IV
STATE AND LOCAL RESPONSES TO BORDER PROBLEMS

A. State Responses

In each of the border states, ingrained approaches to state-local relations affect opportunities for shared Federal-state responses to border problems. As Part II indicates, Texas has traditionally contributed less financial assistance to its localities, and imposed smaller tax burdens on its citizens and businesses, than most other states. By contrast, California and Arizona have chosen historically to maintain higher service levels and to tax more than many states. New Mexico has fallen somewhere in between. These patterns of government are unlikely to change in the face of current peso-related difficulties.

Even where border states might choose to take an active role in addressing local problems, current budget stringencies would make it difficult. California, which has exhausted prior-year surpluses in order to sustain local services in the wake of Proposition 13, currently projects a recession-induced revenue shortfall of $1.5 billion. Arizona and New Mexico have projected shortfalls of about 13%. In normal years, states plan to take in more than they spend and can usually absorb some revenue shortfall. However, shortfalls as large as the ones projected for California, Arizona, and New Mexico require remedial action during the fiscal year. California plans to make up its shortfall primarily with short-term borrowing. Arizona has pared 10% from the state budget, accelerated tax collections, and raised sales taxes. New Mexico has cut expenditures by 2% and enacted substantial hikes in personal and corporate income taxes.

Texas appears to be somewhat better off, in fiscal terms, than its three border neighbors. But even Texas faces its hardest fiscal year in recent memory. For the first time in ten years, the legislature has discussed possible tax hikes, and it may be called into special session this summer to enact such increases. In addition, growth in the state's biennial, FY 84-85, budget has been small by Texas standards (20%).

For whatever reason -- longstanding practice, current financial pressures, or state perceptions of the relative urgency of border problems -- state efforts to address these problems have been modest.

California

California's response has focused principally on the border town of Calexico, and is comprised mainly of initiatives that were planned before the 1982 devaluations, or that might have been taken in any event:

- o The state housing department, in cooperation with Calexico, is building 350 units of low income housing in the town's Nosotros subdivision. (California has provided $1 million to buy the land, with Calexico financing the improvements.)

- o California's OEO is beginning a program to organize migrant worker cooperatives. (The state has granted an initial $50,000 for this effort.)

- o The state's Department of Development Services recently awarded a grant to the Imperial County Mental Health Clinic to train 60 psychiatric nurses. The proposal for this project was developed by Operation Service Employment Redevelopment (SER, a non-profit predominantly Hispanic, development and training organization). Trainees are guaranteed jobs if they complete the course.

Arizona

[Arizona has failed to respond to repeated requests for information.]

New Mexico

New Mexico has embarked on a long-term effort to develop its port of entry at Columbus, in Luna County, as a conduit for agricultural imports from Mexico and as a focus of maquiladora activity. An industrial park was recently built at Columbus, and the state has granted $50 thousand for a Foreign Trade Zone (FTZ) feasibility study. As part of the development effort, New Mexico would also build a new highway from Columbus to Las Cruces.

To increase commerce with Mexico, New Mexico's state economic development and agriculture departments have established an office in Chihuahua. In addition, the state government is attempting to revitalize the New Mexico-Chihuahua Border Commission and reorient it toward economic development.

Texas

Texas has announced a more extensive assistance program than the other three states. But Texas' efforts, too, are modest in absolute terms, and confined chiefly to focusing Federal resources on areas of local distress:

- Governor White has declared his intention to target resources recently provided by the Federal Jobs Bill to "areas of high unemployment and poverty." These resources total more than $150 million, including about $10 million in CDBG and $1 million in CSBG funds, several million in JTPA, Title III grants, and Federal grants to non-profit community service organizations.

- The state is also developing a plan to use $17 million in distributions from Federal petroleum overcharge escrow funds, and funds available under the Federal low income energy assistance program, to prevent termination of utility services for the unemployed.

- In addition, the state has channeled $75 thousand in CDBG assistance to establish food banks in Laredo, Harlingen, Brownsville, San Juan, and McAllen, and has committed an additional $340 thousand in CETA funds to expand a contract for employment services, speed FTZ development and designation, and help border SMSA's with industrial recruitment.

To date, Texas has earmarked about $90 thousand of its own resources to address border problems: $70 thousand for a juvenile offenders program; and $20 thousand for drug abuse treatment.

B. Local Responses

As Part III indicates, jurisdictions in those border areas hardest hit by peso devaluation have suffered major revenue losses and are hard pressed to maintain local service levels. However, despite the short supply of financial resources, these localities are far from helpless. The Working Group's public meetings were an ample demonstration that elected officials and business leaders even in small border cities are informed and forceful spokesmen about local problems and plans for economic development.

In the present circumstances, therefore, the principal contribution that border localities can make to a general border assistance effort is to continue seeking assistance, informally as some did in meetings with the Working Group, and formally through applications to appropriate state and Federal agencies.

