared DOE benefits with other public and private sector severance packages offered from fiscal years 1993 through 1998. The revised table provides more detail of the benefits that were offered by the number of organizations that we identified. However, the benefit formulas in some of DOE's workforce restructuring plans, such as those determining voluntary separation benefits and extended medical coverage, potentially allow more generous benefits than those offered for federal civilian employees.

9. DOE's comment focuses on the overgeneralization of the data presented in table 2 of our draft report. This table compared DOE benefits with other public and private sector severance packages offered from fiscal years 1993 through 1998. DOE asserted that, overall, the frequency with which DOE contractors offered classes of benefits has not been substantially different than the frequency offered by other employers captured by private surveys. We agree and revised this table, as noted in comment 8.

Finally, DOE commented that only a limited number of its sites offered some benefits. However, we note that DOE did not count benefits offered to its workforce when fewer than 10 individuals, or 1 percent of the separated workers, received benefits. Furthermore, DOE stated that because of qualification requirements, a large number of separated DOE workers were not provided with certain benefits, even when offered at a site. While these qualifications may preclude some separated workers from receiving a specific benefit, the benefit was still offered at a specific site.

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