

GAO

United States General Accounting Office 128762
Briefing Report to the Vice Chairman,
Joint Economic Committee, Congress of
the United States

November 1985

JOB TRAINING

Effect of Under- Reported Unemployment Data on Grant Funding to Rural Areas



128762

RESTRICTED - Not to be released outside the General
Accounting Office on the basis of specific
approval by the Office of Congressional Relations.

RELEASED

GAO/HRD-86-35BR

034169



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

November 26, 1985

HUMAN RESOURCES
DIVISION

B-221142

The Honorable James Abdnor
Vice Chairman
Joint Economic Committee
Congress of the United States

Dear Mr. Vice Chairman:

Mr. Kenneth Brown of your office asked us to estimate the degree to which rural areas may be under-funded by federal grant programs using unemployment data to distribute funds to localities. Specifically, Mr. Brown asked us to calculate how much additional federal funding rural counties would receive if their actual unemployment rates were 1 and 3 percentage points higher than officially reported by the Bureau of Labor Statistics.

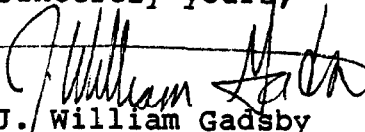
Our review of the 20 largest formula grant programs identified the Job Training Partnership Act (JTPA) as the only program where states must use unemployment data to allocate federal funds to local areas. For that program we estimate rural counties may have been underfunded by between about 7 and 21 percent or between \$5 and \$29 million during program year 1984, assuming actual unemployment rates were either 1 or 3 percentage points higher than reported. Since the data required for calculating JTPA allotments to local Service Delivery Areas within states were not available at the federal level, we had to estimate actual allotments. To do this we assumed that the portion of JTPA funds allotted using unemployment data are distributed in proportion to the number of unemployed in each county. Although we believe this is a reasonable assumption, given the data available nationally, our estimates of under-funding differ from the actual state allotments to local areas as discussed in our briefing report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days after its issue date. At that time we will make copies available on request.

B-221142

If you desire further information or if we can be of further assistance, please call me at 275-2854.

Sincerely yours,



J. William Gadsby
Associate Director

EFFECT OF UNDER-REPORTED UNEMPLOYMENT

DATA ON GRANT FUNDING TO RURAL AREAS

Joint Economic Committee (JEC) staff have advanced economic arguments that allege a systematic under-reporting of the number of unemployed individuals residing in rural counties. Based on these arguments they raised the question of whether rural counties are receiving their "fair share" of funding under programs that use unemployment data in making grant awards to counties.

The JEC Vice Chairman requested our assistance in determining the possible extent to which rural counties may be under-funded in federal grant programs that use local area unemployment data for allocating funds. Our review of the 20 largest formula grant programs identified the Job Training Partnership Act (JTPA) as the only program that allocates funds directly to local areas using unemployment data. As requested by the JEC staff, we have prepared estimates of the amount of rural under-funding based on two assumptions, provided by the JEC staff, concerning the extent to which rural unemployment rates are under-reported. These assumptions are that the Bureau of Labor Statistics' (BLS') unemployment rates in rural counties are under-reported by (1) 1 percentage point or (2) 3 percentage points. A computer printout of our calculations was provided to the JEC staff in earlier meetings.

RESULTS IN BRIEF

We estimate that rural counties could receive from 7 to 21 percent less JTPA funding if rural unemployment rates are under-reported by between 1 and 3 percentage points as assumed by the JEC staff and if JTPA funds are allocated in the same proportion that the number of unemployed in rural counties bears to the number nationally unemployed.¹ The potential under-funding also varies depending on the number of counties considered to be rural.

¹Data on actual JTPA allocations under Title II-A (the adult and youth employment training programs) to counties were not readily available because these data are not reported at the federal level. Consequently, we approximated the JTPA formula by assuming that funds are allocated in proportion to the number of unemployed. Rural counties can be defined as counties in which either all residents live in rural areas or at least 80 percent live in rural areas. The classification of the 1980 population residing in rural areas is defined by the Census Bureau.

In program year 1984,² slightly more than half of the \$2.711 billion JTPA appropriation, or \$1.410 billion, was allotted on the basis of unemployment data. Therefore, to the extent that the \$1.410 billion was allotted in proportion to the number of unemployed, rural counties would have received \$46 million or \$100 million, depending on the number of counties considered to be rural. The assumed under-reporting could have reduced these county allocations from \$5 million to \$29 million, as shown in the table 1.

Table 1:

Under-Funding of Rural Counties
Assuming JTPA Funds Are Allocated
Based on Share of Nationally Unemployed
(Program Year 1984)

<u>Alternative definitions</u> <u>of rural counties</u>	<u>Unemployment rate</u> <u>under-reported by</u>	
	<u>1 percentage</u> <u>point</u>	<u>3 percentage</u> <u>points</u>
	(dollars in millions)	
100% of county residents live in rural areas	\$ 5 (7.1%)	\$15 (21.1%)
At least 80% of county residents live in rural areas	10 (6.5%)	29 (19.0%)

The actual JTPA formula allotments may not be in strict proportion to the number of unemployed in several respects. A technical discussion of the JTPA formula and our calculations follow.

TECHNICAL ANALYSIS OF
THE JTPA FORMULA

The JTPA program distributes funds to states to provide assistance to the "disadvantaged" under two programs: Title II-A and Title II-B. These programs have provided \$7.6 billion from their inception in October 1983 through program year 1985. Title II-A has provided \$5.2 billion for employment and training services directed at adults and youths; Title II-B has provided \$2.4 billion for summer youth employment and training services. Both programs allot funds to recipients using the same formula, which is based in part on unemployment data.

