Strategies for Financing Workforce Intermediaries: Working Papers

Edited by Heath Prince

Contributors:
Radha Roy Biswas, Jobs for the Future
Victoria Choitz, FutureWorks, Council for Adult and Experiential Learning
John Colborn, The Ford Foundation
Jeff Jablow, Social Venture Solutions, Inc.
Christopher T. King, Lyndon B. Johnson School of Public Affairs
Heath Prince, Jobs for the Future
Tara Carter Smith, Lyndon B. Johnson School of Public Affairs

July 2007
# Table of Contents

Preface: iii

Overview of the Research: 1

Part I. Workforce Development Financing and the Workforce Intermediary Function: A Discussion Primer: 21

Part II. Bond Financing: 37

Part III. State Unemployment Insurance-supported Training Funds: 69

Part IV. Food Stamp Employment and Training: 123

Part V. Program-related Investments: 145

Part VI. Tuition-based Strategies: 171
In recent years, the workforce development field has seen the emergence of promising partnerships around “dual customer” solutions that address the needs of both low-income workers and employers. To support the growth of these partnerships, the new National Fund for Workforce Solutions is being created to improve both the quality of jobs and the ability of workers to meet employers’ needs by changing programs and policies at the individual, institution, and system levels.

The Fund grows out of innovations in the field, which were given great impetus by the 2003 American Assembly, “Keeping America in Business: Advancing Workers, Businesses, and Economic Growth.” In its final report, the Assembly identified improving workforce skills and increasing productivity as priorities for both the national economy and for improving the well-being of all American workers. The Assembly defined how government, labor, business, and nonprofit organizations could, in concert, build on the emerging lessons from an array of institutions that, collectively, are now referred to as workforce intermediaries or workforce partnerships. Since 2004, the Annie E. Casey, Ford, Rockefeller, and Hitachi foundations have worked with Jobs for the Future to create a national support infrastructure for workforce intermediaries and this new approach.

The Assembly also called for strategic thinking about removing barriers to the expansion of these institutions. One of those barriers is the provision of funding for the core functions of workforce intermediaries. These functions are critical to their success but rarely receive public or philanthropic support, which concentrate on direct training services. In 2005, the foundations asked Jobs for the Future, along with the Council for Adult and Experiential Learning, FutureWorks, the Ray Marshall Center for the Study of Human Resources, and Social Venture Solutions, to conduct research into
the question of how workforce intermediaries might use existing or new funding sources to finance their core functions.

*Strategies for Financing Workforce Intermediaries: Working Papers*, supported by a grant from the Ford Foundation, is the result of this collaborative research effort. These contributors break new ground in the field, addressing questions related to what funding is available, and how it can support the critical work performed by workforce intermediaries. The research provides a fresh perspective on how to tap both new and existing funding streams. It also provides the various players in the broader workforce field with guidance about allocating resources to best serve the needs of workers and employers.
Overview of the Research

by Heath Prince

For at least two decades, labor market institutions known as workforce intermediaries have operated in the gaps of the public workforce development system, matching the needs of low-skilled workers seeking advancement opportunities with the needs of employers seeking workers who can help them compete in today’s economy. Workforce intermediaries “organize” the labor market: they plan, convene, broker, and make sense of its various critical components. They create opportunities for workers—including low-skilled workers—to advance their education and skills and succeed in family-supporting jobs and careers. And they help employers find, retain, and advance the skilled employees they need to compete.

As the number and breadth of workforce intermediaries have expanded, it has become apparent that core operating support for intermediary functions is critical to their success. However, these functions are difficult to finance due to a number of factors, not least of which is the scarcity of public and private resources to support anything other than the provision of direct services.

Between October 2005 and October 2006, Jobs for the Future, along with partners at the Council for Adult and Experiential Learning, Future-Works, the Lyndon B. Johnson School of Public Affairs, and Social Venture Solutions, Inc., undertook research into the question of how workforce intermediaries might use existing or new funding sources to finance not only the services that they provide but also their core functions. JFF prepared these papers for Investing in Workforce Intermediaries, a collaboration of the Annie E. Casey and Ford foundations. Since 2004, the sponsors, working with JFF, have led Investing in Workforce Intermediaries, a pilot effort to create a national support infrastructure for workforce intermediaries. This pilot has two main components: local efforts to generate support for workforce intermediaries; and state efforts to help seed infrastructure in multiple areas within a state. The initiative supports and highlights promising demonstrations in order to
inform policies and practices in communities and states and at the national level. It rallies philanthropy, business, and the public sector to make a highly focused, targeted effort to address the skills challenges facing our communities and our nation. In 2007, the lessons and accomplishments of this pilot effort formed the basis for a large-scale, national initiative: the National Fund for Workforce Solutions.

For the research on financing for workforce intermediaries, which was funded by the Ford Foundation, JFF identified five potential financing strategies for intermediaries, including strategies that suggest a more efficient means of tapping into public and philanthropic funding streams. These strategies are based upon:

- General obligation bonds, as a means for financing training;
- Unemployment Insurance funds or employer taxes, to finance training;
- Food Stamp Employment and Training 50 percent match funds, to finance core services provided by intermediaries;
- Program-related investments, to finance job training; and
- Tuition-based strategies, including Lifelong Learning Accounts, to finance core intermediary functions.

This report describes the potential of each of these strategies for use by intermediaries. Individually, each suggests that innovation in workforce development financing is possible, with some assistance. Collectively, the strategies create an intriguing portrait of financing in the workforce development field as a whole, underscoring the adage that necessity breeds invention. States and service providers, confronted by diminished government funding for job training and an imperative to improve workforce skills if local and state economies are to be competitive, are pursuing a range of activities to improve both the efficiency and the effectiveness of the workforce development system. The task is to understand and promote innovation, expanding its reach and ability to improve the way that workforce development is conducted.

This report:

- Reviews the research findings, highlighting the potential for any given strategy to finance both the services and the functions of workforce intermediaries;
- Analyzes the ease or difficulty involved in implementing any of these strategies in the context of the National Fund for Workforce Solutions; and
- Suggests the potential for several of these strategies to be considered not as discrete, standalone strategies, but as complementary approaches to financing intermediary core functions and activities.

The research focused on strategies that could finance both job training and workforce intermediary functions. Each of the five funding sources provides funding for training; our research question was: How can workforce intermediaries tap into these sources to fund their core functions? The combination of diminishing public funding for training and the difficulty in financing the innovation that workforce intermediaries represent for the field greatly contributes to a level of underinvestment in human capital development that hinders local, state, and national economic growth and competitiveness.

These papers were prepared for a working meeting of project participants, funders, and others interested in financing strategies for workforce intermediaries, and they analyze various options for pilot-testing these strategies at a larger scale. While care was taken to present the information in a consistent manner across the various papers, their original purpose accounts for the varied writing styles in each.

The Need for Alternative Financing Strategies

With increasing frequency, communities are beginning to rely on workforce intermediaries for their ability to effectively serve dual customers: low-skilled workers seeking advancement opportunities, and employers seeking workers who can help them compete in today’s economy. In 2004, Robert P. Giloth, director of the Annie E. Casey Foundation’s Family Economic Success unit, presented strong evidence that workforce intermediaries are growing in number and effectiveness (Giloth 2004). At that time, field research conducted by the National Network of Sector Partners and Jobs for the Future identified more than 200 of these new labor market institutions operating across the United States.

Workforce intermediaries have continued to grow and mature since then, not only in number but also in their scale, ambition, and outcomes. Most important, philanthropy and government have joined together in several cities and regional labor markets to support the creation and expansion of intermediaries. SkillWorks, a Boston-based initiative, has secured $15 million in private and public funding over five years to support intermediaries in key industries. Similar initiatives are operating in San Francisco, Balti-
more, and New York City, as well as statewide in Pennsylvania, forming the core of *Investing in Workforce Intermediaries*.

As nontraditional workforce organizations, intermediaries typically find the task of patching together funding for their core functions very hard-going. Funding for training services is dominated by a few major federal programs: vocational education funded under the Perkins Act, Adult Basic Education, and the Workforce Investment Act, and various work-related programs funded by Temporary Assistance for Needy Families and food stamps. But none of these sources are designed specifically to support intermediary functions. In a 2002 survey, 67 percent of workforce intermediaries reported that it was difficult to secure enough funding to coordinate key stakeholders; 51 percent found it difficult to secure enough funding to undertake labor market research and analysis. And these are only two important intermediary functions (NNSP 2002).

Moreover, federal investment in worker training is shrinking. Between 1986 and 2006, the U.S. Department of Labor’s investment in training and employment services per worker, adjusted for inflation, declined 55 percent, from $63 to $35 (Kochan and Shulman 2007)—a pattern that is mirrored at the state level. One estimate puts *per trainee* expenditure from federal Workforce Investment Act sources at $2,233—too little to fund extensive or intensive training (Osterman 2005).

**Core Workforce Intermediary Functions**

To piece together financing for core functions, workforce intermediaries tend to draw on multiple sources: philanthropic support, employer fees, Workforce Investment Act Governor’s Discretionary funds, Dislocated Worker funds, and TANF work funds, among others (Rubin, Seltzer, & Mills 2004). But these sources are limited and unreliable, leaving unfunded or underfunded core workforce intermediary services:

- Providing or brokering labor market services that include—and go beyond—job matching to encompass a range of advancement services, such as occupational training and career coaching;
- Organizing funding streams so that services for individuals and employers span a continuous “pipeline”;
- Aggregating employer demand in a particular sector, industry, or occupational cluster for the services employers need to hire, retain, and advance a highly skilled workforce;
• Performing ongoing research on labor markets and employer needs in order to inform service delivery; and
• Advocating for public policies that support worker advancement, such as basing funding priorities on demonstrated outcomes, improving higher education’s workforce development services, and blending important funding streams and service silos.

These functions constitute the added value that intermediaries bring to the workforce development arena. They also represent the difference between the status quo and best practice in employment and training, providing valuable lessons for the workforce development field as a whole.

Overview of Findings

Most of the workforce intermediaries affiliated with Investing in Workforce Intermediaries are supported by local funding collaboratives, in addition to other public and private sources (Scott 2007). These collaboratives meet critical needs in workforce intermediary funding. Specifically, the collaboratives provide:
• Funding for general operating costs;
• Funding for core intermediary functions;
• Funding that provides intermediaries with a degree of financial autonomy;
• Flexible funding that can serve multiple populations; and
• A relatively reliable source of funding over a longer term.

Effective alternative financing models would also need to provide workforce intermediaries with some combination of these types of financial assistance. This research project identified potentially viable alternative financing for workforce intermediary functions. Determining viability also means understanding the processes for adopting an alternative financing mechanism, as well as giving thought to the ideal environment in which to test them.

These working papers break new ground in the effort to understand how workforce development is funded, and especially how it can be improved by financing the work of workforce intermediaries. We began the research with few preconceptions regarding the potential fit between any given financing mechanism and workforce intermediaries. Instead, we first identified all of
the various workforce development funding sources, from local taxes to statewide Unemployment Insurance-funded training programs. We then selected those that both appeared to operate on a significant scale and had the most potential for replication. For example, tax-based financing and real estate development fees are likely too local in their operations to have a large effect on increasing scale. Also, union-based training programs and employer payments for intermediary services, while generally effective, have significant limits regarding replication.

The report begins with “Workforce Development Financing and the Workforce Intermediary Function: A Discussion Primer.” This chapter, written by John Colborn in January 2004, launched the conversation about expanding resources—and creating new ones—to fund workforce development activities for low-income workers. Colborn’s chapter formed the basis for a 2004 conference that brought together some of the field’s leaders on the topic of public finance and job training programs. An outcome of the meeting was a decision to fund further research into alternative financing strategies for workforce intermediaries. This report is the culmination of that research.

Colborn begins with an introduction to the economics of workforce development investment. He locates the discussion within the context of the failure of the market to provide job training services for low-income workers, justifying treating such services as a public good requiring public investment. Colborn underscores the importance of the philanthropic sector to financing job training, as well as the need to consider how best to assess costs and collect payments from the beneficiaries of training, including employers.

Colborn then reviews some of the more innovative approaches to financing job training, categorizing them as examples of: tapping less traditional public funding streams; assessments on beneficiaries; development-linked funding streams; and direct support of the workforce intermediary function.

Colborn concludes with a call for deeper analysis of the ideas he raises, as well as for further discussions that elicit new ideas for financing job training for low-income workers. He proposes four key questions for these discussions:

• What gaps in our knowledge of financing workforce development must be filled in order to increase the funding available for workforce development for low-income workers?

• Where are the strategic leverage points that can bring about widespread change in the behavior of investors and workforce intermediary organizations?
• What specific activities are required to move these levers, and which are likely to have the greatest effect (and what role should philanthropic capital play)?

• How can national philanthropic organizations and their local philanthropic investment partners promote the financial innovation and re-engineering of workforce development practices for low-income workers that lead to widespread change in the field?

**Bond Financing**

At least three states have funded job training through the sale of general obligation bonds. The proceeds from the bond sales are used to finance training programs and, in some cases, the operations of intermediaries that administer them. The bonds are retired through a diversion of the state payroll tax associated with the newly trained workers. Once the bonds are retired, the funds return to the state general fund in the three states highlighted here.

Heath Prince and Jeff Jablow acknowledge obstacles to creating and implementing bond-financed training programs, but they also underscore the significant benefits that have accrued not only to community colleges that administer them but also to state economies. In states using them to finance workforce development, long-term bonds are generally considered to be a significant, self-sustaining source of capital for training. The amount of bonds sold is directly determined by the aggregated demand for training, as requested by employers; as such, it is immune to the vagaries of the legislative budgetary cycles. In addition, because bonds are investments in human capital, they can contribute to overall economic growth.

**Advantages**

Because community colleges can charge administrative fees for bond issuances, they can use this income to support a wide range of core intermediary functions. In Iowa, Missouri, and Kansas, community colleges manage the bond sales and provide training, and they also aggregate demand for training among area employers, conduct labor market research, and advocate for public policies that promote worker advancement. In addition, training bonds generate significant revenue for economic and workforce development programs in these states: approximately $30 million in bonds in each state each year, funding the training of thousands of workers in high-demand occupations. This outstrips the total WIA investments in each state. In addition,
community colleges can manage the bond sales with a degree of autonomy, which greatly strengthens their ability to interact with and serve employers.

**Obstacles to Expansion**

A complex legal process is entailed in enacting legislation to permit colleges to issue training bonds and, more importantly, to allow the bonds to be retired through a diversion of the payroll tax associated with workers who receive training. In addition, the colleges need significant financial management sophistication to manage bond programs. Finally, states must be willing to guarantee the bonds.

Additional research is needed to determine which types of workforce intermediaries, other than community colleges, could be allowed to issue and retire training bonds. There is some evidence that Workforce Investment Boards may be able to issue training bonds, but this idea has yet to be tested. State student loan authorities regularly issue bonds and have the capacity and oversight infrastructure to monitor them, but questions remain as to how they could be repaid in the absence of a reliable asset stream to retire bonds sold for the purposes of adult training (which is rarely high on any state’s list of public priorities).

**Unemployment Insurance**

Twenty-three states fund job training through some form of Unemployment Insurance offset, reserve tax, assessment, or fee. In other words, this financing strategy for such activities is fairly well developed. UI funds for job training are typically available to employers through grants: employers usually submit proposals in partnership with training providers. California’s Employment and Training Panel is a prime example of this type of fund, but many other states have followed suit and created robust training programs through some manipulation of their UI funds.