C. Addendum on Private Sector Responses

The most active private sector responses to border problems have been in the border region itself, where businessmen have joined public officials to plan and advocate immediate and long-term solutions. Some private sector activity is also evident at state and national levels -- e.g., the Emerging Issues Task Force of the California Round Table has selected Border Economies as a special topic, and the Committee for Economic Development has established a small group of trustees to monitor U.S.-Mexican issues.

In addition, numerous governmentally funded non-profit organizations regularly address the problems of border residents -- e.g., California's Operation Service Employment Redevelopment (SER, a predominantly Hispanic development and training organization), and the CETA-funded Middle Rio Grande Development Council in Texas.

V
FEDERAL PROGRAMS WHICH ADDRESS OR COULD ADDRESS BORDER PROBLEMS

Difficulties generated by peso devaluation have already triggered increased Federal assistance to the border counties under a variety of formula grant and entitlement programs -- e.g., food stamps, AFDC, FSC, inter al. However, border residents view these programs as inadequately responsive to local needs, and they have called for additional assistance.

Practically speaking, options for increased financial aid are limited to discretionary components of block grants, project grants, and business assistance programs. The following includes an inventory of such capabilities and programs. Wherever possible, information is provided on current year expenditures in border counties, remaining available FY 83 funding, and anticipated FY 84 budgets for these programs. Federal programs that could aid the region by other than financial means are also inventoried.

A. Department of Commerce

(1) Economic Development Administration (EDA)

(a) Public Works Assistance (Title I) for the construction of public facilities to promote long-term economic growth in economically distressed areas.

Funding and Flexibility. Assistance is in the form of project grants and direct loans. All of the $130 million appropriated for FY 83 has been committed, about $4 million in the border region of Texas, including grants to Brownsville ($328,000), Edinburg ($700,000), El Paso ($77,000), Laredo Junior College ($800,000), the McAllen FTZ ($600,000); and the Texas State Technical Institute ($750,000). The Administration has requested no program funds for 1984.

(b) Technical Assistance Grants (Title II) for demonstration projects, feasibility and other studies, and management and operational assistance.

Funding and Flexibility. Assistance is in the form of project grants or cooperative agreements. In FY 83, $5 million was appropriated for the regular program and $3 million for the university center program. To date, all the funds have been committed, none to the border area. No funds have been requested for FY 84.

(c) Grants for State and Local Economic Development Planning Organizations (Title III).

Funding and Flexibility. Virtually all FY 83 funds ($25.5 million) have been committed, $308,000 to the border region. The list of border commitments includes: the Southwest New Mexico Council of Governments ($45,000); the Southern Rio Grande Council of Governments ($45,500); the West Texas Council of Governments ($49,500); the Middle Rio Grande Development Council ($54,450); the South Texas Development Council ($49,500); and the Lower Rio Grande Development Council ($60,500). No funds have been requested for FY 84.

(d) Sudden and Severe Economic Dislocation Grants (Title IX) to help states and localities meet problems of actual or threatened unemployment resulting from sudden and severe economic dislocation.

Funding and Flexibility. About one-third of the $33 million Title IX appropriation for FY 83 has been committed, none in the border area.

(e) Emergency Jobs Act Grants to employ jobless Americans in local public works projects or construction of lasting value.

Funding and Flexibility. None of EDA's $100 million appropriation for this program has been committed, though some project applications are now under review. No funds are expected in FY 84.

(2) Minority Business Development Agency (MBDA)

Minority Business Development Centers (MBDC's). MBDC's are non-governmental entities funded on a competitive basis and located in cities with large minority populations. The Centers provide minority firms with management and marketing assistance for a nominal fee, as well as performing other minority enterprise support functions. MBDC's are now located in El Paso, McAllen, Brownsville, Laredo, Tucson, and San Diego.

Funding and Flexibility. The MBDC program is currently MBDA's largest ($30.5 million).

(3) International Trade Administration (ITA)

Designation of Foreign Trade Zones (FTZ's). FTZ's are areas that are physically within, but legally outside, a nation's customs territory. In the U.S., they are operated as public utilities by states, political subdivisions, or corporations chartered for that purpose.

There are five trade zones now operating in the border area, in San Diego, Nogales, Tucson, McAllen, Brownsville, and El Paso. Starr County and the cities of Laredo, Eagle Pass, and Del Rio are in the initial stages of applying for FTZ status. In addition, Brownsville has applied for an expansion of its existing Zone. ITA has scheduled a September hearing in Laredo for all five applicants.

B. Department of Housing and Urban Development (HUD)

(1) Urban Development Action (UDAG) Grants to selected localities and indian tribes, for use in combination with local public and private resources, to fund

locally designed economic revitalization projects that could not go forward without Federal assistance. Of the 16 border cities, 13 are eligible for UDAG grants.

