

103^D CONGRESS
2^D SESSION

H. R. 5121

To assist in the economic conversion and diversification of industries and small businesses in the defense industrial base of the United States that are adversely affected by significant reductions in spending for national defense.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 28, 1994

Mr. KLINK introduced the following bill; which was referred jointly to the Committees on Energy and Commerce, Armed Services, Ways and Means, and Foreign Affairs

A BILL

To assist in the economic conversion and diversification of industries and small businesses in the defense industrial base of the United States that are adversely affected by significant reductions in spending for national defense.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Defense Industrial
5 Conversion Act of 1994”.

6 **SEC. 2. FINDINGS AND PURPOSE.**

7 (a) FINDINGS.—Congress finds the following:

1 (1) In recent years, the United States has re-
2 duced its defense spending.

3 (2) The reduction in United States defense
4 spending is likely to continue in the foreseeable fu-
5 ture.

6 (3) Reductions in United States defense spend-
7 ing have resulted and will continue to result in lay-
8 offs and downsizing in industries and small busi-
9 nesses that are economically dependent on defense-
10 related procurement.

11 (b) PURPOSE.—The purpose of this Act is to assist
12 the economic conversion, adjustment, and diversification
13 of industries, small businesses, communities, and workers
14 economically dependent on defense spending through the
15 dissemination of information, the availability of tax cred-
16 its, and creation of a Defense Industrial Conversion Fund.

17 **SEC. 3. OFFICE OF ECONOMIC CONVERSION INFORMATION.**

18 (a) ESTABLISHMENT.—There is established within
19 the Department of Commerce the Office of Economic Con-
20 version Information (in this section referred to as the “Of-
21 fice”).

22 (b) PURPOSE.—It is the purpose of the Office—

23 (1) to serve as a central information clearing-
24 house on matters relating to economic adjustment
25 and defense conversion programs and activities of

1 the Federal and State governments, including politi-
2 cal subdivisions of the States; and

3 (2) to help potential and actual applicants for
4 economic adjustment and defense conversion assist-
5 ance under Federal, State and local laws in locating
6 and applying for such assistance, including financial
7 and technical assistance.

8 (c) DIRECTOR AND STAFF.—The Office shall be
9 headed by a Director. The Secretary of Commerce shall
10 appoint and fix the compensation of the Director. The Di-
11 rector may appoint such personnel as may be necessary
12 to enable the Office to perform its duties.

13 (d) INFORMATION DATABASES.—

14 (1) USES.—The Office shall develop informa-
15 tion databases for use by Federal departments and
16 agencies, State and local governmental agencies,
17 public and private entities, and individuals to assist
18 such agencies, entities, and individuals in the proc-
19 ess of identifying and applying for assistance and re-
20 sources under economic adjustment and defense con-
21 version programs and activities of the Federal,
22 State, and local governments.

23 (2) FEDERAL AGENCIES AND PROGRAMS.—The
24 databases established pursuant to paragraph (1)
25 shall include a comprehensive compilation of all rel-

1 evant information concerning available economic ad-
2 justment and defense conversion-related programs of
3 the Federal Government. The compilation shall iden-
4 tify the administering department, office, or agency,
5 which administers such programs, and key contact
6 people; and descriptions of the application process,
7 eligibility requirements and criteria, selection, and
8 follow up procedures. Such compilation shall also in-
9 clude data as to the expenditure of funds under such
10 programs, projects supported by such programs, and
11 the types and amounts of funding available for as-
12 sistance under such programs.

13 (3) RANGE OF PROGRAMS.—The range of pro-
14 programs covered by the database shall include the fol-
15 lowing:

16 (A) Worker adjustment assistance for pri-
17 vate sector employees and Federal civilian and
18 military personnel.

19 (B) Community adjustment assistance
20 (planning and implementation), including the
21 so-called “bricks and mortar” programs, such
22 as infrastructure rebuilding, and airport im-
23 provement.

24 (C) Technology development and deploy-
25 ment programs administered through the Ad-

1 vanded Research Projects Agency, Department
2 of Defense, coordinated Technology Reinvest-
3 ment Project.

4 (D) Other relevant technology research
5 and development programs administered by the
6 Department of Commerce, National Aero-
7 nautics and Space Administration, Department
8 of Energy, the Environmental Protection Agen-
9 cy, Department of Transportation, and the Na-
10 tional Institutes of Health and other technology
11 agencies.

12 (E) Small business assistance (financial,
13 technical, marketing).

14 (F) Defense facility environmental restora-
15 tion.