Christopher T. King and Tara Carter Smith recommend that an initiative that would use UI funds to support workforce intermediary activities first focus on those states with funds designed to foster employment and career advancement for low-income workers, either before they are hired or as they begin new jobs. These groups fall in some of the more important gaps in intermediary funding. The researchers also recommend that, within these states, initiatives focus on building partnerships between intermediaries and receptive employer groups and industry associations, as well as with com-
munity and technical colleges, because most states limit access to UI training funds to employers or employer consortia, and many require community and technical colleges to design training programs.

**Advantages**

UI-funded programs offer many advantages as a funding source for job training, as well as substantial opportunities for workforce intermediaries to access these funds to support their core functions. Specifically, such programs emphasize skill building and advancement. In addition, UI funding allows a broad mix of allowable activities, heightening the potential to leverage other funding sources.

**Obstacles to Expansion**

The researchers identified a number of barriers to accessing and using UI funds to support workforce intermediary activities, some more serious than others. These include financing reliability and stability, the worker groups targeted for services, limited connections to other funding streams, and their inherently political character. This is why King and Smith recommend that the *National Fund for Workforce Solutions* not seek to expand the number of states with UI-funded training programs and, instead, focus initially on states with robust UI-funded training programs.

**Food Stamp Employment and Training**

The purpose of Food Stamp Employment and Training activities and support services is to help Food Stamp recipients who are not receiving Temporary Assistance for Needy Families to enter employment through participation in specified job search, training, education, or workfare activities that promote self-sufficiency. The program provides employment and training services to clients ages 16 through 59 who are receiving food assistance, unless exempted by law. A key provision of the U.S. Department of Agriculture guidelines for FSE&T programs allows states that use nonfederal state or local funds to draw a 50 percent match in federal funding for every dollar spent on employment-related services for FSE&T participants.

Jeff Jablow suggests that expanding the use of FSE&T by intermediaries will require a policy strategy that can influence decision making by the U.S. Department of Agriculture’s Food and Nutrition Service. He also underscores the need for greater transparency at the federal, regional, and state levels in order to disseminate best practices across regions.
Advantages
FSE&T is a generous, readily available source of funds for state and local agencies, community colleges, nonprofit community organizations, and other education and training providers. When their FSE&T plans include access by intermediaries to FSE&T funds, states can receive millions of dollars of support for education and employment activities that serve all food stamp recipients. While the federal government only reimburses training and related expenses through FSE&T, these funds could offset other expenses incurred by an intermediary, freeing up other, more flexible funds for intermediary core functions.

Obstacles to Expansion
FSE&T reimbursement is restricted to eligible populations, limiting its flexibility. Also, reports from pilot sites indicate that the process of creating and operating an FSE&T program is labor and resource intensive.

Program-related Investments
Program-related investments are recoverable loans or grants that enable private foundations to invest in programs and projects offering the potential of a return of capital and interest within an established schedule or timeframe. Radha Roy Biswas examines the relatively limited practice of using PRIs to finance workforce intermediary operations. She focuses on four cases: the Structured Employment and Economic Development Corporation (Seedco) in New York City, the Maryland Center for Arts and Technology in Baltimore, Coastal Enterprises, Inc., in Maine, and Origin, an intermediary that received a PRI to expand to a national scope the model it had developed in New York. She sketches out scenarios in which the use of PRIs might be expanded in workforce development. Each would require some degree of capacity building on the part of workforce intermediaries to receive and repay debt.

Biswas recommends that PRIs be viewed as a source of “bridge financing” during an intermediary’s formative or transition period, rather than as a sustainable source of funding. PRIs might provide upfront funding for operational capital, expansion, and other organizational needs, which intermediaries could repay through another source of funding.

Advantages
PRIs can stretch foundation dollars because they yield a financial return from mission-related activities. Also, by serving as a “stamp of approval” for pro-
grams or organizations, PRIs can leverage additional investments from other funders. This makes PRIs potentially very appealing as a financing strategy for intermediaries with adequate capacity.

**Obstacles to Expansion**

The most commonly cited obstacles to PRI-making are risks, attitudes, and transaction costs. Transaction costs arise from the required legal opinions, documentation, and due diligence and investment monitoring process. Moreover, few foundations, operating predominantly in a grant-based environment, have the combination of financial, legal, and program skills required to make PRIs.

Intermediaries, for their part, have seen PRIs as “last-resort” funding. To handle a loan, a workforce intermediary must be able to carry and handle debt. Moreover, PRIs require a return on the money loaned or invested, so they are typically limited to projects with an assured or reasonable expectation of an income stream or revenue—the primary reason why they have been traditionally used in housing or community or small business development.

**Tuition-based Strategies**

Victoria Choitz explores how existing workforce intermediaries might assess tuition charges for their workforce services or otherwise leverage tuition-based sources of financing. She also examines the potential for tuition-charging entities (e.g., community colleges) to strengthen their workforce intermediary functions.

Choitz acknowledges that none of the strategies she proposes can fully fund the activities of a workforce intermediary. Instead, tuition payments could provide some unencumbered and flexible funding for workforce intermediary functions. Various approaches present a compelling case for the potential of tuition-based strategies to finance at least a portion of intermediary functions. The potential is compounded when considered in conjunction with other financing strategies.

Choitz identifies several approaches to testing the feasibility and effectiveness of various tuition-based methods for increasing financial resources for education and training of workers, and also to provide financing for the workforce intermediaries themselves. These include:

- Assisting workforce intermediaries in becoming licensed and accredited in order to charge tuition to individual students for education and training programs and leverage student financial aid programs;
• Creating a workforce intermediary student loan program;
• Providing technical assistance and seed money for workforce intermediaries to strengthen partnerships with colleges and/or college access organizations; and
• Creating a workforce intermediary tuition assistance/education benefits management project.

Advantages

Each of these strategies provides an entry point for workforce intermediaries into the considerable public and private funding available to students through accredited institutions. All four approaches are, to one degree or another, currently being piloted and could be viewed as candidates for expansion with assistance from foundations and other resources. In particular, the fourth approach is a variation on a practice long conducted by the Council on Adult and Experiential Learning, and it has significant potential for expansion as a strategy to support workforce intermediaries because of its ability to generate employer fees.

Obstacles to Expansion

Significant capacity development is needed if workforce intermediaries are to take on any of these approaches to using tuition-based strategies. Highly individualized technical assistance would be required around accreditation questions, as well as such issues as state processes for licensure to charge tuition. Each of the approaches also requires a degree of financial sophistication that is uncommon among intermediaries, as well as a desire to take on a role that takes them well outside the typical range of intermediary services. One approach—a workforce intermediary student loan project—would be a long-term, labor-intensive endeavor, requiring significant financial support in the early years. Another—a tuition assistance management program for employers—would require significant capacity on the part of the intermediary to track workers’ educational enrollment, completion, grades, and account reimbursements and drawdowns.

Complementary Strategies

While each strategy addressed here offers potential to finance workforce intermediaries, several appear to be complementary. Key to understanding how these strategies might be used in conjunction with one another is recogniz-
ing that some of them are essentially a means to raise revenue for training (e.g., PRIs, bonds), while others are essentially cost reimbursement mechanisms (e.g., FSE&T, payroll tax diversions to retire bonds). Considering these strategies as two sides of a financing coin, intermediaries might fund both services and core functions by pairing revenue-generating and cost-reimbursement strategies.

These are hypothetical combinations of financing strategies, based on research conducted for this project. Additional research is required to examine the numerous legal and regulatory questions each pairing raises.

**PRI-based Strategies**

A small number of workforce intermediaries have benefited from program-related investments, which appear to hold particular promise for a blended financing approach. Blending might address the constraints on a wider use of PRIs, not least of which is the difficulty involved in generating enough revenue to repay the initial investment.

**PRIs and FSE&T**

In a state where regulations permit the wider use of FSE&T funds by intermediaries, this revenue stream could repay at least part of the initial investment from a PRI. After an intermediary is reimbursed for half of the cost of training its FSE&T clients, those funds could be used to meet other intermediary expenses.

**PRIs and Payroll Tax Diversion**

As with FSE&T, a PRI for a workforce intermediary could pay for services or core functions. This investment could be repaid through a diversion of a portion of the payroll tax associated with the trained worker. Employer participation would be critical, particularly in terms of hiring agreements.

As with bond financing models, payroll tax diversion would require enabling legislation, and there are significant questions regarding the legality of diverting public taxes to private foundations. However, North Dakota recently enacted legislation permitting private lending institutions to make loans to businesses to cover the cost of training, with those loans repaid through a portion of the workers’ payroll tax. While not directly analogous, this development suggests that states have considerable leeway in determining how tax revenues may be used.
**PRIs and Lifelong Learning Accounts**

As savings accounts, LiLAs are essentially private funds for training. As envisioned and implemented by the Council on Adult and Experiential Learning, LiLAs enable workers to set aside a portion of their pretax income to be matched by their employers and, often, a third party. However, the task of developing and managing a LiLA program requires sophisticated data and financial expertise and organizational infrastructure. A PRI could help in capitalizing LiLA administration for an intermediary by providing funds for setting the system in place. The PRI loan could be serviced and repaid through either a small diversion from an individual account as a transaction fee or a specific fee attached to the employer match that would cover the administrative costs of running these programs.

**PRIs and Tuition-based Strategies**

Biswa suggests two ways in which PRIs can be useful. Where intermediaries can go through the accreditation process to become eligible to operate as tuition-charging entities, a PRI loan can capitalize a student loan fund that enables the intermediary to provide financial aid to low-income students at submarket rates. In fact, such a loan fund could overcome many of the restrictions of publicly funded loan programs for low-income adult students (e.g., part-time status, short-term training). For the second approach—increasing participation in a Section 127 program—a PRI could potentially provide an intermediary with the capital to set up a program to manage and implement tuition assistance programs for its employers and workers; an employer fee or contract could be used to service the PRI loan.

**Bond-based Strategies**

Key to understanding how bonds could be used to finance training is understanding what asset financiers could recapture. Economic development projects financed by bonds typically produce something tangible—a stadium or an office complex, for example. Prince and Jablow make the case that a dependable stream of returns (e.g., a payroll tax diversion) could be viewed as such an asset. However, other sources of revenue could be as dependable as payroll taxes. Three examples are sales taxes, Unemployment Insurance-funded training pools, and, for those who are eligible, FSE&T matches.
**Bonds and Sales Tax Diversion**

Texas permits Austin and several other cities to fund workforce intermediary activities through a portion of local sales taxes. Intermediaries use these funds to pay for direct services, but it is conceivable that local sales taxes could be a dependable enough asset with which to retire bonds. States could then permit workforce intermediaries to issue bonds and use the proceeds to finance training programs.

**Bonds and UI Diversion**

In 2006, the Texas Workforce Commission (the state’s department of labor) gained the authority to sell bonds to shore up its UI account. The bonds are retired through a diversion of future UI funds. While this is not directly analogous to a bond/payroll tax diversion, it does suggest that alternative asset streams might be tapped to retire bonds. Just as an intermediary could manage a bond-financed training program, so could it manage a bond-financed program retired through UI. This strategy may be advantageous to those states that have no personal income tax.

**Bonds and FSE&T**

Bonds could be sold to finance training for employers with entry-level jobs. Some portion of the individuals who receive training may be food stamp recipients (perhaps 10 to 100 percent). If so, the training program qualifies as an FSE&T program and 50 percent of the costs of training is reimbursed. Both the sale of the bonds and the delivery of training could be administered by an intermediary, with the reimbursement used to increase the capacity of the intermediary or help retire the bonds.

**Implementation Questions**

Each of the strategies covered by our research presents unique implementation challenges, some more easily addressed than others. In large part, these challenges determine whether a strategy is idiosyncratic, or whether, with adequate support, workforce intermediaries can use it to fund services and finance their core functions. More important, the ability to address these challenges will mean the difference between whether or not particular financing strategies can achieve a level of scale that can significantly improve the performance of state and local workforce development systems for low-skilled workers.
These challenges can be sorted into two broad categories: public policy challenges and capacity-related challenges. In both categories, foundation support can play a pivotal role. The public policy challenges described below are routinely the focus of foundation activity; the capacity-related challenges are central to foundation support for many workforce development initiatives, including *Investing in Workforce Intermediaries* and its successor, the *National Fund for Workforce Solutions*. At this point in the progress of the field, workforce intermediaries need foundation support to achieve some degree of long-term financial autonomy.

**Public Policy Challenges**

The strategies researched here were selected for their potential to produce relatively large-scale outcomes in terms of the employment and training of low-skilled workers. Given this criterion, the adoption of several strategies depends upon state-level legislative or regulatory changes. Bond-financed training programs, for example, require significant political effort on the part of advocates. The programs established in Iowa, Missouri, and Kansas are the result of considerable lobbying, coalition building, and grassroots organizing to make the case to the legislatures and governors that the sale of bonds for training would yield an economic return on a par with more traditional, bond-financed economic development efforts.

With FSE&T, by contrast, the challenges relate more to bureaucratic inertia. The FSE&T pilots described in the research were created only after extensive campaigning on the part of advocates to persuade state-level food stamp administrators that expanding the regulations to permit workforce intermediaries to participate would significantly benefit food stamp recipients. FSE&T pilots have resulted from top-down efforts, not grassroots movements. Even as the pilots are up and running, advocates continue to fight a rearguard battle with regional administrators to maintain the changes made.

There are also political challenges inherent in adopting any of these strategies as intermediary financing mechanisms. Some challenges relate to the funding source for the training program. For example, opponents of bond financing cite the opportunity costs of the diverted payroll tax used to retire the bonds. They argue that the diverted funds not only diminish tax contributions to the state general revenue fund, but also that the diverted payroll taxes equate to an employer subsidy to do what they should do in any case: train their workforce. Advocates counter that revenue is not lost; rather, as
the research indicates, it is invested in human capital and will yield positive returns to the state.

Other challenges relate to the nature of workforce intermediaries. As non-traditional actors in economic and workforce development, intermediaries are often criticized as efforts to create a parallel workforce development system—a competitor with the public system for limited resources. Opponents of intermediaries would almost certainly oppose financing mechanisms that diverted public or philanthropic funds. To a certain extent, this is a fair criticism: workforce intermediaries do tap into public resources, but they do so to meet a need. For example, Pennsylvania advocates made the case that the traditional workforce development system was not producing the results needed for the state to remain economically competitive. As a result, the state funds its growing Industry Partnerships intermediary project through a combination of state appropriations, WIA funds, and foundation grants.

**Capacity Requirements**

All of the potential financing strategies considered in our research assume significant institutional capacity on the part of the workforce intermediary. The strategies involve a level of financial expertise or management skill that may not be an organization’s particular strength. For example, a principal barrier to the wider use of PRIs by workforce intermediaries is the degree of fiscal discipline and accountability required. Similarly, tuition-based strategies assume a rare level of sophistication on the part of intermediaries that would seek accreditation or to partner with educational institutions to create a revenue source for intermediary operations.

While FSE&T’s cost reimbursement mechanism represents a significant source of flexible revenue, the capacity required to implement it may deter many workforce intermediaries. For example, according to analysts of the FSE&T pilot in King County, Washington, the undertaking is highly labor intensive, requiring staff to monitor, on a monthly basis, whether participants are receiving food stamps and participating in the required training activities.