Funding and Flexibility. About $440 million has been budgeted for FY 83, of which approximately $244 million will be carried over to FY 84. In addition to this carryover, UDAG expects to have $196 million in new budget authority in FY 84, and $36 million recaptured from earlier obligations. Projects are funded on a competitive basis, and UDAG contributions must leverage other public and private resources at a ratio of not less than 1:2.5. (Several pending UDAG projects in the border region have been frustrated by an absence of private financing.) HUD can provide technical assistance to help localities prepare UDAG applications.

(2) Emergency Jobs Act Grants to U.S. localities, partially on the basis of the CDBG distribution formula and partially on the basis of unemployment levels. Nine entitlement border cities (San Diego, Brownsville, Edinburg, El Paso, Harlingen, Laredo, McAllen, Pharr and San Benito) will receive a total of $9.3 million. In addition, Arizona, California and Texas will receive $19 million for distribution among non-entitlement areas.

(3) Proposed Rental Rehabilitation Program, when enacted, would help states and localities rehabilitate low income rental properties through the use of formula grants. The Administration has proposed a budget for this program of $150 million, some of which would certainly flow to the border region.

(4) Proposed Enterprise Zone Program, when enacted, could create jobs for disadvantaged and long-term unemployed workers, and revitalize economically distressed areas, through the use of tax incentives and regulatory relief at the Federal, state, and local levels. To be eligible for zone designation, areas must be characterized by pervasive poverty, unemployment, and general distress, and be located within an area eligible for UDAG assistance. Many border communities qualify.

(5) Mexico-United States Bilateral Program brings together local officials in twin cities, along with Federal personnel, to develop cooperative solutions to border urban problems.

C. Small Business Administration (SBA)

(1) 7(a) Business Loan Program makes and guarantees loans to small businesses which have been refused credit by

private lenders. Remaining direct loan authority in FY 83 is $166 million; remaining guarantee authority is $1.323 billion. Rates on direct loans are set at the cost of government borrowing, plus 1%. (These rates are currently 11.25%.) Guaranteed loans are generally at market rates. Last year's earmarking of $200 million in 7(a) loan guarantees for border-area businesses -- the "peso pack" program -- has been the principal Federal response to recent economic problems in the border region. Because these loans carry conventional interest rates, only about 15% of the $200 million quota has been used, and the initiative has been widely criticized.

(2) <u>8(a) Minority Enterprise Procurement Program</u>. 8(a) designation gives minority firms preferred status in bidding on Federal contracts. The program has considerable potential to benefit the border area, because minority firms and Federal facilities abound there. Currently, there are about 100 8(a) firms in the southwest border states. SBA is attempting to increase this number.

(3) <u>503 Certified Development Companies (CDC's)</u> are established jointly by local governments and

businessmen to provide subordinated, long-term, fixed-asset financing to firms that would otherwise be unable to obtain or afford it. SBA capitalizes CDC's on a project basis by debenture purchases, which are financed in turn by borrowings through the FFB. Approximately $190 million in unused borrowing authority remains in FY 83; borrowing authority in FY 84 is expected to be about $220 million. CDC loans can be used to meet UDAG matching requirements. Currently, nine CDC's operate in or near the border region.

D. Department of Education

Bilingual Education Grants assist local schools in preparing children of limited English proficiency to enter an all-English-language education system.

Funding and Flexibility. In 1982 more than $9.3 million was given to local school districts in the border counties for three bilingual education programs (about 11% of the total budget for these programs). Grants are awarded competitively, but could be increased to the border counties by establishing a priority for these areas in program regulations. According to the Department, regulatory changes of this kind could be made most readily in the smallest of the three grant programs -- a demonstration program currently budgeted at $8.5 million. These changes would need to be completed by early fall to affect next year's awards.

E. Department of Health and Human Services

(1) Migrant Health Center Grants for the planning, development, and operation of migrant health centers and of migrant health programs.

Funding and Flexibility. Grants to the border counties amounted to about $5.4 million in FY 82, and total nearly $2 million so far in FY 83.

(2) Community Health Center Grants for the development and operation of community health centers which provide primary health services and environmental health services to medically underserved populations.

Funding and Flexibility. Grants to the border counties amounted to $5.4 million in FY 82, and total $1.9 million so far in 1983.

(3) National Health Service Corps provides physicians and other health personnel to health manpower shortage areas in order to deliver health care services to underserved populations, including migrant workers.

Funding and Flexibility. Health care personnel is being made available to the border region.

F. Department of Labor

(1) CETA and Future JTPA Grants to states provide job training and related services to increase the employability of economically disadvantaged youths, recipients of public assistance, and displaced workers. CETA programs, operated by local prime sponsors, are being replaced by a new system in which the private sector and the Governors of the various states will play a larger role in planning and overseeing program operations.

Funding and Flexibility. Grants are allocated according to each region's share of economically disadvantaged and unemployed people. Under the transitional arrangements for FY 83, California border counties will receive $23,063,000; Arizona's Pima County will be allocated $2,573,000, with other Arizona counties sharing part of a "rest of state" $4,913,000; the larger Texas border counties will receive $8,743,000 and the smaller will get some funds from an $8,977,000 "balance of Texas" not in SMSA's; New Mexico's border areas have no specific allocation, but will share in a $5,309,000 grant to all less populous areas of the state.