16 (G) Available tax credits and incentives,
17 relevant regulatory information (environmental,
18 occupational health and safety, and intellectual
19 property rights) affecting application proce-
20 dures and the implementation of federally sup-
21 ported projects involving economic adjustment
22 and defense conversion.

23 (4) AVAILABLE ASSISTANCE.—In developing
24 such database, the Office shall survey all Federal de-
25 partments and agencies in order to identify all rel-

1 evant assistance and resources that may be available
2 to assist defense-dependent communities, businesses,
3 and workers in their adjustment and conversion ef-
4 forts, especially the Department of Defense, the De-
5 partment of Commerce, the Department of Labor,
6 the Small Business Administration, the Department
7 of Housing and Urban Development, the Depart-
8 ment of Health and Human Services, the Depart-
9 ment of Education, the Department of Transpor-
10 tation, the National Science Foundation, the Na-
11 tional Aeronautics and Space Administration, and
12 the Environmental Protection Agency.

13 (5) DATABASE OF MAJOR STATE AND LOCAL
14 PROGRAMS.—The Office shall establish a database
15 containing State and local governmental economic
16 adjustment and defense conversion assistance pro-
17 grams. Such database shall include a current listing
18 of appropriate offices, officers, and contact personnel
19 connected with, or involved in, such programs.

20 (6) DEFENSE CUTBACK EARLY WARNING
21 DATABASE.—The Office, working with the Secretary
22 of Defense, shall establish and keep current a
23 database containing a listing of available defense
24 contracts, and information listing military bases and
25 installations expected to be closed, cut back, or re-

1 aligned, or which are in the process of being closed,
2 cut back, or realigned, including a current listing of
3 States, communities, industries, firms, and employ-
4 ment likely to be most adversely affected as a result
5 thereof.

6 (7) DATABASE OF CONVERSION EFFORTS AND
7 SUCCESSES.—The Office shall establish a database
8 of listings and descriptions of defense conversion ef-
9 forts, their successes and failures, as well as a cur-
10 rent listing of ongoing conversion and assistance ef-
11 forts by communities, contractors, and small- and
12 mid-sized businesses, and labor organizations.

13 (8) REFERENCE LISTS AND BIBLIOGRAPHIES.—
14 The Office shall establish a database which shall in-
15 clude a listing of published works (books, reports,
16 articles, videos, and tapes) related to all facets of de-
17 fense economic adjustment and defense conversion.
18 Such listing shall further include manuals relating to
19 economic adjustment and defense conversion devel-
20 oped by the National Governors Association, the Na-
21 tional League of Cities, public interest groups, labor
22 unions, business associations, and similar organiza-
23 tions, and a listing of contact organizations and peo-
24 ple for obtaining such references. The Office shall
25 also maintain in electronic form the full texts of se-

1 lected references and make such references available
2 to the public through online services.

3 (9) ALTERNATIVE PRODUCT BANK FOR INDUS-
4 TRIES AND FIRMS.—The Office shall establish a
5 databank of potentially commercializable tech-
6 nologies and products matched to the capabilities of
7 defense-dependent industries and firms. Such
8 databank shall include a short overview of market
9 potential and shall identify potential programs in
10 Federal, State and local governments that may be
11 available to support technology development, deploy-
12 ment, and commercialization in these specific areas.

13 (e) MULTIPLE POINTS OF PUBLIC ACCESS TO
14 DATABASES.—

15 (1) EASY ACCESS.—The Office shall establish
16 several mechanisms to assure easy access by the
17 public and others to such databases, and to assure
18 that the databases be as accessible, user-friendly,
19 culturally neutral, and affordable as possible. In ad-
20 dition, the Office shall conduct an extensive outreach
21 to States and communities, especially in the most
22 defense-dependent regions of the Nation, and to a
23 wide range of constituencies, including State and
24 local government officials, chambers of commerce,
25 industrial organizations, labor unions, and commu-

1 nity organizations, to publicize the existence of
2 databanks and other assistance and services pro-
3 vided by this Act, and how to acquire such assist-
4 ance and services, and access such databanks.

5 (2) 1-800-TOLL FREE NUMBER.—The Office
6 shall establish a toll free 1-800 number to provide
7 a first point of entry into the Office information
8 database system. An individual calling such number
9 shall receive information on how to use the Office
10 databases, how to receive printed materials, and how
11 to contact appropriate people in other governmental
12 agencies for information about specific programs,
13 and answer other requests regarding services of the
14 Office.