**Conclusion**

None of these challenges is insurmountable, as the examples identified through our research demonstrate. Nonetheless, many challenges are resource intensive, which affects discussions of replicating any strategy. What is needed
is additional support to build upon the strengths, and address the weaknesses, of workforce intermediaries and move them, as a field, toward long-term sustainability and financial independence. Whether this means increasing their ability to tap into public resources more effectively or to better position themselves to benefit from private resources, or some combination of both, varies according to the financing strategy.

*The National Fund for Workforce Solutions* has evolved from an idea discussed in an American Assembly forum in 2003 to an active and growing group of organizations contributing to the economic health of several cities and states. In the final report from the 102nd American Assembly forum, the authors sketched out a broad vision for building on the burgeoning successes of a limited and isolated few intermediaries in order to create a wide array of institutions with the ability to improve the functioning of the workforce development system (Mortimer 2003).

The authors identified the need to improve workforce skills and increase productivity as priorities, and they noted that nothing less than a crisis for the American economy loomed if these issues were not addressed. The Assembly proposed that intermediary organizations—including community colleges, Workforce Investment Boards, unions, employer organizations, community-based organizations, and others—had demonstrated their ability to meet these challenges. What was needed was strategic thinking about how to remove barriers limiting the reach and effectiveness of workforce intermediaries.

Central among these barriers was the need for smarter financing. The Assembly noted that more, and more tactically targeted, funding was needed for intermediaries to meet the pressing demands of businesses and workers for skills that build economies. Specifically, the Assembly recommended expanding federal, state, business, and philanthropic resources for intermediary functions; developing new ways to create long-term capital flows; connecting permanent sources of public funding to workforce development; and implementing comprehensive federal and state demonstration projects supporting workforce intermediaries.

With our research into alternative financing strategies for workforce intermediaries, we have sought to shed light on this principal barrier to financing the functions of workforce intermediaries. The research examines current practice in five strategies that, to one degree or another, touch on each of the Assembly’s funding-related recommendations. In addition, the researchers
often situate their findings within the context of the *National Fund for Workforce Solutions* in order to better illustrate how each strategy might benefit existing intermediaries. Making innovation the norm will require support from all quarters, especially from the foundations that have brought the workforce intermediary field to where it is today.
References


Part I.
Workforce Development Financing and the Workforce Intermediary Function: A Discussion Primer

By John Colborn

As the 21st century begins, the prosperity of the United States depends increasingly on the strength of its workforce. The world is becoming one economy and nations that fully utilize their workers are more likely to thrive than those that do not. Over the past 20 years, a dramatic increase in the size and skill of America’s labor force has driven its economic growth. Baby boomers were in their prime employment years, and large numbers of women entered the labor force. New workers emerged far more educated than those they replaced. The number of college-educated workers more than doubled. These trends have ended. More than a third of the nation’s workforce lack the basic skills needed to succeed in today’s labor market. During the next 20 years, the American workforce is expected to grow by only half of its earlier pace.

This chapter seeks to prompt discussion among funders and leaders in the workforce development field about how to best expand the resources available for workforce development activities for low-income people. An underlying assumption is that workforce intermediary organizations are uniquely positioned to foster innovations in financing and expand the base of resources available for the workforce development enterprise. Discussion of the topics in this chapter is ongoing and in 2007 informed the creation of the National Fund for Workforce Solutions.

The Economics of Workforce Development Investment

Basic principles of welfare economics tell us that a socially efficient (or optimal) allocation of resources occurs when beneficiaries of an expenditure are those who also pay for it. Workforce development for lower-income people
tends to receive a socially suboptimal investment, in part because financing has been largely borne by a broad public that does not perceive itself as a beneficiary of these expenditures. In part, of course, this is a matter of politics (and even ethics). But a central premise of this chapter is that the underinvestment in workforce development for low-income people is also a matter of the poor state of financial engineering of the workforce development field.

The financing of workforce development is particularly challenging because there are three or more parties to most workforce development efforts: the worker/job seeker, the employer, society at large, and (sometimes) a collection of firms or an industry. Yet collecting payments from each of these parties in proportion to their benefit is difficult for a host of reasons.

Public-Good Financing. Historically, the workforce field has depended almost exclusively on public-good financing mechanisms (foundation grants, governmental programs) for serving lower-income people. There are powerful arguments for treating workforce development as a public good, at least partially. At least part of the rationale for workforce development is based on notions of equity and largely community benefits (improved neighborhoods and communities, lower crime, improved outcomes for children, reducing social safety net costs, and so on). Inevitably, however, overreliance on the public and philanthropic sectors—the benefits to which are uncertain and often poorly framed in the political and civic environment—has led to underexpenditure. Even so, the workforce field has probably not exhausted the potential for financing its work as a public good. Innovation is needed in terms of more efficiently tapping these public-sector and philanthropic funding streams.

Furthermore, public-sector and philanthropic support of workforce development has focused on a relatively narrow set of functions: remediating immediate barriers to employment, training in job-related skills, matching job seekers to job openings, and (minimally) proving post-placement support and job retention services. Such financing usually is provided on a cost-plus arrangement, with relatively minimal (and even negative) margins. Yet the success of high-performance workforce development efforts often depends on a wide range of activities, seldom recognized under public funding regimes. These include researching labor market needs, organizing a wide array of workforce development stakeholders, fostering and sustaining partnerships among multiple institutions, testing new approaches, pursuing systemic changes in workforce development policies and practices, innovating
new approaches to private-sector human resources practices, and blending workforce development with other interventions designed to improve the competitiveness of targeted firms and industries.

Together, these functions represent the difference between run-of-the-mill employment and training practices and best practice in workforce development. In a few cases, public and philanthropic investors have begun to recognize the value of these functions and fund them directly. And while there are a few examples where public and philanthropic funders have directly funded these sorts of activities, most workforce intermediary efforts have had to develop strategies for securing, often innovatively, alternative and supplemental public and other revenue streams with sufficient margins to support these sorts of activities.

Private-Good Financing. Beyond expanded public-sector support, workforce practitioners also need to find ways to efficiently tap revenue streams derived from job seekers and employers. Though many benefits of workforce development investments are in the public realm, individuals participating in high-performance workforce programs and firms hiring them experience some level of benefit and, at least in theory, should be willing and able to pay for these benefits. Economic efficiency requires that the timing of the benefits to a job seeker or employer matching payments for services received or that the risks of nonperformance can be assessed and discounted from the payment. Unfortunately, there are almost no mechanisms for addressing timing issues, where costs are almost entirely at the front end, whereas the benefits to the various parties are almost always long-term. Furthermore, many investments in workforce development are subject to “free rider” problems. And because the outcomes of most workforce development efforts are uncertain on many different levels, these conditions of uncertainty tend to promote undervaluing and even further underinvestment. Finally, even if all these issues could be addressed, there is the problem of assessing costs and collecting payments from a wide range of stakeholders, many of whom (outside of the job seeker/worker) may accrue only negligible direct benefit, and certainly at rates of return that are lower than many alternative investments.¹

The functions of financial aggregation, transaction cost management, timing transformation, and risk mitigation are areas where financial intermediation and innovation could have a tremendous impact on resource availability for providing workforce development services to low-income people. Addressing these financing challenges is one of the key functions of work-
force intermediary organizations and could become the basis for addressing a wider range of issues facing the field, including ensuring quality control and accountability among service provider organizations and making a more powerful case politically.

**Financial Innovation: A Partial Inventory**

What is needed, then, are financing mechanisms that better capture new and existing public and philanthropic revenue streams for workforce development; improve the capacity of practitioners to address the timing issues inherent in workforce development; better aggregate resources and assess costs to beneficiaries in ways that are transactionally efficient; and reduce the levels of uncertainty for workforce development investors and stakeholders. The balance of this chapter will review some of the more promising of these approaches. These approaches, it is argued, have the effect of increasing workforce development investments to more socially optimal levels, enforcing stricter accountability between workforce development efforts and their various customers, and providing sufficient revenue to support those activities associated with high-performance outcomes.

While the fragmentation in the workforce development field is at times something to lament, it also tends to promote high levels of experimentation and innovation (even if these efforts seldom get to scale or are widely adopted). This is certainly true in the area of finance, where scores of small-scale experiments and innovations begin to suggest the panoply of opportunities for further exploration.

While any grouping of these innovations is somewhat arbitrary, this chapter proposes four broad categories:

- Those that seek to tap less traditional public financing streams;
- Those that seek to assess costs among beneficiaries;
- Those that are linked in some way to economic development and job creation; and
- Those that directly support workforce intermediation functions, including financial packaging and aggregation.

This categorization can be overlaid onto the primary beneficiary/investor groups to produce the matrix in Table 1.
TABLE 1.
Summary of Financial Innovations in Workforce Development

<table>
<thead>
<tr>
<th></th>
<th>Worker or Job Seeker</th>
<th>Employer or Industry</th>
<th>Public or Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tapping new and existing public revenue streams</td>
<td>Higher education tax credits Guaranteed student loans</td>
<td>Employer tax credits</td>
<td>Higher education financing streams (Pell) Performance-based public sector financing Aggregating multiple funding streams Unemployment Insurance Diversion</td>
</tr>
<tr>
<td>Assessment and aggregation of costs to beneficiaries</td>
<td>Tuition finance Individual development accounts</td>
<td>Placement and retention fees Training fees Staffing agency fees</td>
<td>Individual training accounts</td>
</tr>
<tr>
<td></td>
<td>Union-negotiated training funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lifelong learning accounts (LiLAs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development-linked funding streams</td>
<td>Community benefit agreements with developers Impact/development fees</td>
<td>Tax increment financing linked to human capital investments Dedication of project bond finance to strategic human resource investment Special purpose bonds for human capital investment</td>
<td></td>
</tr>
<tr>
<td>Direct support for workforce intermediary functions</td>
<td></td>
<td>Foundation initiatives Multi-funder support</td>
<td></td>
</tr>
</tbody>
</table>
The starting place for practitioners financing workforce development activities from public sources is usually the Workforce Investment Act. However, resources under this program have been steadily dwindling. In recent years, resources dedicated to WIA’s disadvantaged adult title have been under $1 billion annually for the entire country. This nominal amount has been further reduced as resources are consumed by “infrastructure” investments in One Stop Career Centers, leaving few resources to support skills training and career advancement. Beyond WIA, practitioners also have historically turned to welfare program funding sources. However, the work-first orientation of federal welfare law and state implementation plans have restricted the ability of practitioners to tap this much richer set of resources for training activities.

This state of affairs has led some to look at other public-sector funding streams. Most promising have been the higher education programs—funded at the federal level in FY2003 at upwards of $45 billion. Tapping these funding streams, which include Pell Grants as well as student loan support and which tend to engender stronger political support, is not as straightforward as it might appear. Even higher education institutions tend to rely on WIA or welfare funding for their vocational education and training programs. However, a series of workforce development efforts now access higher education funding by partnering with accredited institutions or obtaining accreditation themselves and transforming vocational courses into credit-bearing instruction. Side benefits to this strategy often include improved instruction and better integration into higher education pathways leading to degree attainment.

From time to time, workforce development organizations also have managed to find funding opportunities in other part of government—although these opportunities appear more idiosyncratic and opportunity driven.

A few examples of these approaches:

In Boston, the nonprofit Year Up offers a yearlong program of education, training, and work experience for young adults. This scope of this expensive program exceeds the ability of traditional workforce funding streams to finance it. One way Year Up has sought to cover some of its costs is through a unique partnership with Cambridge College. Year Up has worked with the college to ensure the program instruction is worthy of college credit, and it then lists these courses under the college’s course offering, enabling student participants to access Pell and other higher education financing. In prepar-
ing for the partnership, Cambridge College worked with Year Up to review curriculum and upgrade instructional quality. Other workforce development organizations, like *Project Quest* in San Antonio, have built such partnerships into their initial design—essentially outsourcing the education and training function and covering its cost “off the books” through mainstream higher education funding streams. This frees up organizational resources for providing supports to participants and developing and managing relationships with employer partners.

In Georgia, the *QuickStart* program, operated under the state’s Department of Technical and Adult Education, has developed specialized certifications in conjunction with manufacturing, warehousing, construction, and customer service employers. These certifications leverage QuickStart’s extensive incumbent worker training experience and the broader community and technical college infrastructure in Georgia. Students can finance their participation in the program through the state’s Hope Scholarship program.

*Twin Cities RISE!* in Minnesota shifted the conversation about public funding of workforce development from one of cost coverage and cost containment to maximization of returns. It has developed an innovative state funding program that combines the Twin Cities RISE! return-on-investment analysis with a pay-for-performance funding structure. This approach has wide appeal to both social progressives and fiscal conservatives and authorization for a demonstration program in other states is proposed as part of the reauthorization of the Workforce Investment Act.6

Many states have developed training and employment programs under the auspices of their *Unemployment Insurance* programs. These projects have the advantage of building from active employer and labor union interest in the programs and can represent flexible sources of funding.

**Assessing Costs to Beneficiaries**

*Examples of Assessing Costs to Beneficiaries*

Focus: HOPE tuition and student loan fund

New Century Careers employer contributions

District 1199c Training and Upgrading Fund education and training services

LIFETIME use of individual development accounts

Council for Adult and Experiential Learning Lifelong Learning Account model
While finding new and more efficient ways to tap public-sector financing is an important part of the solution to underinvestment in workforce development for low-income people, this chapter began with the premise that assessing costs in proportion to benefit for all the stakeholders of workforce development activities is key to growing the pool of resources for this activity. A wide range of barriers stand in the way of doing this. Not least among these is that this approach flies in the face of customs that providers, job seekers, and employers have long grown used to. But even assuming purely rational economic behavior among all parties, there remain formidable barriers to these sorts of transactions. These include risk, timing, and transaction cost:

**Risk:** Workforce development investments are notoriously risky. Even the highest performing workforce intermediaries see investments in individuals that fail to pay off due to life circumstances of participants, changes in industry employment needs, economic downturns, and so on. This is not to say that human capital investments offer poor returns overall; it’s just hard to know which will pay off and which will not. Indeed, with so many exogenous factors, the workforce field sometimes suffers a lack of accountability, and both job seekers and employers often have difficulty distinguishing high-performing providers from low-performing ones.

**Timing:** A related issue is the timing inherent in workforce development investments. In general, significant investments are required up front, with returns delivered over the course of succeeding years. One way to address the issues of risk is for investors to pay only once a return has been documented. However, a number of factors complicate the implementation of these pay-for-performance arrangements. For example:

- Exactly what performance should be measured?
- How to construct performance targets in ways that avoid perverse incentives?
- How to contain the cost of performance measurement?
- How do practitioners finance up-front costs until payment is received?

**Transaction Cost:** Even if timing and risk issues could be addressed, the cost of facilitating payment (over time and linked to performance) from all beneficiaries remains to be settled. Few workforce development practitioners are well suited to service collection of payments from participants, employ-
ers, and the public sector. Even a modest-sized program, perhaps serving 250 people annually, might find itself processing 750 transactions each year—and that’s with the simplifying (and probably unrealistic) assumption that collections from each party are accomplished with a single payment.