CETA programs for youths and to finance private industry councils will probably be used more fully this year. In the four Texas border city areas this will add $6.5 million; in California's border counties, about $15.3 million; and in Arizona's Pima County, about $1.9 million. It is difficult to estimate how much the other border areas will receive because they will be competing with interior rural areas.

(2) Federal Employment and Training Programs under CETA and JTPA, Title III

(a) Assistance to Dislocated Workers for retraining, relocation, and reemployment services.

Funding and Flexibility. Congress has appropriated $110 million for Title III in FY 84 funding is expected to be $223 million. The Secretary of Labor can allocate 25% of program funds to State governments on a discretionary basis for "high unemployment areas." To qualify for assistance, localities must apply to DOL through their Governors.

(b) Section 303 Migrant Worker Programs provide a wide variety of services including education, instruction in job finding skills, medical services, and retraining for other occupations. Retraining is sought by about 14% of enrollees. Nationwide, over 100,000 migrant workers receive some assistance.

Funding and Flexibility. State allocations are fixed, but grantees have discretion to shift their aid to areas and persons with the greatest need. The total allocation for the four border states is $7.5 million. Although a sizable number of the persons benefiting reside in border areas, much of the money must be spent in migrant worker camps away from the border. The 7,380 persons enrolled in these programs (5000 in Texas) are only a small part of the migrant labor force in the border region.

(3) Job Corps is a residential program for the occupational education and training of severely disadvantaged youths. There are four job corps centers in the border area which can house 1,460 youths at any time.

Funding and Flexibility. Funding for border area Job Corps Centers totaled $14,417,397 in FY 83. The Secretary of Labor has a discretionary fund of $1 million to meet emergency losses and needs (e.g. fire and flood damage) related to the program.

(4) Native Americans Grants to councils of indian tribes for training programs are primarily spent on reservations.

Funding and Flexibility. Border area reservations received about one percent of program funds, or $2 million, in FY 83. Some resources could be redirected from interior reservations to the border area.

G. Department of Agriculture

(1) Farmers Home Administration (FmHA)

(a) Farm Loan Program helps farmers who fail to obtain credit from other lenders at reasonable rates or terms. Loans go only to non-metropolitan areas and can be used for farm ownership, operating expenses, and emergencies.

Funding and Flexibility. FmHA's farmer loan program was budgeted at $3.4 billion in FY 83. Funding for FY 84 will probably continue near the 1983 level. FmHA has discretion to increase the amount of loan assistance flowing to the border region.

(b) Rural Housing Program to provide decent homes or apartments for people migrating from metropolitan to rural areas. Loans can be used for home ownership, modernization of low income and senior citizen housing, and "self-help" building projects.

Funding and Flexibility. The rural housing program is budgeted at about $3.5 billion in FY 83, and funding for FY 84 should be near that level. FmHA has discretion to direct additional resources to the border counties.

(c) Community Programs include a loan and grant program for water and waste disposal systems, and lending authority to provide essential services to rural residences.

Funding and Flexibility. Community Programs are budgeted at $1 billion in FY 83. Funding for FY 83 should be near that level. FmHA has discretion to direct additional resources to the border counties.

(d) Business and Industry Program provides loan guarantees to encourage the development of businesses and industries in rural areas, and to create and conserve employment opportunities in these areas.

Funding and Flexibility. B&I programs are budgeted at about $300 million in FY 83. Funding for FY 84 should be near that level. FmHA has discretion to increase the amount of assistance flowing to the border counties.

(2) <u>Rural Electrification Administration</u>

<u>Rural Electrification Loans</u> to electric utilities for construction and operation of generation, transmission, or distribution systems in rural areas.

<u>Funding and Flexibility</u>. Loans of almost $14 million have recently been approved for three companies in the border counties. Four additional loan applications totaling $20 million are pending.

VI

OPTIONS FOR FEDERAL INITIATIVE

A. The Case for Federal Initiative

Two principal arguments have been used to justify Federal aid to the people, businesses, and governments of the border region. The first is that proximity to Mexico, which benefits the nation at large, has imposed disproportionate responsibilities on U.S. border localities, and that some sharing of these resultant costs is therefore justified. The second argument is that the recent peso devaluations have produced an economic disaster in many parts of the border region, overwhelming local self-help capabilities and requiring emergency aid. Both arguments merit scrutiny.

The Border as a National Responsibility. There can be little doubt that proximity to Mexico imposes disproportionate service burdens on local governments in the border region, especially when the Mexican economy falters. Thus, it seems reasonable that other levels of government should step in to carry some border-related costs. Nonetheless, deliberations on appropriate Federal action to help defray these costs, and to address other border problems, should take full account of the fact that two border states are among the wealthiest and most populous in the nation. Arguably, these states' contribution to a general assistance effort should reflect their economic strength.