15 (3) ONLINE ELECTRONIC ACCESS THROUGH
16 NETWORK.—Databases established by the Office
17 shall be easily accessible through existing computer
18 networks and publicly available computer database
19 access facilities, such as at repository libraries and
20 by direct call-in via modem, and shall be menu-driv-
21 en and highly user-friendly.

22 (4) PRINTED MANUALS AND ORIENTATION MA-
23 TERIALS.—The Office shall develop and make avail-
24 able to the public and others a printed manual, and
25 other printed material, reviewing the major Federal

1 agencies and programs engaged in economic adjust-
2 ment, defense conversion, and technology invest-
3 ments. It shall also serve as a guide to using the
4 databases and services of the Office, list State and
5 local contacts and resources, and include a bibliog-
6 raphy of major reference materials.

7 (5) ORIENTATION WORKSHOPS.—The Office
8 shall offer periodic workshops (1–2 weeks long)
9 available to selected representatives from defense-de-
10 pendent communities, businesses, and occupational
11 groups, to orient and train them in using the Office
12 and the services of the Office.

13 (6) INFORMATION SPECIALISTS.—The Office
14 shall maintain on-call economic adjustment and con-
15 version information specialists to address special
16 problems requiring person-to-person assistance, as
17 needed.

18 (f) PROGRAM EVALUATION.—

19 (1) REVIEW.—The Office shall conduct a regu-
20 lar review of the various agencies and programs in
21 the Federal system involving economic adjustment
22 and defense conversion. Such review shall evaluate
23 the procedures of these agencies and programs, and
24 the success of their activities. Such reviews shall be
25 based on periodic surveys of both Federal officials

1 and recipients of economic adjustment and defense
2 conversion assistance. The Office shall identify prob-
3 lems with the programs and barriers to entry in
4 such programs, for inclusion in the databases estab-
5 lished pursuant to this section. Such review shall in-
6 clude recommendations for improving such pro-
7 grams.

8 (2) **COMMUNITY ROUNDTABLES.**—The Office
9 shall conduct, on an annual basis, consultative meet-
10 ings and briefings with defense-impacted constitu-
11 encies drawn from local and State governments,
12 business, labor, community and public interest orga-
13 nizations and academic institutions. Such meetings
14 and briefings shall be held in all major defense-de-
15 pendent regions of the United States, both to intro-
16 duce its programs and receive comments and rec-
17 ommendations concerning its services and how to ex-
18 pand and improve them.

19 **SEC. 4. DEFENSE CONVERSION TAX CREDIT.**

20 (a) **GENERAL RULE.**—Section 46 of the Internal
21 Revenue Code of 1986 (relating to amount of investment
22 credit) is amended—

23 (1) by striking “and” at the end of paragraph
24 (2),

1 (2) by striking the period at the end of para-
2 graph (3) and inserting “, and”, and

3 (3) by adding at the end thereof the following
4 new paragraph:

5 “(4) the defense conversion credit.”

6 (b) DEFENSE CONVERSION CREDIT.—Section 48 of
7 such Code is amended by adding at the end thereof the
8 following new subsection:

9 “(c) DEFENSE CONVERSION CREDIT.—

10 “(1) IN GENERAL.—For purposes of section 46,
11 the defense conversion credit for any taxable year is
12 the sum of—

13 “(A) the defense conversion employment
14 credit for the taxable year, and

15 “(B) the defense conversion investment
16 credit for the taxable year.

17 “(2) DEFENSE CONVERSION EMPLOYMENT
18 CREDIT.—

19 “(A) IN GENERAL.—The defense conver-
20 sion employment credit for any taxable year is
21 10 percent of the qualified wages paid or in-
22 curred by a qualified employer during such
23 year.

24 “(B) QUALIFIED WAGES.—For purposes of
25 this subsection—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied wages’ means the wages (as defined in
3 clause (ii)) paid or incurred by the quali-
4 fied employer during the taxable year to,
5 and amounts paid or incurred by the quali-
6 fied employer to third parties for retrain-
7 ing expenses with respect to, qualified con-
8 version employees during the period com-
9 mencing on January 1, 1995, and ending
10 on December 31, 1999 (‘the qualified pe-
11 riod’).

12 “(ii) WAGES DEFINED.—Except as
13 provided in subparagraph (C)(ii), the term
14 ‘wages’ has the meaning given to such
15 term by subsection (b) of section 3306 (de-
16 termined without regard to any dollar limi-
17 tation contained in such section), but the
18 amount of wages during any taxable year
19 which may be taken into account with re-
20 spect to any individual shall not exceed 25
21 percent of the wages (determined without
22 regard to this subsection) paid to such in-
23 dividual during such taxable year or por-
24 tion thereof included within the qualified
25 period.