Nevertheless, a number of workforce development practitioners and intermediaries have sought to address these various challenges. Their approaches roughly divide into two types: first, development and utilization of new institutional structures and, second, development of fee-based business models. Examples of each of these follow:

Tuition models: Though hardly innovative or new, tuition financing is relatively rare in the workforce development field. In part, this reflects regulatory issues related to using public-sector funding streams. These regulatory regimes, though sensible within the bounded rationale of these programs, have had the unintended consequence of yielding relatively low leverage of these public funds. **Focus: HOPE** in Detroit has received regulatory dispensation to levy tuition in addition to collecting public-sector workforce development funds. Combined with a student loan fund, Focus: HOPE now raises about half of its costs through student tuition. Ultimately, Focus: HOPE intends to work with employer partners to establish mechanisms for implementing partial or complete assumption of student loan payments and/or implementing payroll deduction approaches to facilitate loan repayment.8

Employer Contributions/Fees: Relatively few programs targeting disadvantaged people have raised significant resources through employer fees. This is confounding to those who have studied this issue, given a ready analog in the private sector, the staffing agency, that seems to be able to do so on a regular basis. Successful efforts to replicate this model for social purposes have generally been limited.9 Still, a few practitioners have tapped employer resources either through structured fees or through systematic contributions. For example, **New Century Careers** in Pittsburgh, a manufacturing training program and workforce intermediary, has attracted annual “membership” contributions from over 100 participating employers. Though membership dues do not cover the costs of the training program, they are an important source of unrestricted operating support.10 Other practitioners have been experimenting with incumbent worker training fees, new employee placement fees, and new employee retention fees.

**Union-Management Training Funds**: Across the country, unions have negotiated joint education and training funds as part of the collective bar-
gaining process. In industries ranging from manufacturing to health care to hospitality, these funds offer the potential for flexible responses to industry and worker needs. One of the most established of these, the District 1199c Training and Upgrading Fund in Philadelphia, focuses on serving members of the health care union through a variety of training initiatives. Importantly, the fund leverages its position to serve non-union members using public-sector resources. Fund offerings include an adult diploma program and career-oriented programs for health care professionals and paraprofessionals.

**Individual Training, Individual Development, and Lifelong Learning Accounts:** The Individual Training Account, stipulated under the Workforce Investment Act, could offer another model for aggregating funding from a variety of sources. Unfortunately, most workforce boards have opted for unimaginative implementations of these account structures, with little leveraging of other funding. In part, this is because the regulatory and cumbersome reporting structures for WIA make it one of the least flexible funding sources, and most policymakers shy away from “contaminating” more flexible money with the restrictions of WIA funds. With little funding, these accounts can support only a relative handful of participants annually.11

In the last decade, social policy has grown increasingly interested in using asset-based approaches to poverty alleviation. Individual Development Accounts are savings accounts in which contributions by savers are matched by public or philanthropic sources. The use of savings in these accounts is limited to “asset building” activities, such as buying a home, starting a business, or investing in education. **LIFETIME,**12 an education and training advocacy organization led by and serving recipients of welfare in California, coaches its constituents on how to set up individual development accounts, and then use them to pay for education and training activities that the state’s welfare program won’t pay for—generally training activities after one year.

The **Council for Adult and Experiential Learning,** meanwhile, has developed a Lifelong Learning Account model explicitly targeted to education and training activities that matches savers’ contributions through those from employers and foundations. CAEL currently has three pilot sites and a comparison group evaluation to develop the model further. Policymakers in several states have expressed interest in developing state-level LiLA programs.13
Development-linked Funding Streams

**Examples of Development-linked Funding Streams**

- Iowa Community Colleges workforce development bonding
- Chicago TIFWorks program
- Los Angeles Alliance for a New Economy community benefits agreements
- Boston Workforce Development Funding through impact fees

A final and emerging funding source for the workforce development field is funding resources aligned to economic development and job creation. The basis for these programs is both pragmatic—a recognition that successful economic development generally requires parallel human capital investments—as well as a values-driven statement about the need for gain-sharing and social returns to lower-income residents in exchange for public subsidies for job creation and economic development activity. There is widespread experimentation in this area, although most efforts are highly localized. A few examples include:

**Human Capital Investment Bonding:** Heath Prince at Jobs for the Future reports on an Iowa program that enables community colleges to issue tax-exempt bonds on behalf of businesses that are creating new jobs. Prince also reports on a similar tax increment financing program in the City of Chicago, TIFWorks, used to support job training within its 69 TIF districts. Since 1977, Chicago claims to have created more than 6,000 new jobs within the TIF districts, and spends approximately $3.26 million per year of TIF-generated funds on training.¹⁴ In Philadelphia, 10 percent of the bonding for the city’s convention center was set aside in the 1990s for tourism and hospitality training.

**Community Benefit Agreements:** The Los Angeles Alliance for a New Economy has innovated in negotiating community benefit agreements in connection with major economic development projects receiving public subsidy in the LA area. These agreements require first-source hiring procedures, and they stipulate that the developer provide funding for job fairs, job training, on-site hiring offices, and an employment and training liaison to coordinate hiring and training with community and city agencies. In a recent community benefits agreement related to the expansion of the Los Angeles airport, the alliance secured commitments of some $15 million for targeted training efforts.¹⁵
Dedicated Workforce Development Funding from Impact Fees: The City of Boston levies impact fees on large real estate developments and dedicates a portion of these fees into a city workforce development fund. The flexibility of these funds gives them high leverage, even if their amount is relatively modest.

Direct Support for the Workforce Intermediary Function

Though still nascent, a few public-sector and philanthropic funders, joined at times by industry and unions, have recognized the value of the workforce intermediary function and provided targeted funding for these activities. Such funding is often championed as a leveraging mechanism—a sort-of meta-financing approach designed to increase resources for workforce development more generally. Furthermore, investors in such approaches often feel these efforts lead to more efficient use of existing resources, concentrate impact, and better promote learning for the field as a whole.

Foundation Initiatives: A number of foundations have provided support for workforce intermediary functions under the auspices of national funding initiatives. The C.S. Mott Foundation’s Sectoral Employment Initiative and the Annie E. Casey Foundation’s Workforce Initiative provided explicit support for research and development, partnership organizing and development, and systems-change activities. These efforts, particularly combined with cross-grantee technical assistance, learning, evaluations, and other supports and accountability mechanisms, can be critical sources of start-up funding and enable groups to build track records and relationships for long-term success. Still, by their very nature, these are time-limited funding streams and can only target a handful of communities and regions.

Multi-Funder Collaborations: In a handful of communities, philanthropic and public-sector funders have joined together for targeted support of workforce intermediary efforts. In New York City, Boston, and San Francisco, foundations are working with state and local workforce agencies to foster high-performance workforce development strategies. These efforts have the advantage of aggregating and concentrating resources for higher impact and visibility and tend to emphasize learning and system-change approaches for longer-term impact.
Toward a Systematic Exploration of Financial Innovation and Workforce Development

This chapter’s analytical framework and summary of innovations in workforce development finance is intended to spark thinking, critiques, and new ideas that can further help to frame this issue. Ultimately, such an analysis should help the workforce field contemplate a more systematic exploration of these issues, with the goal of looking for ways to increase the quantity of funding available to support workforce development efforts targeting low-income people and to increase the efficiency of the utilization of this funding.

Such discussions would address four key questions:

• **What are the gaps in what we absolutely need to know about financing workforce development in order to pursue such an exploration and in order to know if this exploration is having impact?** What are the most efficient ways to develop this knowledge? Information is never perfect and there are always things it would be nice to know. The intent of this question is not how to get the best or most definitive information, but rather what is the least good and cheapest information the field could effectively use to plan and guide such an effort.

• **Where are the strategic points of leverage in changing widespread behaviors of investors, potential investors, and workforce intermediary organizations?** While sound economic analysis will help us with this question, issues of custom, politics, capacity, and adoption also play a role. What does an analysis of these issues suggest as possible tipping points leading to widespread behavioral change?

• **What specific activities that could move the leverage points identified above are likely to have the highest impact? What is the role of philanthropic capital in facilitating/incenting these activities?** There is never enough foundation money to do all that needs to be done, so much of a funder’s job is trying to find the activities likely to have the highest returns. In thinking about this question, it will be helpful to distinguish between local and national funders and between grant capital and program-related investments (foundation loans and equity investments).

• **In promoting workforce intermediary approaches, how might the three national foundations and their local philanthropic investment partners best promote financial innovation and widespread financial re-engineering of workforce development practices for low income people that leads to scaled**
impact? The workforce field is full of small-scale innovations but tends to resist scaled impact. If the aim is scaled impact, one criterion to use in assessing strategies in financial innovation is the extent to which they can be grown and replicated in many environments and at scale. Issues of simplicity, adaptability, the available base of resources to be tapped, and behavioral incentives all work to determine the scalability and efficacy of any financing approach. How do these map against alternative strategies?
Endnotes

1 Anthony Carnevale and Donna Desrochers explain why employers (and society) find higher returns on investment in skills in better-educated workers. Under this rubric, private sector-led and strictly efficient allocations of human capital investment would largely ignore less-educated, entry-level workers. Furthermore, some employers may have alternative strategies for addressing workforce issues, such as off-shoring, automation, immigration.

2 According to The Workforce Alliance, “The U.S. Department of Labor has decreased its inflation-adjusted investments in worker training by 29 percent between 1985 and 2003. These cutbacks have included a 33 percent reduction in Workforce Investment Act (WIA)/Job Training Partnership Act (JTPA) funding, which has hit those served by the Adult and Youth funding streams particularly hard. The Department has also slashed Wagner-Peyser funds by 40 percent since 1985.”

3 Unlike WIA funding, higher-education funding benefits from significant state-level appropriations as well.

4 See www.YearUp.org.

5 See www.georgiaquickstart.org.

6 For more information, see ROI: A path to more effective government, by Steve Rothschild, available at www.growthandjustice.org/index.asp?SEC=176786FC-1613-4DAB-983A-C565A443CA71+'&Type=B_BASIC.

7 Federal tax credits include the Work Opportunity Tax Credit, the Welfare-to-Work Tax Credit, the Empowerment Zone Employment Credit, the Renewal Community Employment Credit, and the Indian Employment Credit. See www.winco.info.

8 Focus: HOPE is in the midst of a comparison group longitudinal analysis of its loan fund program. See www.focushope.edu.


10 See www.ncsquared.com.

11 According to the U.S. Department of Labor, of the 467,255 disadvantaged adults receiving services in the 2002 program year, 65,371 received some form of training services. On a pro rata basis, this means a city of one million people would have offered training to about 230 individuals under the WIA adult title.

12 See www.geds-to-phd.org.

13 See www.cael.org/lilas.asp.

14 From an internal JFF memo; see also www.ci.chi.il.us/WorkforceDevelopment/TIFWorks.

15 See www.laane.org.
Part II.
Bond Financing

by Heath Prince and Jeff Jablow

States, counties, and municipalities have long sold bonds to finance capital improvement projects. Relatively recently, a few states have sought to address the funding shortage for training through the sale of general obligation bonds. The proceeds from the bond sales are used to finance training programs and, in some cases, the operations of the intermediaries that administer them.

The bond-financed training programs in Iowa, Missouri, and Kansas suggest the feasibility of scaling up such approaches, as well as obstacles that have prevented other states from utilizing them. The reasons for the infrequent use of general obligation bonds for workforce development are many, not least of which is the difficulty involved in conceptualizing the application of a practice that typically results in something tangible (e.g., a highway) to something as intangible as skill development.

Case studies and an examination of obstacles point to the elements of a potential state-based pilot project, including the project’s likely “sponsors” or champions, specific implementation steps, and the time and expense required for implementation.

The research for this report includes interviews with policymakers and practitioners in Iowa, Missouri, Kansas, North Dakota, North Carolina, Alabama, and Georgia, as well as secondary research and literature reviews.

Using Bonds to Finance Workforce Development:
Public Goods and Debt Financing

Economic theory argues that the private sector will not provide certain essential goods and services—“public goods”—in “optimal” amounts because the public collectively consumes benefits derived from them. While states and localities use traditional taxing authority to finance most public goods, they typically finance large-scale capital improvement projects, such as highways and
sewer systems, through bonds and other long-term debt financing mechanisms (Aronson 1996). State and local governments issue debt in the form of bonds in exchange for the use of the savings of individuals and corporations. This debt obligates state and local governments to make interest payments for the use of these savings and to repay the amount borrowed (Maguire 2001).

There is a significant market failure in the provision of workforce development services to low-skilled workers. Job training produces large external benefits, making underinvestment and inefficient production the likely outcomes in the absence of substantial government intervention. That job training programs rely on public financing is evidence of this, but the fact that they remain underfunded also points to a need for innovation in the financing of workforce development as a field.

**Current Practice in Workforce Development**

The topic of using bonds to finance human capital development programs is rarely found in either public finance textbooks or workforce development conference agendas. As a funding strategy, general obligation bond financing is typically used for large-scale, capital improvements; states also use revenue bonds, such as industrial development bonds and sports complex bonds, to finance projects that are secured by revenue to be generated by the investment (Maguire 2001). In both cases, there is an expected return on the investment, in terms of either the general public good or the overall fiscal health of the state or community issuing the bonds.

Generally speaking, the practice of funding job training through general obligation bonds has been limited to a handful of states. Public workforce development has typically meant grant-funded public programs that are part of the “second chance” welfare system and far removed from state and municipal economic development activities. To be sure, other differences exist, including the vast difference in the funding of the two activities. In 2003, the states and localities issued an estimated $200 billion in governmental and private activity bonds, compared to the approximately $9 billion spent on all adult workforce development programs (Joint Committee on Taxation 2006).

**Lessons from Regional Economic Development Authorities**

Workforce development and economic development activities run along sometimes intersecting but usually parallel tracks in the government financing arena. A typical scenario has states or municipalities financing workforce
development separately from, and without coordinating with, capital improvement.

When economic development authorities can issue debt, job creation and economic development are sometimes explicitly linked to a loan or bond issue. For example:

- The Boston Redevelopment Authority issues Tax-Exempt Industrial Development Bonds for land acquisition and construction and the expansion and renovation of new facilities or new equipment. Projects often have a strong job creation/retention component. For example, the Boston Local Development Corporation, a nonprofit corporation administered by the BRA, provides loans of up to $150,000 for businesses that are expanding in or relocating to Boston. Since 1998, the BLDC has provided more the $4 million in loans and created or retained over 1,000 jobs in Boston.

- Another example from Boston is the Backstreets initiative, which promotes the growth of small and midsized industrial and commercial businesses. The initiative also supports the business community with workforce training, networking, upgrading of critical infrastructure, and assisting new businesses (e.g., in locating sites). Backstreets offers a wide array of resources, including low-cost, tax-exempt bond financing, for firms considering locating in Boston's industrial zones.16

- The Santa Fe Small Business Loan Fund makes loans and provides technical assistance to small businesses that have difficulty in securing traditional commercial credit. Loans are intended to help create or retain jobs for low- and moderate-income individuals. For every $25,000 borrowed, the borrower must create or preserve at least one job.

- Bonds from the Florida First Business Bond Pool are issued by local bonding authorities to fund projects that create at least 100 new jobs or increase employment by 10 percent (if it is a business expansion project) and pay at least 115 percent of the average area wage. Florida's 2005 allocation for the Bond Pool was $258,854,576.17

The conceptual similarities between the use of bond financing for capital improvement programs and bond financing for human capital development begin to emerge in the activities of the relatively few regional economic development authorities that link debt financing to workforce development. In both cases, a calculation is made regarding the likelihood of a positive return on investment. In the case of traditional economic development, investments in business expansion are expected to yield returns to the state's
Funding Community Colleges as Intermediaries

Iowa and Missouri have granted community colleges the ability to independently finance job training through bond sales, in effect strengthening their capacity to act as regional workforce intermediaries. In both states, community colleges can charge up to 15 percent in administrative fees for managing their bond issuances. In Missouri, this fee has generated $63,000 to $103,000 per project per year, with each college potentially managing several projects per year (McCaskill 2003). The range in administrative fees earned by Iowa’s community colleges is much wider—between $25,000 and $489,000 per year (Iowa Department of Economic Development 2005).