Response to Economic Disaster as a Federal Responsibility. Field visits and official statistics confirm that the border counties, especially those most dependent on retailing for jobs and tax revenues, have suffered severely as a consequence of the 1982 peso devaluations. Moreover, especially in retail-dependent areas, prospects for a rapid recovery are dim. Federal recognition of these developments as a kind of economic disaster would be consistent with 1976 precedent.* However, any such recognition should take account of differences in local problems and prospects.

Because of their economic diversity, the larger border cities of San Diego, Tucson, El Paso, and, to a lesser degree, Brownsville have experienced peso devaluation merely as a temporary setback. By contrast, devaluation has dealt smaller localities situated on or near the border -- i.e., McAllen,

*The authority under which SBA was able to provide low-interest "economic disaster" loans to border-area businesses in 1976 has been substantially curtailed. SBA can no longer make independent determinations of "economic disaster"; however, the President retains discretion under the Small Business Act to declare such disasters, and to authorize low-interest loans to affected businesses.

Laredo, Eagle Pass, Douglas, Nogalas, Calexico, and San Ysidro -- a powerful and lasting blow. In these areas, indisputably, there has been something akin to economic disaster, especially given their chronic levels of poverty and unemployment.

B. Principles of Federal Initiative

In the Working Group's view, a Federal response to border problems should be guided by the following principles:

- To the extent practicable, Federal action should be comprehensive. It should address both the immediate and long-term problems of individuals, local governments, and local economies. It should respond to the increased service burdens of local jurisdictions, increase retraining opportunities for the chronically unemployed, and help to meet the health and human service needs of the poorest border residents.

- Economically, the Administration's short-term objective in the border region should be to create new jobs quickly. Its long-term objective should be to promote economic diversity (e.g., manufacturing and tourism) in those areas of the border that rely disproportionately on Mexican trade.

- Given the need for speed and the flexibility of available assistance programs, the Federal response should entail no new legislation and, in the aggregate, no additional spending.

- Finally, to the extent practicable, aid to the border region should be a shared responsibility, involving the private sector and all levels of government.

C. Options for Federal Initiative

Both procedural and programmatic options are available at the Federal level to assist recovery, strengthen the economic base, and bolster service levels in the border region. The particular options listed below reflect the consensus of the Working Group on procedural measures, and the judgments of particular agencies on the types of programmatic assistance they could supply at current budget levels. All options on the list could be exercised.

Procedural Options

Recurrent themes in the discussions held by the Working Group in border cities were the need to expedite pending applications to Federal agencies--e.g., for FTZ designations, or grants and loans--and the need for an organization within the Executive bureaucracy expressly concerned with border problems. Both of these concerns would be addressed by Option (1).

(1) <u>Establishment of a Temporary Office of Border Affairs</u> to expedite applications, monitor developments in the region, provide local governments and businesses with information on Federal programs, help coordinate Federal assistance efforts, and encourage multi-state cooperation in dealing with common problems.

Local spokesmen in cities visited by the Working Group were also uniformly concerned with facilitating the flow of cross-border trafic. They asked especially that Customs and Immigration officers be added at border ports of entry, and that these officers be allowed to substitute for one another in appropriate circumstances. Customs and Immigration have informed the Working Group that they are responding to these concerns and, therefore, that one component of a possible Administration response to border problems is already under way. Customs has recently increased staffing at the southwest land border cities and reports that its personnel are "cross-designated" and, therefore, interchangeable with Immigration staff for routine functions. In addition, Immigration has just added 10 temporary agents to its Laredo station through the end of this fiscal year. Option (2) would help to sustain these efforts.

(2) <u>Regular reviews of staffing needs at border ports of entry by both Customs and Immigration</u>.

The Working Group concludes that existing U.S.-Mexico cooperative mechanisms are sufficient to meet current needs in the U.S. border region. At his August meeting with President de la Madrid, therefore, President Reagan may wish to emphasize that the existing Joint Committee on Commerce and Trade is an effective forum for considering bilateral commercial issues. The President may also wish to suggest that he and President de la Madrid jointly reaffirm support for the <u>malquiladora</u> program.

(3) <u>Inclusion of items covering the JCCT and the maquiladora program on the agenda for President Reagan's August meeting with President de la Madrid</u>.

Finally, the Working Group believes that any Federal response to the problems of U.S. border localities should emphasize the principle of shared responsibility. As a prelude to its own assistance efforts, therefore, the Administration should consider:

(4) Federal-state meetings to clarify and coordinate operations of each level in responding to border problems.

Programmatic Options

The Working Group concludes that recovery of the retail sector in many border communities will be slow. Moreover, even where established stores have managed to keep their doors open, they are employing many fewer people at shorter hours. Given these circumstances, the Federal government's immediate objective should be to create new jobs quickly. For the longer term, Federal efforts should aim at helping border economies lessen their dependence on Mexico. Several options available to the Administration would serve both of these objectives at once.

