ASSISTANT SECRETARY OF DEFENSE
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RESERVE AFFAIRS

15 APR 2004

The Honorable Duncan Hunter
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman:

On behalf of the Secretary of Defense, the report on the National Guard Challenge Program is enclosed. This report is required under section 587 of the National Defense Authorization for Fiscal Year 2004.

Sincerely,

T. F. Hall

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Enclosure:
As stated

cc:
The Honorable Ike Skelton
Ranking Member

Study of the National Guard Challenge Program
March 2004

INTRODUCTION

This report responds to the requirement in section 587 of the National Defense Authorization Act for Fiscal Year 2004 (P.L. 108-136, November 24, 2003) that the Department of Defense conduct a study of the National Guard Challenge Program. The Department of Defense operates the National Guard Challenge Program as authorized under section 509 of title 32, United States Code. Specifically, we were tasked to evaluate (1) the adequacy and impact of the matching funds requirement in effect under section 509(d) of title 32, United States Code, for States to participate in the National Guard Challenge Program; and (2) the value of the National Guard Challenge Program to the Department of Defense. In addition, we were tasked to consider and identify potential matching fund alternatives, such as a range of Federal-State matching ratios, that would provide flexibility in the management of the program to better respond to temporary fiscal conditions.

BACKGROUND

Legislation enacted in 1992 authorized a National Guard Civilian Youth Opportunities Pilot Program under which DoD was permitted to use National Guard personnel, facilities and equipment to determine whether the life skills and employment potential of civilian youth who cease to attend secondary school before graduating could be significantly improved through military-based training, including supervised work experience in community service and conservation projects, provided by the National Guard; and whether it was feasible and cost effective for the National Guard to provide military-based training to such youth for the purpose of achieving such improvements. In 1996, legislation continued the pilot program for an additional 18-month period. Congress intended that the 18-month extension of the National Guard Youth Opportunities Program would permit these programs to develop non-Department of Defense sources of funding in order to continue operation after the authority in the extension expired. In 1997, legislation was enacted to repeal the termination of the program and amend chapter 5 of title 32 to permanently establish the National Guard Youth Opportunities Program as the National Guard Challenge Program.

Like the prior statute, the current legislation (32 U.S.C 509) authorizes the Secretary of Defense to use the National Guard to provide military-based training, including supervised work experience in community service and conservation projects, to civilian youth who cease to attend secondary school before graduating to improve their life skills and employment potential. The legislation also limited the Federal Government's share of the costs of operating a program in each state to 75 percent in fiscal year 1998 – with that share decreasing by 5 percent each year, to 60 percent in fiscal year 2001 and the future. In 1999, Congress further defined the requirements of the program and legislated that the program consists of at least a 22-week residential program and a 12-month post-residential mentoring period. The National Guard Challenge Program was to seek to improve the life skills and employment potential of participants by providing military-based training and supervised work experience, together with the core program components of assisting participants to receive a high school diploma or its equivalent, leadership development,

promoting fellowship and community service, developing life coping skills and job skills, and improving physical fitness and health and hygiene.

FINDINGS

The matching fund requirement currently in effect is a heavy burden for state legislatures to meet as they are faced with budget deficits. It has caused the National Guard Youth Challenge Program to lose three states, and has stopped expansion of the program to new state locations.

An April 2003 United States General Accounting Office (GAO) report titled "Multiple Employment and Training Programs" identified the National Guard Challenge Program as one of the 44 programs administered by nine federal agencies that provide a range of employment and training services. Of these 44 programs identified in the GAO report, only Job Corps and Youth Challenge were residential programs and only Youth Challenge and the Refuge and Entrant Assistance—Voluntary Agency Program required matching funds.

The GAO report provided the federal funding level for the Challenge program from fiscal year 1999-2003. However, the GAO report did not state that the statute required the federal contribution to states participating in the Challenge program decrease from 100% to 60% of operating costs.

State budget deficits continue to be a concern. In a November 2003 report from the Nelson A. Rockefeller Institute of Government, titled "It's Crunch Time for State Budgets", it stated "The crisis in state and local finance in America is at a modern high...and budget gaps will not go away anytime soon." In addition, according to a December 2003 report by the National Conference of State Legislatures, titled "State Budget Update", "state lawmakers generally will have little discretionary funds to use for new programs and some states will have to make decisions to enact cuts or increase fees." Furthermore in January 2004, Stateline.org reported that "states this year will have to make serious cutbacks in education, healthcare and prisons, which together make up between 85 percent and 90 percent of a state's budget."

The National Guard Challenge Program operates in 24 states and Puerto Rico. In December 2003, the Center on Budget and Policy Priorities published a list of preliminary projections of FY 2005 state budget shortfalls that included 13 states that operate a Challenge program. The projected total budget shortfall for these 13 states is approximately $32 billion. This total may increase as the other 11 states operating a Challenge Program issue their budget forecasts.

The combination of budget gaps because of reduced state revenues and the implementation of the matching fund requirement forces the Challenge program to compete with other workforce development federal programs that provide 100% funding and state programs in the areas of public education, healthcare, and public safety. The latter programs continue to

exert enormous pressure on state budgets. As a result, Colorado, Missouri and New York ceased to participate in the Challenge Program.

Finally, the study required a report on the value of the National Guard Challenge Program to the Department of Defense. The findings and recommendation of the 2000 Defense Science Board report addresses this requirement. In February 2000, the Defense Science Board (DSB) Task Force on Human Resources Strategy conducted a review of the National Guard Challenge Program. The DSB Task Force determined that the National Guard Challenge Program was valuable to the Department of Defense. In the report, the DSB Task Force recommended expanding the National Guard Challenge Program because it is an important way to instill a sense of patriotism and desire for public service in American youth. They also reported "the resources required for maintaining these programs comprise a worthwhile investment that should be sustained. The visibility they provide helps to counter the declining presence of military veterans in the public at large." Furthermore, the DSB Task Force recommended, "Outreach programs should be a critical component of the Department's human resources responsibilities."

RECOMMENDATIONS

The specific program requirements have made the Challenge Program a very effective and successful program. In November 2001, the President thanked the National Mentoring Partnership for awarding the National Guard Challenge Program with the "Excellence in Mentoring Award for Program Leadership." The Challenge Program is considered the second largest mentoring program in the nation. Over 73% of the participants completed requirements for a GED credential; 632,965 hours of community service were performed; and 70% of corps members are employed, continuing education, or in the military within 30 days of graduation.

The matching fund requirement makes the Challenge Program vulnerable to state budget cuts in spite of its successes. The projected budget deficit for all States participating in the Challenge Program is a serious problem. Given the competition for funds, the National Governors Association and the Southern Governors Association recommended, as early as 2001, that the state match be reduced to 25 percent. Without this change, state governments may opt for programs that are 100% federally funded.

In order for the Challenge Program to continue with effective state participation and potentially to expand, it is recommended that Congress reduce the state matching requirement from 40 percent to 25 percent.

In summary, the National Guard Youth Challenge Program is a highly effective mechanism to create opportunities for America's disadvantaged youth. The program should continue under the management of the Department of Defense and the National Guard Bureau, because the strong military linkage is a key element to its success. The FY 2005 President's Budget request funds 60 percent of the program costs. However, the 40 percent cost share

burden of the states continues to grow more burdensome. It is causing some state programs to fail, and it is arresting the growth of the Challenge Program to new states. Reducing the state cost-share burden to 25 percent and increasing the Federal share to 75 percent would make the continued viability of the National Guard Challenge program more likely.