In addition, community colleges in these states can enter into agreements with employers (with some restrictions on the type of industry and wage levels paid) to fund and provide training to new hires or to workers who need new skills in order to advance into higher-paying positions.

tax base. Similarly, investments in human capital development are expected to yield economic returns to the state, businesses, and individual workers.

Barriers to Scaling Up

Several factors constrain the wider use of bonds to finance workforce development. These factors, which are more procedural than conceptual, include:

• The complexity of the legislative process;
• The capacity needed to administer bond-financed programs;
• The need for a means to guarantee the bonds;
• The tendency of bond-financed projects to be demand-driven rather than population-focused;
• The use of a state income tax as a repayment mechanism; and
• Equity concerns over the diversion of state taxes.

Complex Legislative Process

The process for creating a bond-financed workforce development program is complex and potentially confusing. In the cases highlighted here, legislation was required to authorize and clearly define the program’s parameters and objectives. Moreover, getting the legislation passed required grassroots
campaigns that mobilized the business, labor, and education communities before conversations with legislators could begin. In each program, advocates made extensive use of research and data that could demonstrate that the potential benefits outweighed the risks (e.g., to the state’s bond rating as a result of defaults).

**The Capacity Need**

In Iowa, Missouri, and Kansas, community colleges are charged with some level of operating the bond-financed programs. Iowa, Missouri, and, to a lesser extent, Kansas provide community colleges with considerable license to enter into and manage relations with employers, public agencies, and other training providers, as well as responsibility for managing the sale and retirement of the bonds. The success with which the colleges manage relationships determines to a large extent the effectiveness of the bond financing mechanism. For example, colleges with limited ability to conduct labor market research, or limited capacity to manage the not insignificant red tape that accompanies bond sales, have been less effective as workforce intermediaries.

**Means of Securing the Bonds**

The typical capital improvement bond is secured by the taxing authority of the state or municipality that issues it. This is not always the case regarding bonds to finance workforce development. In Iowa, while the principle and

---

**Building Support in Iowa**

It was not a simple matter to grant Iowa community colleges the ability to independently finance job training through bond sales. According to a state leader involved in the process of gaining support for the idea, a team of creative legislators worked with a bond attorney and a representative of a community college, who was also a former U.S. Congressman. Together, they designed a policy that would satisfy the state’s needs for a cost-neutral training program, worker needs for employment and advancement opportunities, and employer needs for a skilled workforce. Legislation was drafted and legislative leaders moved ahead with the proposal. The business community, state agencies, and Governor Terry Branstad’s administration were all recruited in the process of building support for the bill, which the legislature approved in 1983.
interest payments on the bonds are paid over ten years by diverting a portion of the newly trained workers’ state income tax, local property tax receipts resulting from investments in the creation of the new jobs can also be encumbered for up to ten years through the use of tax increment financing. However, the state has rarely resorted to the latter option to secure repayment. Missouri and Kansas treat training bonds much the same as capital improvement bonds: the bonds are secured by the taxing authority of the state legislatures.

**Targeted Populations**

In the cases here, bond-financing programs are used primarily as economic development tools; as such, they do not specify populations to be served. Indeed, the absence of flexible funding for employer-driven job training provided a major reason to create each of these programs. Nonetheless, a significant number of the jobs created have benefited workers at the low end of the skill spectrum.

**State Income Tax as a Repayment Mechanism**

Each state currently using bonds to finance job training diverts a portion of state payroll taxes to retire them. However, 41 states have an income tax that could be used for this purpose. Moreover, Texas has begun experimenting with diverting sales taxes to fund job training programs and with diverting future UI payments to retire bonds issued to secure current balances, perhaps pointing to alternative methods for retiring bonds.
Equity Concerns

Critics have noted that the practice of diverting a portion of the payroll tax to retire bonds amounts to a transfer of public funds to employers. These critics contend that it is inappropriate to subsidize employers to do what they would, or should, do in any event (Oleson 2003).

If measured strictly by the amount of redeemed bonds, bond-financed programs do reduce income tax revenues. However, the states that have employed this mechanism successfully view the forgone tax revenue as an investment in human capital that yields net returns. For example, by taking into account taxes on increased wages, higher firm productivity, and the boosts to local economies resulting from increased employment, Missouri state auditors estimate that the approximately $90 million in bonds issued to date will increase state revenues by nearly $4 billion by 2012. (McCaskill 2003)

Benefits of Financing Workforce Development with Long-term Bonds

Policymakers and practitioners have considered alternative approaches to financing workforce development programs for several reasons, including:

- The level and availability of public funding;
- The need for long-term financial sustainability; and
- Issues related to the timing of payments.

Level of Funding of Public Goods and Services

Job training for low-skilled adults increases their access to economic opportunities. The benefits to the public of effective job training programs are myriad, including those that result from higher family incomes, increased worker productivity, and decreased reliance on public services, to name only a few. Despite these benefits, public investment in workforce development is generally perceived to be less than optimal. And the private sector has invested little in this activity for various reasons, including the high mobility of the labor force in general, particularly at the low end of the wage and skill scale. 18

Bond financing expands the supply of capital available for workforce development and, in doing so, contributes significantly to filling the gap between the supply of and demand for skills training. Bond financing has permitted states to use public funds to greatly increase the amount invested in training.
Iowa: Creating Jobs and Attracting Business

Iowa’s New Jobs Training Program has provided job-training assistance to over 140,000 Iowans since 1983. According to a community college official who administers the program in his region, Eastman Kodak, Weyerhaeuser, and a Korean steel company have all based their decisions to locate in Iowa on the strength of the state’s workforce development system and the availability of NJTP training. In the last decade, the number of projects per year has ranged from 29 to 149, the number trained from 2,031 to 11,547 per year. Annual certificate amounts have ranged from $10,255,000 in FY 2003 to $58,379,000 in FY 2005, with which Iowa trained 4,499 workers (Iowa Department of Economic Development 2003, 2005). This level of investment has supplemented the state’s investment of Workforce Investment Act funds in training adults in 2005 ($5,225,646 to train 2,894 adult and dislocated workers) (Iowa Workforce Development Board 2006). For more information, see the case study on page 54.

It has also made it possible for states to target the training to the needs of high-growth, high-wage industries and to increase the capacity of community colleges to act as regional economic and workforce development intermediaries.

Need for Financial Independence

Another reason to consider alternative approaches to financing workforce development programs is their current dependence on unpredictable budget processes. Federal and state funding levels for workforce development are rarely consistent from year to year, and they have generally declined over the past 25 years. Moreover, to the extent that human capital development is viewed as a “social service,” such programs are frequently the target of the budget axe. All this is conducive to neither long-term program planning nor program survival, and, ultimately, it undermines the creation of a true market for job training and human capital development. Moreover, tying funding for human capital development to the legislative budget process isolates job training from the needs of employers: funding is determined by state fiscal concerns rather than by employer demand for a skilled workforce.

In contrast, long-term bonds are a significant, self-sustaining source of capital for training. The amount of bonds sold is directly determined by the aggregated demand for training, as requested by employers; as such, it is
immune to the vagaries of the legislative budgetary cycles. In addition, because bonds are investments in human capital that are expected to yield returns, they contribute to overall economic growth in states that use them for this purpose.

**Timing of Payments**

The returns to the public on its investments in skills training occur over time, as newly employed or promoted workers pay into a state’s tax base; however, financing typically is required up front (and from public or foundation grants)—a characteristic well suited to the bond process. Bonds enable states and municipalities to capture future benefits to help finance a project in the present. Typically, long-term bonds match the timing of the principal and interest payments to the flow of services generated by the investment. This is particularly true for state and local governments. As residents, taxpayers lay claim to the benefits from these investments and relinquish their claim to benefits when they move.

On the other hand, taxpayers, who may be geographically mobile, are reluctant to pay today for benefits to be received in the future. The rational response of the state or local official concerned with satisfying residents’ preferences is to match the timing of the payments to the flow of services, precisely the function served by long-term bond financing (Maguire 2001).

Because public investment in workforce development can generate returns over a long period, it makes financial and economic sense to pay for the training over a similarly long time span. Iowa, Missouri, and Kansas have applied this logic to their bond-financing mechanisms to pay for job training. Bonds that are sold to finance job training programs are repaid using future revenue

---

**Missouri: Return on Investment**

The Missouri New Jobs Training Program is projected by the State Auditor’s Office to create over 87,000 new jobs by 2010 and to increase personal income by $6.6 billion and industry output growth by $15.4 billion by 2015. The State Auditor estimates that Missouri’s bond financing strategy will continue to produce positive outcomes on state revenues, with the highest annual revenue increase in 2010 of $581 million (McCaskill 2003).

For more information, see the case study on page 57.
Bonds as a Financing Mechanism for Workforce Intermediaries

The few states that have successfully used bonds as a financing mechanism for workforce intermediaries have learned lessons from which the broader field could benefit. It is apparent from the experiences of Iowa, Missouri, and, to a lesser extent, Kansas that the ability of community colleges to finance job training through the sale of bonds has provided them with a level of financial independence needed to act as highly effective workforce intermediaries. In each state, community colleges have worked with city, county, and regional economic developers to attract businesses. Moreover, the bond-funded programs have provided the colleges with flexible, sustainable funding that supports not only direct services but also the range of core functions that permits them to act in regional economic development.

Iowa and Missouri’s community colleges have used a 15 percent administrative fee associated with bond sales to finance a wide range of what can be characterized as workforce intermediary functions. Beyond managing the repayment of the bonds, these functions include, for example, negotiating training activities proposed by employers, interviewing and selecting staff for the projects, aggregating local employer demand for training, and, in most

Adjusting to a Ten-year Schedule

Iowa’s community colleges have the option of taking the entire 15 percent administrative allowance upon bond sales or to prorate collection of the administrative allowance over a period of up to ten years. The bonds have a ten-year retirement schedule and delivery of the training program can take two to three years, necessitating a reserve to support ongoing administrative costs. The administrative allowance has provided essential support to a broad range of economic and workforce development activities and special programs in the community college regions (Iowa Department of Economic Development 2005).
cases, providing the training. Indeed, in its response to a 2003 performance audit, the Missouri Community Colleges Association took exception to suggestions that administrative fees might not line up with actual costs, pointing out that the auditors underestimated the time required to properly administer and oversee their Community College New Jobs Training Program (McCaskill 2003).

**Piloting a Bond Financing Model for Workforce Intermediaries**

While bond financing is rarely used to finance workforce development, those states that have used this strategy have greatly increased the amount of capital available for training, as well as the number of workers trained. Moreover, Iowa and Missouri community colleges, acting as workforce intermediaries, have benefited significantly from the relationships with employers and their role in managing the bond issuances. States that would consider replicating the Iowa or Missouri models—or even Kansas’s—would benefit from the lessons these states have learned regarding regulatory and process hurdles.

**Regulatory Considerations**

One could argue that, by granting them a level of financial and managerial authority over their work with local employers, these states have begun to transform community colleges into workforce development intermediaries with a regional scope and an economic development mission. This is a departure from the traditional role of economic development agencies, for which

---

**Kansas: Allocating Administrative Fees**

In its early stages, Kansas’s IMPACT program permitted community colleges with which employers contracted for training to sell bonds to finance the training, and then to keep a portion of the sale for administrative costs. This procedure was changed when it became evident that administrative fees were accruing disproportionately to those community colleges with the strongest relations with employers. Currently, the state collects a 2 percent administrative fee and distributes it equally across all of the state’s community colleges, to be used for capacity-building activities in workforce development.

*For more information, see the case study on page 60.*
the authority to issue bonds may be common but the practice of linking economic development to workforce development is rare. What has emerged in Iowa and Missouri, and, to a lesser extent, in Kansas, is something of a hybrid. Community colleges have combined both economic and workforce development functions—largely enabled by the level of autonomy they have over financing training.

However, it would be incorrect to assume that only community colleges can perform in this role. States have a great deal of leeway in determining which entities can issue bonds, and the examples of Iowa, Kansas, and Missouri demonstrate that they also have some leeway in determining for what purposes they may issue bonds. States regularly establish or designate other entities to issue bonds on behalf of governmental units. For example, specially constituted nonprofit corporations, acting on behalf of governmental units, issue qualified scholarship funding bonds to facilitate the making of student loans. Similarly, a nonprofit corporation might own, operate, and issue debt to finance a local airport. The general requirements that must be satisfied by these nonprofit corporations are specified in two administrative determinations by the Internal Revenue Service (Joint Committee on Taxation 2006).19

**Process Considerations**

Commonalities across the Iowa, Missouri, and Kansas models suggest that expansion of the community college model is possible. Efforts to expand the model to other states would take their lead from the process followed by these states.

First, while the level of autonomy over projects varies from state to state, community colleges in each state play important workforce intermediary roles, especially with regard to organizing employer demand for training and contracting with them to either provide or oversee the training. For this reason, it would be essential to consider this strategy only in states with strong community college systems and with community colleges that employers trust. It would be essential to also identify an advocate within the community college system who could steer the process.

Second, proponents of this strategy have positioned it in economic development terms and engaged state economic development agents early in the process. The use of data to demonstrate the need for, and potential benefits of, the strategy was vital in making the case to economic developers.
Third, once the economic development community was engaged and supportive, a meeting between it and the labor and workforce development communities was essential. Support from these groups was obtained by demonstrating that the bond financing mechanism would be a net benefit for their constituencies. It was only after developing grassroots support among all key constituencies that legislation for the initiative was drafted and introduced in Iowa, Missouri, and Kansas.

There may be options to using a payroll tax diversion to retiring the bonds. While it is not directly analogous, Texas recently permitted the Texas Workforce Commission (the state’s department of labor) to issue bonds to finance current Unemployment Insurance obligations. These bonds are retired through a diversion of future UI receipts (Research Division of the Texas Legislative Council 2003). While legal and regulatory questions remain, one could conceive of a system in which bond sales finance education and training through regional economic and workforce development authorities, with the bonds retired through a pool of funds created by a UI diversion.

**Bond Financing Scenarios**

Given the experience of Iowa, Missouri, and Kansas, it is possible to imagine several scenarios in which a workforce intermediary plays a pivotal role in facilitating the issuance of bonds to finance workforce development activities. Moreover, by playing this role, an intermediary could finance its operations through the associated administrative fees.

**Expand on the Iowa model.**

In the context of the workforce intermediary projects funded by the Ford and Annie E. Casey foundations, creating a bond financing strategy would begin by identifying those projects with strong community college involvement. Such projects could build upon the experience of their community colleges to begin conversations with state economic development and workforce development representatives about legislation authorizing the colleges to issue bonds for workforce development and retiring them with a payroll tax diversion.

Most community college districts have the authority to issue bonds, and they regularly do so for capital improvements. Replicating the model used in Iowa and Missouri, however, would require legislation permitting the col-
leges to retire the bonds through a diversion of the payroll tax. This, in turn, would require a community college system that has leverage with state government. The Bay Area Workforce Funders Collaborative is well positioned to catalyze a grassroots campaign for legislative changes in California. The BAWFC receives funding through the California Employment and Training Panel, and it has been in conversation with the state’s Economic Development Department regarding expanding its funders collaborative model statewide. Given the important role that community colleges play in the BAWFC, as well as the clout that the community college system carries, the collaborative, with the state’s economic and workforce development agencies, could make a strong case for the use of bond financing to create a self-sustaining fund for the colleges’ workforce development activities.