1 “(iii) RETRAINING EXPENSES.—The
2 term ‘retraining expenses’ includes all
3 amounts paid or incurred with respect to
4 educational or training programs in which
5 a qualified conversion employee partici-
6 pates to learn or improve skills necessary
7 or useful to such employee’s employment in
8 the qualified employer’s nondefense-related
9 business.

10 “(C) QUALIFIED CONVERSION EMPLOY-
11 EES.—

12 “(i) IN GENERAL.—For purposes of
13 this subsection, the term ‘qualified conver-
14 sion employees’ means an employee of a
15 qualified employer who had been employed
16 by the qualified employer or another em-
17 ployer in a defense-related business and
18 who is employed by the qualified employer
19 in a nondefense-related business during the
20 taxable year.

21 “(ii) PRORATION IN CASE OF DUAL
22 EMPLOYMENT.—If a qualified conversion
23 employee is employed by the qualified em-
24 ployer in both a defense-related business
25 and a nondefense-related business during

1 the taxable year, only the portion of the
2 employee's wages properly allocable to em-
3 ployment in the nondefense-related busi-
4 ness shall be treated as 'wages' for pur-
5 poses of subparagraph (B)(ii).

6 "(D) QUALIFIED EMPLOYER.—For pur-
7 poses of this paragraph, a qualified employer is
8 an employer which is engaged in a qualified
9 business (as defined in paragraph (3)(D)).

10 "(3) DEFENSE CONVERSION INVESTMENT
11 CREDIT.—

12 "(A) IN GENERAL.—The defense conver-
13 sion investment credit for any taxable year is
14 the applicable percentage of the qualified con-
15 version investment by a qualified business dur-
16 ing the taxable year.

17 "(B) APPLICABLE PERCENTAGE.—For
18 purposes of this paragraph—

19 "(i) IN GENERAL.—The applicable
20 percentage shall be 5 percent for all tax-
21 able years ending after December 31,
22 1994, and on or before December 31,
23 1999.

24 "(ii) INCREMENTAL EMPLOYMENT IN-
25 CENTIVE PERCENTAGE.—The applicable

1 percentage shall be 8 percent for any tax-
2 able year ending after December 31, 1994,
3 and on or before December 31, 1999, if in
4 such year the number of employees of the
5 qualified business increases 4 percent or
6 more over the average number of employ-
7 ees of the qualified business during the 3
8 preceding years (the ‘qualifying increase’).

9 “(iii) RECAPTURE IN CASE OF DE-
10 CREASED EMPLOYMENT.—If a qualified
11 business claims the benefit of the incre-
12 mental employment incentive percentage
13 under clause (ii), and its average employ-
14 ment during any of the 3 years following
15 the year in which the benefit of the in-
16 creased percentage was claimed falls below
17 the qualifying increase level (a ‘disqualify-
18 ing decrease’), the qualified business shall
19 increase its tax liability for the year during
20 which the disqualifying decrease occurred
21 by the difference between the credit to
22 which it would have been entitled under
23 clause (i) and the credit claimed under
24 clause (ii).

1 “(C) QUALIFIED CONVERSION INVEST-
2 MENT.—For purposes of this paragraph—

3 “(i) IN GENERAL.—The term ‘quali-
4 fied conversion investment’ means the
5 costs paid or incurred by a qualified busi-
6 ness during the taxable year for the pur-
7 pose of acquiring, constructing, creating,
8 or developing any tangible or intangible as-
9 sets, in connection with the conduct of the
10 qualified business’ nondefense-related busi-
11 ness, except that such term shall not in-
12 clude direct production costs of any prop-
13 erty held by the qualified business for sale
14 to customers in the ordinary course of its
15 trade or business.

16 “(ii) INTANGIBLE ASSETS.—The term
17 ‘intangible assets’ includes all ‘intangible
18 property’ as defined in section
19 936(h)(3)(B) (other than literary, musical
20 or artistic compositions) and specifically
21 includes processes and products, models,
22 and prototypes.

23 “(D) QUALIFIED BUSINESS.—For pur-
24 poses of this subsection and pursuant to regula-
25 tions to be prescribed by the Secretary—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied business’ means any corporation, part-
3 nership, or sole proprietorship or separate
4 unit thereof in existence on January 1,
5 1995, which derived a substantial portion
6 of its gross receipts or incurred a substan-
7 tial portion of its gross costs during the 5
8 years preceding January 1, 1995, from 1
9 or more defense-related businesses, and
10 which derives a significant portion of its
11 gross receipts from (or incurs a significant
12 amount of costs in acquiring or developing)
13 1 or more nondefense-related businesses
14 during the taxable year.