(5) EDA Jobs Bill, or Sudden and Severe Economic Dislocation (Title IX) Grants, from remaining FY 83 resources, to local jurisdictions to provide new jobs now, and to build the foundation for future economic diversification. There seems to be no shortage of local projects to finance: e.g., Brownsville wants to build a container facility in its seaport; McAllen wants to build a railroad bridge; and Eagle Pass would extend a drainage project to the Rio Grande. If

Congress funds EDA programs in FY 84, assistance to the border region could also be provided under EDA's Title I (public works), technical assistance, and planning grant authorities.

(6) UDAG Grants to stimulate industrial development in cases where local matching funds are available. HUD can assist border localities in preparing grant applications and can accelerate Federal consideration of such applications.

(7) A special outreach program to accelerate certification of 8(a) firms, but only if Federal procurement from minority firms in the border region were substantially increased.

(8) Subordinated, fixed-asset loans channeled through SBA Certified Development Companies to border area businesses, possibly in combination with UDAG grants.

(9) FmHA assistance for public works, rural housing, and business development

Assistance to individuals and local jurisdictions in the border region could be provided through:

(10) Discretionary Grants under JTPA, Title III to facilitate the retraining and reemployment of dislocated workers; and

(11) Department of Education Bilingual Demonstration Grants to local school districts.

The Working Group concludes that all of the initiatives mentioned here could help to solve the immediate and long-term problems of people, businesses, and governments in the border region. In addition, the region would gain indirectly from any action by the Administration to speed economic recovery in Mexico.

June 10, 1983

Honorable Mark White
Governor of Texas
Austin, Texas 78711

Dear Governor White:

I regret being unable to meet with you personally to discuss the plight of Texas border residents and possible governmental responses. The economic problems of the border region are matters of concern to this Administration.

The Border States Interagency Working Group would appreciate any information you could provide on Texas' efforts to address state problems with state resources. The Group has already received useful information on border problems from the Texas Washington Office. However, specific written suggestions regarding the appropriate federal role in a shared federal-state approach to these problems would give the Working Group further means for deliberation. In offering these suggestions, I ask you to keep in mind the need for federal fiscal restraint.

The Working Group has a July 6 deadline. I look forward to your letter with specific suggestions for federal-state action, and a plan for current and contemplated state initiatives, as soon as possible.

Sincerely,

Robert G. Dederick
Under Secretary for Economic
Affairs

June 10, 1983

Arizona
California
New Mexico
Dear Governor ___________:

On May 5 in San Antonio, President Reagan announced the establishment of a federal-level Border States Interagency Working Group to study the problems of the region and develop options for possible federal initiatives. The economic problems of the border region are matters of concern to this Administration.

The Group would appreciate any information you could provide on (name of State) efforts to address state problems with state resources. Your specific written suggestions regarding the appropriate federal role in a shared federal-state approach to these problems would give the Working Group further means for deliberation. In offering these suggestions, I ask you to keep in mind the need for federal fiscal restraints.

The Working Group has a July 6 deadline. I look forward to your letter with specific suggestions for federal-state action, and a plan for current and contemplated state initiatives, as soon as possible.

Sincerely,

Robert G. Dederick
Under Secretary for Economic
Affairs

OFFICE OF THE GOVERNOR

MARK WHITE
GOVERNOR

February 28, 1983

ECONOMIC AND HUMAN CRISIS
IN SOUTH TEXAS

BRIEF:

The Lower Rio Grande Valley is in the midst of a profound and devastating economic crisis. The devaluation of the peso, the drop in oil prices and the constant flow of people across the border have produced a potentially explosive situation that threatens the economic stability of this area and poses severe hardships for its people.

The people, businesses and local governments in this area face the economic equivalent of a natural disaster. Chronic unemployment and underemployment are now compounded by economic conditions that have reduced business activity in some fields by as much as 80 percent and threaten nearly a third of the small businesses with bankruptcy.

As in natural disasters, the local people, businesses and government entities have no control over the economic forces that are destroying their livelihood.

Unemployment in this area -- which has some of the heaviest concentrations of people along the entire length of this nation's 2,000-mile border with Mexico -- is as high as 50 percent in some counties. Local economic conditions are as depressed as anywhere in the industrial North and prospects for re-employment are dismal.

For this reason, we are seeking emergency aid for this region of South Texas and for other areas that are similarly impacted.

We request special relief and stepped up action to generate an influx of social services and job funds, small business loans and loan guarantees, Economic Development Administration support, educational impact aid, special insurance to protect against home mortgage defaults and special consultative assistance from FDIC and other appropriate federal agencies. The Valley clearly should be designated one of the high-unemployment target areas for construction projects and other efforts to generate jobs under the jobs and recession-relief program recommended to Congress.