**Encourage economic development authorities that have bonding authority to issue bonds for training purposes, to be retired by payroll tax diversions.**

As noted, economic development authorities frequently issue bonds for capital development projects, and they sometimes connect these projects to workforce development. The connection could be made more explicit by legislation granting these authorities permission to also issue bonds designated strictly for job training. These bonds could be repaid through a diversion of the payroll tax associated with the worker who receives the training. This is similar to the North Dakota approach, in which commercial bank loans for training are then repaid through the payroll tax diversion, secured by the state’s estimate of the payroll tax to be generated. In some cases, local economic development authorities manage the transaction and charge an administrative fee.

**Designate high-capacity Workforce Investment Boards as bond-issuing authorities.**

All state and local Workforce Investment Boards are quasi-governmental entities. As such, they are well positioned to advocate to the state for the authority to issue bonds. Pennsylvania uses this in order to support the state’s Industry Partnerships (i.e., workforce intermediaries). Given the level of engagement of Pennsylvania’s Department of Labor and Industry in Industry Partnerships, and the importance the state places on the role of intermediaries, it would appear that Pennsylvania could be a potential bond financing pilot site. Much of the spadework has been done in terms of convincing
Pennsylvania’s economic development community of the importance of workforce development. Indeed, Pennsylvania’s Community Development Bank Loan Program regularly uses debt financing to support economic development projects with job creation components.

Legislation authorizing an Iowa-like model of bond-financing for training could retool Pennsylvania’s local Workforce Investment Boards, the lead agencies in most of the Industry Partnerships, into entities that would include a potentially self-sustaining and predictable financing mechanism. Where local WIBs do not play a significant role in Industry Partnerships, bond-issuing authority could be granted to other lead organizations, such as local or regional economic development authorities.

**Bypass bonds and use commercial loans, secured by calculating payroll tax to be paid on trained workers.**

If the focus is shifted to repayment mechanisms, North Dakota’s use of payroll tax diversion to repay commercial bank loans suggests a variation on the larger theme of debt financing for workforce development.

**State Income Tax Withholding Mechanism**

Common to North Dakota, Iowa, and Missouri is the use of a payroll tax diversion to retire training bonds. However, North Dakota, which considered adopting the Iowa model wholesale, retained only the payroll tax diversion component for its New Jobs Training Program. Workforce intermediaries are largely bypassed in the North Dakota model, as are bonds themselves. Instead, the state retains the payroll tax diversion component of the other three models, but it relies on commercial bank loans to finance training. These loans are repaid through a diversion of the payroll tax associated with the newly trained workers. In some but not all cases, economic development authorities act as intermediaries by managing the process (for which they charge an administrative fee).

Indeed, even Iowa and Missouri have developed training programs that rely solely on a diversion of the trained workers’ payroll taxes. Iowa’s Accelerated Career Education Program, capped at $4 million, is designed to help community colleges to establish or expand programs that train individuals in the occupations most needed by Iowa businesses. The program requires a 20 percent employer match, but state funding is provided in the form of credits, which are repaid to the partnering community colleges through a payroll tax diversion (Ovel 2003).
In FY 2005, all 15 of Iowa’s community colleges participated in the Accelerated Career Education Program. They operated 79 programs, ranging from industrial maintenance tech to nursing. Two-hundred and ninety businesses signed agreements to sponsor 2,582 positions. Of the 1,084 students that completed their education as of 2005, 387 were offered jobs within the businesses that sponsored positions. A total of 144 graduates accepted employment, either with a participating business or with another business with their trained occupations at a starting average wage of $15.63. A total of $5 million worth of job credits were awarded (Iowa Department of Economic Development 2005).

Similarly, Missouri’s Quality Jobs Program allows employers with qualifying projects to retain some of the withholding tax related to the wages paid in the new jobs created. The amount they can retain varies from 3 to 6 percent for three to five years, depending on the sector and the wage levels of the new jobs. Participating employers must pay wages at or above county average wages and pay for at least half the cost of company-provided health insurance. In addition, companies would be eligible for this program only if they create at least 20 new jobs in rural areas and at least 40 in urban areas (Missouri Senate 2005).

It seems clear that the innovation that began with using bonds to finance training has evolved into new variations involving payroll tax diversions. However, it is not as clear how workforce intermediaries can use this financing mechanism to fund their operations.

**Conclusion**

Intensely competitive labor markets are a hallmark of the twenty-first-century economy. Economic success, at the national, industry, and individual levels, will depend on public systems that can produce highly educated, skilled, and innovative workers. But this system will fail unless employers can access it easily. Improvements in the nation’s competitiveness will build, region by region, on the work of economic, political, and education and training agents moving in concert to build upon regional strengths.

However, few organizations have the capacity to orchestrate this level of activity. It is the rare organization that has not only the capacity to develop and implement unified, comprehensive strategies for economic growth, but also the financial independence to act with any sort of authority. To be effec-
tive, these workforce intermediaries must raise the money needed to grow their regions’ economies.

As is demonstrated in Iowa, Missouri, and Kansas, it is possible to invest community colleges with this authority by giving them the ability to issue bonds for workforce development purposes and, in turn, increasing their capacity to work with employers as economic development agents. It is also possible to imagine how entrepreneurial WIBs could use bonds to become self-financing, or how existing economic development agencies could extend their bond issuing authority to include workforce development. In each case, by granting these organizations the level of financial independence and flexibility afforded by bond financing, states would support the creation of workforce intermediaries with real authority.

With this expansion in their purviews, workforce intermediaries could be tasked with redefining regional economic and workforce development systems. Instead of a system that is driven by the “work-first” mandates to which many state workforce development systems are now subject, this would mean a system driven by training and employment goals that lead to family-supporting wages for workers, while meeting employer needs for high skills.

Using Bonds to Finance Workforce Development: Case Studies

The high demand for a skilled workforce has led to innovation in the use of bonds to finance human capital development in several states. In these states, policymakers have joined with advocates from community colleges, state agencies, and labor-management partnerships to consider how to finance the shared needs of workers and employers more creatively and efficiently.

These innovative bond financing policies share several design principles. They:

• Create new sources of funding, or leverage funding from employers and other sources, to increase support for skill development;

• Target priority industries and training for jobs that pay well;

• Make use of funding responsive to the needs of employers; and

• Create region-level decision-making authority so that funding is more responsive to regional priorities and needs.

The bond financing models in Iowa, Missouri, and Kansas have dramatically changed not only the funding of services but also the working rela-
tionship between community colleges and industry. These states have provided community colleges with the ability to finance job training activities independently of state budgets, enabling them to function as regional economic and workforce development authorities.

**Iowa’s New Jobs Training Act**

In the early 1980s, Iowa faced shrinking state budgets, a rapidly growing number of unemployed farmers, and the loss of well-paying jobs. In 1983, the legislature responded to the state’s fiscal crisis with the New Jobs Training Act, which authorized the New Jobs Training Program, the nation’s first customized job-training program to be funded through bond sales rather than through state appropriations.

The New Jobs Training Program’s primary objective was to reverse the flow of business out of the state by funding the creation of a competitive workforce. However, the program was created under several constraints: no new state funds could be appropriated and no state agencies could be created; the program would need to be free to participating businesses and workers; it would need to devolve decision-making authority down to local levels; and it would need to stipulate that no funds could be expended unless jobs were created.

From the beginning, policymakers were motivated to address the outflow of jobs from Iowa and the rapidly expanding numbers of unemployed farmers, making it relatively easy to rally support for the legislation. According to one state leader, a team of creative legislators worked with a bond attorney and a representative of a community college who was also a former U.S. Congressman to design policy that would satisfy not only the state’s needs for a cost-neutral training program but also worker needs for employment and advancement opportunities and employer needs for a skilled workforce. As legislative leaders moved ahead with the proposal, the business community, state agencies, and then-Governor Terry Branstad’s administration were all recruited in the process of building legislative support for the bill.

**Program Summary**

The Iowa NJTP assists businesses that create new positions or new jobs. If a company is expanding its operations or locating a new facility in Iowa, the NJTP provides flexible funding to meet a variety of training and development needs. The assistance ranges from highly specialized educational programs, to basic skill training for new jobs.
The program is employer-driven and self-funded. Each community college sells both taxable and tax-exempt bonds to fund projects, which are solely the obligations of the community colleges.

The bonds are repaid over a maximum of 10 years through the diversion of 1.5 percent of gross payroll, which is 50 percent of Iowa withholding tax revenue (3.0 percent of gross payroll for jobs with wages exceeding the county or regional average) generated by the business’s newly hired employees or, rarely, through the diversion of incremental property taxes generated by the business’s new construction. Because bonds are repaid using tax revenues, the amount of training funds available to a business is determined by the business’s tax-generating capability. Taxable bond financing is unlimited, but there is a $100 million statewide cap on outstanding tax-exempt debt. Iowa’s community colleges also have the authority to levy standby property tax throughout their taxing area as a method for securing against default, although they have rarely taken this step.

The Iowa Department of Economic Development maintains overall responsibility for the program, but agreements with employers are approved by the community colleges’ boards of trustees. The department makes certain that all new jobs meet wage requirements when applicable and that the jobs are in industries that provide Iowa with a comparative advantage. It is also responsible for keeping track of projects and the uses of funds and for generating an annual report of the results.

Results
The NJTP has proven to be a significant boon to the Iowa economy, both by helping new and expanding businesses to compete in the national and international marketplace, and by helping Iowans to gain employment and advance. It has remained relatively unchanged since its inception, a testament to its ongoing success. The NJTP has provided job-training assistance to over 140,000 Iowans in new jobs since 1983. In the last 10 years, the number of projects per year has ranged from 29 to 149, the number trained from 2,031 to 11,547 per year, and annual certificate amounts have ranged from $10,255,000 to $58,379,000 in FY 2005. The program continues to contribute to the dynamism of the Iowa economy.

The actions of employers are evidence that the New Jobs Training Program has been a determining factor in their decisions to locate in Iowa. According to a community college official who administers the program in
his region, Eastman Kodak, Weyerhaeuser, and a Korean steel company have all based their location decisions on the strength of Iowa’s workforce development system and the availability of NJTP training.

In the 1986 federal tax reform, Iowa Senator Chuck Grassley asked Congress for and got an exemption allowing Iowa’s community colleges to continue issuing tax-exempt bonds in support of the NJTP. This makes Iowa’s community colleges perhaps unique. However, community colleges in most states can issue taxable bonds. While interest is not tax deductible, taxable bonds carry higher interest rates and are easier to obtain and administer.

**Community Colleges as Regional Economic and Workforce Development Intermediaries**

As workforce intermediaries, Iowa’s community colleges have found that the New Job Training Program provides a steady stream of operational resources. The program provides that administrative expenses are an allowable program service and program cost. The Iowa Department of Education calculates the administrative allowance rate annually and bases it on the collective percentage of a specific set of noninstructional cost centers in the community college general fund budgets. It has generally ranged between 14 and 17 percent annually (Iowa Department of Economic Development 2005).

Prior to 1987, neither statute nor the NJTP rules provided specific guidelines on the use of the administrative fees associated with the community colleges’ sale of bonds. At the prompting of the state legislature, the community college presidents, the Department of Economic Development, and the Department of Education agreed upon and presented to legislative leaders the following guidelines by which the community colleges report their expenses from the administrative allowance to the Department of Education. Eligible expenditures include the following:

- Support for economic development staff and associated office expenditures;

- Support for monitoring and accounting staff and associated expenditures for economic development activities and projects under Code of Iowa, Chapter 260E;

- Professional contract services relating to Code of Iowa, Chapter 260E. May include but not limited to legal, bank agency, bond registrar, transfer agent, and bond rating fees;

- Economic development activities directly related to the needs of the community;
• Special programs, including several other training programs, relating to the needs of the community that will promote economic development; and

• In the event of a default in a Chapter 260E training project, and the area school so deems appropriate, the administrative allowance may be used to help offset the default.

The NJTP is the cornerstone of Iowa’s workforce and economic development efforts. The state’s 15 community colleges serve as regional economic and workforce development intermediaries for the program, and each college is authorized to sell bonds based on regional demand. In addition, the colleges work with employers to develop training programs and monitor training activities. Using bond proceeds, colleges reimburse the companies for approved training courses. By granting its community colleges this level of control over workforce development financing, Iowa has created regional authorities with the responsibility for developing and implementing unified, comprehensive economic development strategies for regional growth.

Missouri:
Redesigning Financing for Workforce Development

In the late 1980s, Mike Crawford, a key player in establishing Iowa’s New Job Training Program, became chancellor of the Missouri Community College System and began the process of adapting the Iowa bond financing model for job training to Missouri’s workforce and economic development system. The result was the Missouri Community College New Jobs Training Program, enacted in 1991 through HB 1364 and enhanced in 2004 through JOBS NOW.

Program Summary

As in Iowa’s New Jobs Training Program, Missouri community colleges have financed training through the sale of bonds. Since the program’s implementation in 1992, Missouri employers who received training assistance were the primary purchasers of the bonds. However, as a result of a rule change in the 2005 legislative session, bonds are now sold to the public as well (Missouri SB 343, 2005). The bonds are repaid by using tax credits from the employer’s regular payroll tax withholdings, which are based on a percentage of the gross wages paid to workers in the new jobs. The tax withholding is equal to 2.5 percent of gross wages for the first 100 new jobs and 1.5 percent for the remaining new jobs. To repay the training and bond costs, the tax with-
holding for projects in excess of $500,000 may be claimed up to eight years, and those under $500,000 may be claimed up to ten years. The amount of bond principal outstanding at any one time is not to exceed $55 million.

The Missouri model differs from Iowa’s in that the state does not guarantee repayment by imposing additional property taxes. Another difference is in the role of lead agencies. While the role of the Iowa Department of Economic Development is limited largely to program oversight, the Missouri Department of Economic Development’s Division of Workforce Development determines company eligibility and monitors the program for training duplication. The Department of Economic Development also sets specific wage levels that participating employers must meet, and it identifies target industries in which to invest. The community college system serves as the program intermediary, administering the program and delivering training. Upon approval of the application by Division of Workforce Development, the community college may enter into a formal contract agreement with the company applying for training. However, the community college board of trustees must approve all final project agreements.

Eligible companies apply for training funds based on a projected number of new hires at a projected wage. The state forecasts the amount of income tax it will collect. The state and company agree on an amount and bonds are issued. The employer buys the bonds. The state uses the proceeds from the sale (basically, the employer’s money) to fund the training. The training takes place at a community college, which is also responsible for administering the sale and repayment. The company is repaid plus interest over the life of the issue (usually six to eight years).

The JOBS NOW Program
In July 2004, Governor Bob Holden signed SB 1155, modifying various laws regarding economic development. JOBS NOW, the job training portion of the legislation, complements and enhances the Community College New Jobs Training Program in significant ways:

**Pooled Bond Structure.** Community colleges had been authorized to issue revenue bonds and use the proceeds to reimburse companies for their training costs. JOBS NOW expands this, allowing two or more community colleges to pool bond issuance, using the capacity of either the Missouri Higher Education Loan Authority or the Missouri Health and Education Facilities Authority. This pooled bond issuance could lower the cost to each commu-
nity college and generate a better bond rate due to the increased offering. This, in turn, may lower the overall cost, making training more attractive to employers.