15 “(ii) DEFENSE-RELATED BUSINESS.—
16 A ‘defense-related business’ is an activity
17 in connection with the development or pro-
18 duction (pursuant to a contract or sub-
19 contract) of any property designed, modi-
20 fied, or equipped for military purposes (in-
21 cluding NASA).

22 “(iii) NONDEFENSE-RELATED BUSI-
23 NESS.—A ‘nondefense-related business’ is
24 any activity in connection with the develop-
25 ment or production of any property not de-

1 signed, modified, or equipped for military
2 purposes which uses a significant portion
3 of assets and employees which had been
4 employed in a defense-related business.”

5 (c) ACCELERATED DEPRECIATION OF EXCESS DE-
6 FENSE CONVERSION PROPERTY.—

7 (1) Subsection (b)(3) of section 168 of such
8 Code is amended by adding at the end thereof the
9 following new subparagraph:

10 “(F) Property described in subsection
11 (e)(3)(B)(vii).”

12 (2) Subsection (e)(3)(B) of section 168 of such
13 Code is amended by striking “and” at the end of
14 clause (v), by striking the period at the end of clause
15 (vi) and inserting “, and”, and by adding at the end
16 thereof the following new clause:

17 “(vii) any qualifying excess defense
18 conversion property.”

19 (3) Subsection (i) of section 168 of such Code
20 is amended by adding at the end thereof the follow-
21 ing new paragraph:

22 “(14) QUALIFYING EXCESS DEFENSE CONVER-
23 SION PROPERTY.—

24 “(A) The term ‘qualifying excess defense
25 conversion property’ means, with respect to

1 property owned or leased by the taxpayer and
2 otherwise subject to depreciation under this sec-
3 tion and which is ‘excess defense conversion
4 property’ (as defined in subparagraph (B)), the
5 basis of property (or the portion thereof) con-
6 stituting excess defense conversion property
7 owned by the taxpayer or the total discounted
8 cost of lease obligations during the remaining
9 term of the lease applicable to excess conversion
10 property leased by the taxpayer.

11 “(B) The term ‘excess defense conversion
12 property’ means property that—

13 “(i) has been used by the taxpayer in
14 a defense-related business (as defined in
15 section 48(c)(3)(D)); and

16 “(ii) is not being used in the taxable
17 year, and is not reasonably expected to be
18 used in the foreseeable future, in a de-
19 fense-related business.

20 “(C) Any deductions claimed by a taxpayer
21 with respect to property reported on its return
22 as qualifying excess defense conversion property
23 and which is later determined as not constitut-
24 ing excess defense conversion property shall be

1 recaptured at the rate of 150 percent of the de-
2 ductions so claimed.

3 “(D) For purposes of this section, the
4 amount of the property’s basis constituting
5 qualifying excess defense conversion property
6 shall be considered to be placed in service on
7 the first day of the taxable year in which the
8 property is determined to constitute qualifying
9 excess defense conversion property.”

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section shall take effect on January 1, 1995.

12 **SEC. 5. FUNDING OF DEFENSE CONVERSION ACTIVITIES**
13 **USING FUNDS RECOUPED FROM DEFENSE**
14 **EXPENDITURES OUTSIDE THE UNITED**
15 **STATES.**

16 (a) AGREEMENTS TO RECOUP DEFENSE COSTS.—
17 The President should endeavor to enter into an agreement
18 with each European member nation of the North Atlantic
19 Treaty Organization in which members of the Armed
20 Forces of the United States are stationed and with Japan
21 and the Republic of Korea to provide for the payment by
22 such nation of at least one-half of the cost of maintaining
23 the Armed Forces of the United States in such nation,
24 including the cost of compensating members of the Armed
25 Forces stationed in such nation. Payments under such an

1 agreement may be made in the form of money or real or
2 personal property.

3 (b) AUTHORITY TO ACCEPT PAYMENTS.—The Sec-
4 retary of Defense may accept any payment of money or
5 real or personal property made pursuant to any agreement
6 described in subsection (a).

7 (c) USE OF FUNDS.—Money accepted by the Sec-
8 retary of Defense under subsection (b), and proceeds from
9 the sale of any property so accepted by the Secretary of
10 Defense, shall be used by the Secretary to provide addi-
11 tional funds for defense conversion, reinvestment, and
12 transition assistance programs (as defined in section
13 1102(c) of the National Defense Authorization Act for
14 Fiscal Year 1995) of the Department of Defense.

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