JST - explore ways
Baldridge

BACKGROUND

Peso Devaluations

In February of 1982, the peso was devalued by 40 percent (to 26 pesos per dollar) in an attempt to stimulate exports and finance imports. As international commodity prices continued to drop, another devaluation came on August 5 which dropped the value of a peso to 70 pesos per dollar. But on the Mexican black market and the "gray" market in this country, the value of a peso dropped below a penny (100 pesos per dollar).

Between August and December, a number of attempts were made to halt the flow of pesos out of Mexico. In December, the peso was allowed to float, settling at the current value of 149 pesos per dollar.

Relevance to Lower Rio Grande Valley

The Lower Rio Grande Valley was a central market for many Mexican citizens and a large proportion of retail sales in this area were from Mexico. The black market cushioned the initial shock of devaluation, but the floating peso of today has devastated the retail markets.

South Texas was also the recipient of "exported" capital out of Mexico during the Seventies. Mexican investors bought land in the Valley as a hedge against Mexican inflation. Now, with devaluation, these investors cannot make payments and real estate values in the Valley are depressed.

The Future

Mexico currently has an inflation rate of more than 60 percent. More than one million jobs were lost last year in Mexico. If oil prices continue to fall throughout this year, the Mexican economy is expected to experience no growth. The peso currently is considered undervalued but continuing inflation will lead to an overvalued peso by the end of the year and possible further devaluation.

The U.S. Government Response to Date

The Small Business Administration (SBA) announced plans to provide $200 million in "Peso Pack" loans during 1982. With interest rates set at 14.75 percent, however, only $15 million was disbursed. The rest of the funds are no longer available.

Federal funds (including revenue sharing and community development funds) have been cut between 3 percent and 30 percent for border counties and cities at a time when other revenue sources are also decreasing.

CURRENT SITUATION IN SOUTH TEXAS

GOVERNMENT REVENUE

Sales Tax Receipts

Since July of 1982, sales tax collections are down 27.4 percent in Brownsville when compared to a comparable period from July 1981 through February 1982. Collections for a similar size city in North Central Texas showed a five percent decline over the same period.

The problem is growing worse. Since October of 1982, the sales tax collections dropped 35 percent in Brownsville. In November, the decline was 33 percent, in December 32 percent, January 48 percent and February 33 percent.

School Property Taxes

Raul Besteiro, Brownsville School Superintendent, reports the school district may collect only 50 percent of all taxes owed this year because of business failures. Property values on residential homes have dropped by 20 percent during the last year in McAllen.

LOCAL GOVERNMENT SERVICES

Reductions in city revenue have required cities throughout the Valley area to place a freeze on city employment and on capital equipment expenditures in a time when demand for cities services are escalating rapidly. Specifically, the City of McAllen has begun laying-off city employees and the cities of Hidalgo, Pharr and Mission are not far behind if sales taxes do not begin to normalize.

The counties of Cameron and Hidalgo are experiencing great pressures in the human services programs. Cameron County has a budget of $3 million and the demand for services are five times their current budget. Hospital indigent care, child welfare/protective services and abuse shelters are examples of services that are pushing costs upward.

Due to a recent court order, the school district in Brownsville has been required to build 24 percent more classrooms to serve an increasing number of illegal alien children.

Local governments report a considerable increase in the need for emergency food, clothing and shelter due to illegal aliens fleeing the peso devaluation problem.

BUSINESS ACTIVITY

Business Climate	Gross sales for all industries declined by 26 percent in Hidalgo County and 20 percent in Cameron County. This compares to an 8 percent increase in the state as a whole. Peso devaluation and the loss of trade with Mexico, along with the decline in the oil industry, have left one worker in five unemployed.
Agriculture	Grapefruit production will be 14 million boxes this season, but only 12 million appear to be marketable. In 1981, 13.9 million boxes were marketed.
Oil Industry	Gross sales in the mining industry (which in this area consists mainly of oil and gas related industries) dropped 29.3 percent between the first quarter of 1981 and 1982. Sales have continued to decline as 1981 prices have slipped.
Manufacturing & Wholesale Trade	Manufacturing and wholesale trade dropped 16 percent between 1981 and 1982. Wholesale trade in durable goods was down 37 percent between 1981 and 1982. General merchandise gross sales dropped 34 percent between 1981 and 1982.
Retail Trade	Retail sales in Brownsville dropped 68 percent between October of 1981 and October of 1982. McAllen retail sales are estimated to be down approximately 85 to 90 percent.
Real Estate	Home sales are reported to be off 63 percent and the average sales price of a home has dropped by $20,000 since last year.
Building Permits	Building permits dropped in value $12,440,803 in Cameron County and $5,543,470 in Hidalgo County. This represents a 46 percent decline between 1981 and 1982.
Tourism	Average weekly occupancy rate for hotels/motels has decreased from 1982 to 1983 (comparble weeks in January-February) from 75 percent to 41 percent in Brownsville and from 92 percent to 62 percent in McAllen.