**Flexibility in Appropriation Limits.** The Community College New Jobs Training Program was originally limited to an aggregate amount of outstanding bonds of $55 million, with the amount of funds available each year further controlled by appropriation. JOBS NOW makes the yearly appropriation limit flexible, so that maximum job training and new job creation may occur.

**Results**

In April 2003, the Office of the State Auditor concluded that the Community College New Jobs Training Program had a “positive economic impact” for Missouri, projecting 87,000 new jobs to be created between the program’s inception in 1991 and FY 2010, along with a projected increase in state revenues of over $4 billion by 2012. These same projections put real disposable income increasing by $2.9 billion in 2015. As of September 2004, the MNJTP had provided training for workers in 29,421 newly created jobs, paying approximately $19 per hour on average.

The Missouri bond financing program has enjoyed bipartisan support through successive administrations and legislatures. However, the model represents an important variation on the bond financing theme: encouraging employers to purchase the bonds. This decision resulted, in part, from a deep aversion among state policymakers to relying on property taxes to secure the bonds. Program administrators note that the default rate on the bonds issued through the Missouri program is less than 1 percent.

**Missouri’s NJTP as a Financing Strategy for Regional Economic and Workforce Development Authority**

The community college administering the NJTP program collects a fee (about 15 percent) from the sale of the bonds to expand its capacity to manage such programs and market to more companies. As of 2003, this fee had generated approximately $10.6 million from $85 million in bonds issued since 1992 to cover community college administrative costs. The average administrative fee received by a community college is approximately $80,000 per bond issuance.

Allowable administrative costs for community colleges administering the NJTP include:
• Time and travel related to marketing and discussing the program;
• Time related to college executive oversight of the program; and
• Monitoring of projects.

As in Iowa, Missouri community colleges exercise a significant degree of financial independence over the NJTP. Given the state-defined parameters relating to wage levels and types of industry in which they can invest, the ability of community colleges to enter into contracts with local employers for training, as well as raise funding to provide it, enables them to act as regional economic and workforce development authorities that promote regional growth and prosperity.

The Kansas IMPACT Program: 
Investment in Major Projects and Comprehensive Training

In 1991, Kansas was at risk of losing a major employer. Missouri was courting Sprint Corporation, which was making plans to embark on a major expansion, with an offer of millions of dollars in training funds for new employees, financed through the sale of bonds. Rather than move, Sprint convinced then-Kansas Governor Hayden to match Missouri’s offer through a bond sale in Kansas, launching the state’s first foray into bond-financed training programs. The early program has since evolved into the Investment in Major Projects and Comprehensive Training (IMPACT) program.

Program Summary

In the early 2000s, state policymakers realized that approximately 95 percent of training funds paid to companies expanding within the state or relocating to it were used by the company directly, or spent on outside contractors; this did nothing to help support the growth and capacity building of the state’s educational institutions. The Economic Growth Act of 2004, which authorized the IMPACT program, was enacted to address this. The key objective was to redirect public funding for training to the state’s educational institutions in order to strengthen the state’s workforce development system.

IMPACT differs from Iowa and Missouri’s programs in several important ways. In Kansas, bond sales are issued by the Kansas Development Finance Authority and administered by the state’s Department of Commerce under the state taxing authority. In Iowa and Missouri, community colleges administer the sale of bonds locally and operate under the limits set by the local taxing authorities. Also, the Kansas training bonds are tax exempt; the
bonds sold in Missouri are taxable, and in Iowa they are both tax-exempt and taxable.

As in Iowa and Missouri, the Kansas bonds are retired from a diversion of state income tax. However, in Kansas 2 percent of the total amount of all state payroll tax withholding is earmarked for debt service; Iowa and Missouri tie the withholding tax diversion directly to the new jobs being created by a specific project. Individual project size may not exceed 90 percent of the withholding taxes received from the new jobs over a ten-year period.

In IMPACT’s early years, bonds were sold for each new project, as in Missouri. Later, the state changed the practice to sell bonds annually in anticipation of new projects. Each year, the legislature reviews current obligations and forecasts future projects, issuing bonds to cover the anticipated training costs. For example, the 2006 issuance for the IMPACT program was $25 million. The revenue is invested in government securities and drawn down as needed throughout the year to finance training and capital investment projects.

**Company Eligibility**

New and expanding basic enterprises (individual firms or consortiums of businesses) that are creating new jobs are eligible to apply for IMPACT funding. Funding is typically reserved for projects involving at least 100 new jobs at a higher-than-average wage. The IMPACT program may also be used for job-retention projects that have compelling economic benefit for Kansas. Projects in metropolitan areas are required to train a minimum of 250 workers.

All IMPACT projects are tracked on a project-by-project basis, so if any company does not create enough jobs to generate withholding tax revenue according to its annual projections, the business may be required to repay a portion of the funds on a shared basis with the state. If the company leaves the state before the bonds are retired, the full cost must be repaid, less any withholding tax contributions collected prior to the company’s departure.

**Results**

Approximately $11 million was used in 2005 to train over 12,000 workers. The secretary of the State Department of Commerce may invest an additional 10 percent in any project, provided the investment is made directly into an educational or other workforce development institution.

Kansas made a significant change in the administration of IMPACT in 2005, after concluding that the original program design was flawed. Originally, the partnering/local educational institution administered its own pro-
gram and collected a 10 percent administrative fee. Therefore, money flowed only to the institutions that were delivering training for one of the major projects, resulting in an uneven distribution of capital and undermining its original intent to use public training dollars to build the capacity of the state’s educational institutions to deliver workforce services. In areas with no IMPACT projects, there were no funds for capacity development for the schools.

As a result, the legislature voted to distribute the training funds across the entire educational system. The Department of Commerce became the administrator, with the secretary having the discretion to make direct investments in order to develop industry/training expertise and infrastructure. Now, 20 percent of the total workforce training funds committed to each project is set aside in the Workforce Solutions Trust Fund to increase the capacity of all workforce intermediaries throughout the state to respond more effectively to business needs.

**IMPACT as a Financing Strategy for Regional Economic and Workforce Development Authorities**

IMPACT’s current operating structure puts capacity-building investment decisions in the hands of the bureaucracy and legislature, rather than the more organic approach in Iowa, in which investments are governed by those institutions that collect the fees. Unlike in Iowa and Missouri, Kansas colleges do not benefit directly from the administrative fees associated with the bond issuances. Instead, the 10 percent fee charged by the state is distributed equally across all community colleges for the purposes of increasing workforce development capacity. In Iowa and, to a lesser degree, Missouri, the financial independence of the community colleges, and their capacity to act as regional economic development agents, enables them to serve in an economic and workforce development role.

The Kansas model, while perhaps more equitable in terms of revenue generation for colleges, seems to undermine the level of financial independence needed in an autonomous regional actor.

**North Dakota: A Variation on the Payroll Tax Diversion Theme**

Common to the bond financing models in Iowa, Kansas, and Missouri is the repayment mechanism: payroll tax diversion associated with the newly trained workers’ income. In the early 1990s, North Dakota considered adopting a bond-financed program based largely on Iowa’s experience. However, the
resulting program appears to skip a step—the sale of bonds—but in fact relies on commercial loans to businesses from banks, while retaining the payroll tax diversion as the repayment mechanism.

In the early 1990s, the North Dakota State Job Service, along with economic development entities in major cities across the state, recognized that the service gaps in the state’s workforce development system diminished its effectiveness in the private sector. The gaps restrained the state's competitiveness, its ability to attract new businesses, and the development and expansion of local firms.

The Job Service began to look at what other states were doing. Iowa’s bond financing model suggested that the tax-diversion method for repayment was the most interesting component of that model. However, bond sales, as designed in the Iowa model, would not work in North Dakota, and neither would reliance on the state’s community colleges for program delivery.

The decision not to sell bonds was based primarily on the fact that North Dakota does not have a state property tax (such tax is imposed and controlled by the cities and counties), so the state had no comparable way to guarantee repayment of the bonds. In addition, approximately 75 percent of the training for entry-level and incumbent workers was done outside the community college and state university system, so it was felt that those institutions did not have the experience or inclination to administer such a program. This left state officials with the need to develop both a new method for creating the cash to finance new worker training and a new method for delivering services.

However, state officials also recognized that there was a low likelihood for success if they were to promote the idea as coming from within government. Fortunately, the president of the Local Economic Development Association in Fargo was interested in incentives to expand primary-sector businesses and recognized the limitations of the state’s publicly funded workforce development system. He took the role of “champion” and approached the Greater North Dakota Association of Economic Developers (the state Chamber of Commerce) in the other key cities, including Bismarck, Grand Forks, and Minot, to gain support.

It was agreed that the Job Service was doing a good job administering the incumbent worker and other publicly funded training programs, and therefore had good relationships with the economic development community. Thus, it could spearhead and administer an initiative to develop a job-cre-
ation program financed outside the public system, without bond sales. The result of these efforts was the creation of the New Jobs Training Program, enacted in 1993.

Program Summary

The North Dakota New Jobs Training Program, administered by the Job Service of North Dakota, provides incentives to primary-sector businesses and industries that are creating new employment opportunities through business expansion in or relocation to North Dakota. The program provides a mechanism for businesses to secure funding for training new employees in a business expansion or startup.

Under the New Jobs Training Program, a business obtains funds in the form of a loan, grant (repayable), or self-financing option. The loan may be obtained from a commercial lender, a local development corporation, the Bank of North Dakota, or another qualified lender. A grant may be obtained from the state, a city, or a local economic development corporation.

The state plays the key role in helping the company establish the loan amount and effectively endorses the loan by making a contract with the employer that allows repayment of a commercial loan with public tax dollars. However, the state also maintains an arm's-length relationship with the lender. The state does not enter into any negotiations with the lender, other than agreeing to make the loan repayments on behalf of the borrower.

Funds from the New Jobs Training Program are made available through the capture of the state income tax generated from the permanent, full-time positions that are created. Reimbursements to repay the loan (plus interest) are made by the state directly to the lender. Reimbursements for a grant are made directly to the granting community or local economic development corporation. Under the self-financing option, 60 percent of the allowable state income tax withholding can be reimbursed directly to the participating business. State income tax withholding can be captured for up to 10 years or until the loan is repaid or the self-financing or grant obligations have been met, whichever comes first.

For a company with a qualifying project that needs cash up front for training, the state makes a calculation of what the expected withholding tax will be for the new jobs over a ten-year period, and the company can use that figure to negotiate a loan with a local economic development agency, commercial lender, or the Bank of North Dakota.
A 5 percent administration fee is paid to the Job Service of North Dakota after the final agreement is in place, due and payable when that agreement has been signed. This is a one-time fee, based on the projected amount of the agreement over the ten-year period. Community lenders and banks can also charge administrative fees.

**Results**

In comparison to the bond-financed programs, North Dakota’s NJTP is small, both in terms of expenditures and numbers trained. Program activity for 2006 was approximately $4 million and 1,100 jobs.

**Payroll Tax Diversion as a Financing Strategy for Regional Economic and Workforce Development Authorities**

The program seems to offer a simple way both to give companies a cash incentive to create new jobs and to provide cash up front for training if that is needed. There is little financial risk to the state and the funding and repayment mechanism are the same.

North Dakota’s New Jobs Training Program model allows local economic development authorities to charge administrative fees when issuing loans. And, according to state officials, most NJTP loans originate from local economic development authorities because they tend to offer better terms than commercial banks. Fees charged by economic development authorities finance their operations and are reinvested in local economic development.
References


Endnotes

16 For more information, see www.cityofboston.gov/bra.
17 For more information, see www.eflorida.com.
18 The exception is temporary help agencies, which, nonetheless, maintain thin profit margins by working primarily with the most employable of the low-skilled adult workforce.
Part III.
State Unemployment Insurance-supported Training Funds

by Christopher T. King and Tara Carter Smith

Introduction

This chapter addresses the potential to use state training funds that are based in part on Unemployment Insurance taxes to finance intermediary organizations and their unique mix of activities in the context of the current U.S. workforce development system. There are certainly barriers that impede the use of UI tax financing, but where there are challenges, there are also opportunities.

This chapter discusses state training funds that rely in whole or in part on UI and related employer taxes. There were 23 such states as of September 2006. The chapter then discusses challenges and opportunities involved with accessing and using these UI funds to support intermediary activities. It also makes recommendations for intermediary organizations and policymakers and presents scenarios for workforce intermediaries to access such funds.

State UI-supported Training Funds

Many states have a long history of financing training programs through Unemployment Insurance taxes and other taxes paid by employers. The Industrial Training Funds of the 1950s, California’s introduction of the Employment Training Panel (ETP) in 1983, and the expansion of the idea throughout the 1980s and 1990s demonstrate the attractiveness of this model. Industrial Training Funds were started in North Carolina in 1958 with the express purpose of attracting Northern industries to the state. Other states soon established similar programs, relying on community and technical colleges to provide customized training. While these programs initially focused
solely on new employees, over time they expanded to include incumbent workers as well (Duscha and Graves 1999).

California’s ETP program, one of the first to identify UI taxes as a funding source for worker training, began as a program to serve dislocated plant workers. Later, the program expanded to include incumbent, frontline workers who were most vulnerable to growing out-of-state competition. The program, the largest of its kind, emphasizes joint business and labor priorities, with a goal of helping Californians and California businesses become more competitive in the global market (Rice n.d.). Many states followed California’s lead in the 1980s and 1990s, implementing UI-funded training programs of their own. Today, 23 states fund training programs that are based at least in part on UI-related taxes.21

Three additional states—Alabama, New York, and South Carolina—and the District of Columbia use UI-related taxes not to fund training programs but rather for other workforce activities, such as job placement and counseling services, that are also relevant to workforce intermediary initiatives (U.S. Department of Labor 2006).

States employ one of four broad categories of tax financing for worker training: UI reserve taxes; an additional tax on employers when the UI trust fund balance is above or below a predetermined level; employer taxes without regard to the UI trust fund balance; and taxes assessed on both employers and workers (see Table II.1).

**Table II.1: States with UI-related Training Programs, by Type of Financing**

<table>
<thead>
<tr>
<th>States &amp; Target Group</th>
<th>Type of Tax</th>
<th>Worker and Employer Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>NE, NC</td>
<td>DE, LA, MS, TN, NY</td>
<td>Unemployed &amp; Dislocated Workers: AK, CA, NV, WA New Workers: AZ, MA, MN, MT, NH, TX Incumbents: AK, AZ, CA, HI, ID, IN, MA, NH, RI, SD, TX</td>
</tr>
</tbody>
</table>

*Source: State Fund Web sites.*
Training Programs Funded by UI Reserve Taxes

Reserve tax funds are established by state law and are in addition to other UI taxes. Usually the fund’s principal is applied to UI-related purposes, while the interest earned on the fund may be designated for a range of activities. Nebraska and North Carolina use UI reserve tax interest to fund workforce training programs (see Table II.2).

The *Nebraska Training and Support Trust* (NTST) is funded by the interest earned on UI reserve taxes. Prior to 2006, the Nebraska Commissioner of Labor set the reserve tax rate at either zero or 20 percent of employer contributions, depending on the UI trust fund balance. After 2006, the commissioner will be able to set the tax rate anywhere between zero and 20 percent (Nebraska Workforce Development 2005).