²The 12-month period from July 1, 1984, through June 30, 1985.

The formula proceeds in two steps. First, a three-factor formula allots funds among states. Second, states make allocations to local service delivery areas (SDAs)³ within the state using the same formula:

1. One-third of the funding is allocated based on the relative number of unemployed individuals residing in areas of substantial unemployment (ASUs) in each state as compared to the total in all ASUs. (ASUs are areas with unemployment of at least 6.5 percent of the civilian labor force averaged over a recent 12-month period.)
2. One-third is allocated on the basis of the number of excess unemployed individuals who reside in each state as compared to the total excess number of unemployed individuals in all states. ("Excess" is defined to mean in excess of 4.5 percent of the civilian labor force in the state or the number that represents the number of unemployed individuals in excess of 4.5 percent in areas of substantial unemployment.)
3. One-third is allocated on the basis of the relative number of low-income individuals within the state compared to the total number of such individuals in all states.⁴

The unemployment data used in the formula are based primarily on a nationwide household survey and the number of unemployment insurance claims filed with states. In 10 of the largest states, the monthly unemployment estimates are taken directly from the BLS-sponsored Current Population Survey (CPS).

Entire states may qualify as ASUs. This occurred in 38 states and the District of Columbia in program year 1985, where the entire jurisdiction's unemployment rate for a recent 12-month period exceeded 6.5 percent. For the remaining 12 states with unemployment rates under 6.5 percent, contiguous local areas within the state qualify as long as they equal or

³A service delivery area could be the state itself or comprise one or more units of general local government that usually are consistent with labor market areas.

⁴The allotments to the states are made subject to the provision that no state shall receive less than 90 percent of its allotment percentage for the preceding fiscal year or not less than .25 percent of the current year, whichever is greater.

exceed this percentage and contain no fewer than 10,000 inhabitants. States may define ASUs that are a combination of several counties, of counties and parts of other counties, or of areas within counties. Once the federal allotment is made to each state, federal information gathering on the within-state distribution to SDAs is not carried out for the Title II-A program, but the dollar allocations to SDAs under Title II-B are collected.

OUR CALCULATIONS OF
POTENTIAL UNDER-FUNDING

Our calculations assume that JTPA substate allocations are in direct proportion to the number of unemployed persons residing in the counties, as reported by BLS.⁵ We used two-thirds of the \$2.711 billion program year 1984 allotment because only two-thirds of the funds are allotted using unemployment data. We further reduced this amount by 22 percent, to \$1.410 billion, to exclude the amount retained by governors' offices to support special training programs, incentive grants to SDAs exceeding certain performance criteria, and administrative costs. We excluded this amount because these disbursements may not be directly related to unemployment rates in SDAs, the basis of our estimating method.

Calculations were made under two definitions of a rural county: (1) 100 percent of the county's residents lived in rural areas and (2) at least 80 percent lived in rural areas. Also we assumed that rural unemployment rates were under-reported by 1 and 3 percentage points as requested by Committee staff. Table 2 shows the percentages under-reported in the rural county share of national unemployment during 1984, if the rural unemployment rates were as assumed above.

⁵The actual JTPA formula makes allocations to SDAs whose geographic boundaries do not necessarily conform to county boundaries. However, the unemployment data used by the states to allocate JTPA funds to SDAs are not collected by the Department of Labor. Consequently, we had to estimate JTPA funding based on county area unemployment data, which are available from BLS.

Table 2:

Percentage Understatement of Rural Unemployment Share of
National Unemployment Assuming Rural Unemployment Rates
Are Under-Reported by 1 and 3 Percentage Points

<u>Alternative definitions of rural counties</u>	<u>Unemployment rate under-reported by</u>	
	<u>1 percentage point</u>	<u>3 percentage points</u>
100% of county residents live in rural areas	9.6%	24.0%
At least 80% of county residents live in rural areas	8.9%	22.3%

We then applied these percentage increases to the \$1.410 billion of JTPA funds estimated to be allotted to rural counties under our assumption that JTPA funds are allotted in proportion to the number of unemployed. The results of these calculations (i.e., the dollar amount of under-reporting) are shown in table 1.

Some minor differences between our calculations and actual formula allocations can be expected with respect to data measurement periods.⁶ However, our calculations differ from the actual formula in two major respects, one which overstates our estimates to rural counties and the other which understates them. We refer to these differences as the "ASU bias" and the "excess unemployment bias":

--The ASU bias: By assuming that JTPA funds are allotted in proportion to the number of unemployed, our estimation method allocates funds to some rural counties with less than 6.5 percent unemployment, contrary to the actual formula. Therefore, our estimates overstate the potential under-funding to such counties.

--The excess unemployment bias: Under the actual formula, one-third of the funds are distributed in proportion to

⁶We used calendar year 1984 monthly unemployment data rather than the July 1983 to June 1984 monthly data used in the actual JTPA formula. In addition, our estimates do not reflect the minimum allotment percentages contained in the actual formulas. In the aggregate, neither of these differences significantly affects the proportion of funds going to rural counties.

the relative number of excess unemployed (the number unemployed in excess of 4.5 percent). This provision concentrates funding in high unemployment areas; an area with 9-percent unemployment, for example, has a greater proportion of the excess unemployed than an area with 6.5-percent unemployment and accordingly would receive proportionately more funding. Since rural counties have had higher unemployment rates than the national average, the excess unemployment factor has a pro-rural effect which is not accounted for in our calculations. Thus, our estimates understate rural county allocations.

Accordingly, our estimates of 7 to 21 percent potential rural under-funding are overstated if the ASU bias is larger than the excess unemployment bias and understated if the reverse is true.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

33181

United States
General Accounting Office
Washington, D.C. 20548

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use, \$300