PEOPLE

Unemployment	In January, 20.5 percent of the work force was unemployed in the Edinburg SMSA and 17.7 percent in the San Benito SMSA compared to a U.S. level of 11.4 percent. In Starr County, 50 percent of the workers are unable to find jobs.
Rapid Growth	Almost a half million people lived in the Valley at the time of the 1980 Census. Cameron County grew 49 percent and Hidalgo County grew 56 percent between 1970-1980 compared to an 11 percent growth rate for the U.S. as a whole.
Health	Since January 1982, there has been a 38 percent increase in the number of people seeking public clinic care.
	Clinic cost collection rates dropped 30 percent in November 1982. U.S. Public Health Clinics are unable to meet federally established collection requirements.
	Indigent clinics are now overflowing with formerly middle class people. Health personnel and space shortages are severe.
	Among area farm workers, infant mortality is 125 percent higher than the national average.
Human Needs	Food stamp applications have increased 35.5 percent in Cameron County since August 1982.
	The number of persons receiving food stamps has increased 26.4 percent in Hidalgo County since 1982.
Education	A devastating 86 percent of the farm worker children are not graduating from high school.
	Among adult farm workers, 14 percent are unable to read or write.
	The educational level in the Valley is generally lower than in the state and the U.S. as a whole. The percentage of the population age 25 and over with a high school degree is 44 percent in Cameron County and 41 percent in Hidalgo, compared to 63 percent in Texas as a whole.
School Enrollment	The high population growth rate and younger age structure of the Valley is reflected in a drastic growth in school enrollment.
	Between the 1970-71 and 1982-83 school years, enrollment in public elementary and secondary schools increased by 60 percent in Hidalgo and 46 percent in Cameron Counties. During the same period, enrollment in all Texas public schools grew 11 percent.
Housing	Some 40 percent of farm worker families do not have indoor toilets and 20 percent have no direct access to safe drinking water.

Younger Age	The Valley population is younger than both the Texas and U.S. populations. Median ages for Cameron and Hidalgo Counties were 25 and 24, compared to 28 for Texas and 30 for the U.S.
Ethnicity	Hispanics constitute a majority of the population in the Valley -- 77 percent in Cameron County and 81 percent in Hidalgo County -- compared to a 21 percent Hispanic population in Texas and 11 percent for the nation as a whole.
Language	In Cameron County, 84 percent of all children age 5-17 speak a language other than English at home, compared to 26 percent in Texas and only 10 percent in the U.S.
Income	Income indicators for the Valley are consistently and considerably below the Texas and national averages. Median household income in both counties is approximately 33 percent below the U.S. average. Per capita income of persons age 15 and older in Hidalgo County is 45 percent below the national average.
Poverty	The poverty rate in both Cameron and Hidalgo is more than double the Texas and U.S. rates. In 1980, 35 percent of the population of Hidalgo County and 32 percent of Cameron County population was below the official poverty level.
Mexico Border States	Mexico's population grew almost 40 percent between 1970 and 1980, according to preliminary counts from the Mexican Census. There are 7.9 million people living in the Mexican states that border Texas. There are 10.6 million people living in the Mexican states that border the U.S.

PEOPLE: DEMOGRAPHIC-SOCIAL-ECONOMIC CHARACTERISTICS

	Brownsville-Harlingen-San Benito SMSA (Cameron Co.)	McAllen-Pharr-Edinburg SMSA (Hidalgo Co.)	Texas	U.S.
Total Population	209,727	283,229	14,229,191	226,545,805
Percent Growth between 1970-80	49%	56%	27%	11%
Median Age	25 years	24 years	28 years	30 years
Percent Hispanic	77%	81%	21%	6%
Median Household Income	$11,731	$11,232	$16,708	$16,850
Per Capita Income of Persons over 15	$4,336	$4,040	$7,206	$7,314
Percent Below Poverty Level	31.8%	35.2%	14.7%	14.2%
Percent of Persons 25 & over who are High School Graduates	43.8%	41.1%	62.6%	n/a
Percent of Persons Age:				
0-19 years	42%	43%	34%	32%
20-44 years	32%	31%	38%	37%
45-64 years	16%	16%	18%	20%
65 and over	10%	9%	10%	11%
Percent of Persons who Speak a Language Other than English at Home:				
age 5-17	84%	74%	26%	10%
age 18 and over	88%	77%	21%	11%

Source: 1980 Census of Population Summary Tape Files 3A and 3C.

Fall School Enrollments for Public Elementary
and Secondary Schools Only

	School Year			Percent Change	
	1970-71	1980-81	1982-83	1970/71 to 1982/83	1980/81 to 1982/83
Cameron	41,368	54,964	60,579	+46.4%	+10.2%
Hidalgo	53.137	76,443	83,567	+60.3%	+ 9.3%
TEXAS	2,711,548	2,900,067	2,985,659	+10.6%	+ 3.0%

Source: Texas Education Agency, Fall Survey of Pupil Membership, 1970-71, 1980-81, 1982-83.