The NTST is used to support the *Worker Training Program* for incumbent workers, administered by the Nebraska Department of Labor. For-profit employers who pay UI taxes may apply for grants to cover classroom and on-the-job training provided by eligible Nebraska Training Providers. The Worker Training Board reviews grant applications quarterly. Grantees must provide a 1:1 match, which may be met through in-kind contributions, and they are expected to meet outcome-driven objectives, such as skills gains and retention and advancement targets. Since the WTP began in 1998, more than 2,100 employers and almost 66,000 workers have participated in training programs funded by grants totaling approximately $8.9 million (Nebraska Department of Labor n.d.). In FY2006, approximately $2.3 million was available for WTP grants (Porr 2006).

When North Carolina’s UI reserve fund balance falls below 1 percent of taxable wages, a reserve tax of 20 percent of contributions due is collected quarterly from employers (U.S. Department of Labor 2006). The interest earned on the reserve fund is transferred to the *North Carolina Worker Training Trust Fund* to support training programs for unemployed workers administered by the Employment Security Commission. Training may include occupational skills training, adult basic education, and GED programs, as well as job placement activities (Employment Security Commission of North Carolina 2006). Trust funds may also be used to maintain the operations of Employment Security Commission offices. The sunset date for this program was extended in 2005 to January 1, 2011 (Brown-Graham 2006).

According to the North Carolina Budget and Tax Center, the Worker Training Trust Fund distributed an average of $13.5 million per year between
1989 and 2005. Economic conditions in the 2002-05 period resulted in a depletion of the state’s reserve fund, and with it the Worker Training Trust Fund. As economic conditions in the state improve, the fund should be revitalized. The fund’s balance as of June 2006 was estimated at $1 million (Quintero 2006).

**Table II.2: State Training Programs Funded by UI Reserve Tax Interest**

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nebraska Worker Training Program</td>
<td>Interest earned on a reserve tax of between 0 and 20%. Funding in FY 2006: approximately $2.3 million</td>
<td>Focuses on basic and occupational skills training for incumbent workers. Training must be conducted by eligible Nebraska training providers. Outcome-driven, with an emphasis on skills gains, retention and advancement.</td>
<td>Grants are given quarterly to employers who meet certain criteria, including matching funds.</td>
<td>In FY2004: 340 grants totaling $1.8 million. Number served: 714 employers and 16,732 workers. Cost per participant was $109.03. Since 1998, 973 grants awarded, totaling $8.9 million. Number served: 2,170 companies and 65,985 workers. Cost per participant: $134.56.</td>
</tr>
<tr>
<td>North Carolina Worker Training Trust Fund</td>
<td>Interest earned on a reserve tax of 20%, due when reserve fund balance is less than 1% of taxable wages. Estimated 2006 funding: $1 million</td>
<td>Training program focuses on a range of training activities for unemployed workers.</td>
<td></td>
<td>Between 1989 and 2005, the WTTF distributed approximately $13.5 million annually for workforce training.</td>
</tr>
</tbody>
</table>
Training Programs Funded by UI-associated Taxes, Dependent on Fund Balance

In addition to UI contributions, many states collect other taxes from employers that are based on UI-system criteria, such as taxable wages, employer contributions, and other factors; other states divert a portion of the UI contributions for training and other purposes rather than lower the employer’s tax rate—a process known as a tax offset. Delaware, Louisiana, Mississippi, Tennessee, and Wyoming use UI-associated taxes to fund workforce training programs only when a UI trust fund balance is above or below a certain predetermined level. These states use the generated funds to provide training to a range of workers—including dislocated workers, incumbent workers, and even pre-hire or potential workers. These funds may also be assigned to other purposes, such as job placement, employment counseling, or program administration costs (see Table II.3).

Delaware’s Blue Collar Job Training Tax is set at 0.1 percent of taxable wages when the state’s UI trust fund balance is below $215 million and at 0.15 percent of taxable wages when the trust fund balance is equal to or greater than $215 million. The tax supports training programs for dislocated and incumbent workers, school-to-work transition programs, and career ladder training programs for state government employees (Delaware Department of Labor 2005).

The Delaware Economic Development Office’s Blue Collar Training Fund Program supports short-term, customized training programs that result in salary increases, promotions, or increased benefits for trained workers. Companies participating in the program must provide a 1:1 match (Delaware Economic Development Office 2006). Annual available funding is approximately $100,000 (Delaware Office of Management and Budget 2006). In FY 2006 more than 2,300 workers completed training in a variety of fields, including quality management, lean manufacturing, supervision, and computer skills (Bedwell 2006). The average wage for grant-targeted positions was $19.13 per hour.

Louisiana’s Incumbent Worker Training Program is funded through collections based on Louisiana’s Social Charge Rate, a UI-offset tax set between 0.01 percent and 6.2 percent of taxable wages, depending on the employer’s experience rating, when the UI trust fund balance is greater than $900 million. At that fund balance level, $6 million is diverted to the IWTP; if the
fund balance exceeds $1.4 billion then the diversion may be up to $50 million (National Employment Law Project 2005).

The IWTP is used only for customized training programs focused on improving the skills and productivity of the existing workforce. To qualify for funding, an employer must have been active in Louisiana for at least three years and must provide training for at least fifteen workers who might otherwise be laid off. Employers must be partners in each application for grant funds, though the lead applicant may be an employer; a community-based organization; a consortia of employers and industry associations, education system partners, community-based organizations, unions, and others; or an economic development organization (Louisiana Department of Labor 2004; Louisiana Department of Labor 2005).

The Louisiana Department of Labor also administers the Small Business Employee Training Program, which reimburses small businesses for incumbent employee training in demand occupations, up to $3,000 per employee. The SBET receives 2.3 percent of all funds generated through the social charge rate (Louisiana Department of Labor 2004a). The maximum grant is $200,000 (Louisiana Department of Labor 2006). The programs focus on training projects that result in job retention and advancement based on the acquisition of technical and occupational skills. Performance objectives include number of employees trained, average earnings increase, and customer satisfaction.

In Mississippi, the Workforce Training Enhancement Fund is supported by a UI-offset tax set at 0.3 percent of each employer’s taxable wages. This tax, enacted in 2005, is suspended if Mississippi’s UI trust fund balance falls below $500 million. Some $20 million annually will be dedicated to support job training at community and junior colleges in the state (National Employment Law Project 2005). The funds are targeted at training to improve worker productivity in existing businesses (Mississippi Legislature 2005). Detailed guidelines are in development by the State Board for Community and Junior Colleges.

The Tennessee Job Skills Program is funded by the Job Skills Fee, a UI-offset tax set at 0.15 percent when the UI trust fund balance is at least $750 million (Tennessee Department of Labor and Workforce Development 2005). The fee, which has not been active in recent years, is scheduled to expire December 31, 2010 (Tennessee Department of State 2006). The TJS mandates that at least 70 percent of funds be distributed to existing employers to
create and retain high-wage jobs. The Tennessee Department of Economic and Community Development oversees this customized training program, which reimburses employers for training costs based on the type of training provider. The TJS focuses on high-skill, high-wage, high-demand occupations. Employers must guarantee that a job is available for training participants at a wage equal to or greater than the prevailing starting wage in their local labor market. Training may also result in higher wages or additional job responsibilities. Performance standards include the number of participants employed and the starting wage (Tennessee Department of State 2000).

When the Wyoming UI trust fund balance is less than 1 percent of taxable wages, a UI-offset tax of 14 percent of the base rate, called the special reserve fund rate, goes into effect. Interest earned on these funds is transferred to the Wyoming Workforce Development Training Fund. The Department of Workforce Services administers this fund and provides training grants to businesses for new and existing job positions as well as pre-hire training grants tied to economic development activities (Wyoming Department of Workforce Services n.d.).

While the Pre-Hire Economic Development Grant program started in 2005, the Business Training Grants program has been active since 1998. An evaluation found the program to be functioning according to its goals (Wyoming Department of Workforce Services 2006). To date, the program has funded 820 businesses and provided training to over 8,300 workers at a cost of approximately $7.7 million. In FY2005, the BTG program awarded 727 grants totaling approximately $2.2 million. These grants served 245 businesses and 3,018 workers, with an average training cost of $720 per employee trained. BTG programs have been found to reduce employee turnover and increase retention and wages (Wyoming Department of Workforce Services 2006).

Training Programs Funded by UI-associated Taxes

Fifteen states have created employer assessments in addition to, or offset by, UI taxes that are not dependent on UI trust fund balances or other financial considerations. These taxes are intended to support workforce training programs, often tied to specific economic development goals. Five states target the training funds generated by the UI-associated tax to dislocated and unemployed workers, six target new or pre-hires, and eleven target incumbent workers. Seven states target funds at workers in multiple categories (see Tables II.4-II.6).
### Table II.3: Training Programs funded by UI-related Taxes, Based on UI Trust Fund Balance

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaware Blue Collar Job Training</td>
<td>0.1% of taxable wages when UI trust fund balance is less than $215 million and at 0.15% when it is equal to or greater than $215 million Annual funding: $100,000</td>
<td>The fund supports training for dislocated and incumbent workers; school-to-work transition programs; and career ladder programs for state government employees.</td>
<td>For incumbent workers, employers must provide a 1:1 match for customized, short-term training costs.</td>
<td>2,332 workers completed training in FY2006.</td>
</tr>
<tr>
<td>Louisiana Incumbent Worker Training Program and Small Business Employee Training Program</td>
<td>Social Charge Rate based on employer experience rating and UI trust fund balance greater than $900 million Annual funding: $6-50 million depending on fund balance</td>
<td>Both IWTP and SBET fund incumbent worker training. Employers must have contributed to the UI fund for at least three years, and must train a minimum of 15 employees (IWTP) or a number defined in the grant application (SBET). Grant awards may not exceed $200,000.</td>
<td>Applications are submitted to the Louisiana Department of Labor by employers in conjunction with training providers.</td>
<td>N/A</td>
</tr>
<tr>
<td>Mississippi Workforce Training Enhancement Fund</td>
<td>0.3% of taxable wages if the UI fund balance is greater than $500 million. Annual funding expected at $20 million.</td>
<td>The WTEF will support training for existing businesses to increase worker productivity.</td>
<td>Detailed guidelines are still in development.</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Table II.3: Training Programs funded by UI-related Taxes, Based on UI Trust Fund Balance, continued

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee Job Skills Program</td>
<td>The Job Skills Fee is a 0.15% tax, in effect when the trust fund balance is less than $750 million.</td>
<td>TJS supports jobs skills programs. 70% of funds must be granted to existing employers for new or incumbent worker training.</td>
<td>Employers must guarantee jobs for training participants and offer wages at or above the prevailing occupational starting wage.</td>
<td></td>
</tr>
<tr>
<td>Wyoming Workforce Development Training Fund and Business Training Grants</td>
<td>The tax is 14% of the base rate when the fund balance is less than 1% of total wages.</td>
<td>WDTF funds two separate programs: 1. Business Training Grants (BTG), for new or existing positions; and 2. Pre-Hire Economic Development Grants, which provide pre-employment occupational skills training.</td>
<td>Employers submit applications which identify training, wage, retention, and other targets.</td>
<td>BTG: In FY2005: 727 grants totaling $2.2 million. Number served: 245 businesses and 3,018 employees trained. Average grant per trainee: $720 Since 1998, participating businesses experienced reduced turnover (14.9%) versus nonparticipants (25.5%); 76% of trained workers were retained 2 years later; 60% saw wage increases.</td>
</tr>
</tbody>
</table>

While these programs are based on assessments in addition to UI taxes, many if not most of them (e.g., ETP) were levied in lieu of a more complete reduction of employers’ UI taxes when economic times were good and their state’s UI trust funds were flush.

**UI-associated Training Programs for Unemployed Workers**

Given the funding source for these training programs, an emphasis on unemployed and dislocated workers is a natural fit—often with the intention of reducing unemployment compensation payments (see Table II.4).
Alaska collects taxes to support two training funds—the *State Training and Employment Program* (STEP) and the *Technical and Vocational Education Program* (TVEP)—that are administered by the Alaska Department of Labor and Workforce Development. A UI-offset tax, 0.1 percent of taxable wages per employee, is assessed for each of the funds to support unemployed and incumbent worker training (Alaska Legislature 2005). In recent years, this tax has generated approximately $6 million annually for each program (Sanderford 2006). The purpose of these two programs is to reduce or prevent future UI claims by developing a skilled workforce, which in turn will help the state attract and keep competitive businesses.

STEP provides grants to training providers for unemployed worker training. These grants require a dollar-for-dollar match or in-kind contributions. In FY2004, the most recent year for which information is available, the STEP program invested $3.8 million dollars in training and served 1,962 participants, of which 1,741 exited the program. Of participants who were employed in the first quarter following completion of the STEP program, 85.6 percent were still employed in the fourth quarter after exit. Sixty-four percent of STEP program participants were collecting or had recently exhausted UI benefits; these participants experienced, on average, a 12.4 percent increase in earnings (Lee 2006).

By far the largest numbers of participants were trained for the construction industry—555 of the 1,741 program exiters. This was followed by training for “unknown” (352) and local government (222). Participants experienced significant declines in UI benefit receipt and weeks paid in the 12 months after exiting the STEP program, compared to the prior 12 months (Lee 2006).

The TVEP is primarily a grants program for technical and vocational education training providers. It supports industry-specific and on-the-job training (Alaska Department of Labor and Workforce Development 2006).

California’s *Employment Training Panel* is funded by an annual UI-offset tax of 0.1 percent of taxable wages; employers effectively contribute $7 per worker. The ETP supports industry-driven and customized training, with a dual focus on improving business competitiveness and workers’ economic security. An employer wishing to apply for funding must first attend an orientation session, complete a pre-application, and undergo a site visit by program staff before submitting an application for funding. The annual ETP budget is $70 to 100 million. The program requires a 1:1 match from employers, and training costs are only reimbursed if trainees retain employ-
ment for 90 days in a related job at a prescribed wage. Since the ETP began in 1983, more than 60,000 businesses and 650,000 workers have benefited from the more than $950 million that has been invested in training (Rice n.d.). ETP calculates “a return-on-investment of over $5 for every $1 . . . spent on training” (California Employment Training Panel n.d.).

The ETP program began by serving dislocated workers and retains an emphasis on meeting the training needs of workers in high unemployment areas. In FY2005, 64 training grants totaling $11.3 million were invested in such areas to train approximately 10,000 workers. For training projects ending in FY2004, unemployed workers were placed at an average starting wage of $12.72 per hour (Rice n.d.).

A more structured evaluation found that ETP training led to significant positive outcomes for the worker, the employer, and the state economy. Training led to stable employment for participants, estimated at a $2 million savings for the UI system in the first year after completion. Employed workers were more productive, leading to increased earnings and related growth in other local businesses, estimated at $48.6 billion over that same time period. Finally, skilled workers give employers a competitive advantage that allows them to keep jobs in the state, where workers can continue to earn high wages, which in turn generate employment in other local industries. This impact was estimated at $362.3 million. The total estimated impact of ETP on the California economy in the first year after training was $413 million, with direct costs estimated at $62.8 million (Moore et al. 2003).

Minnesota’s Workforce Development Fund is supported by a special UI assessment. The tax was set at 0.1 percent of taxable wages in 2006 and 2007. In 2008, it will fall to 0.085 percent (Minnesota House of Representatives n.d.). The WDF supports training for dislocated workers administered by the Department of Employment and Economic Development and the Department of Labor and Industry.

In FY2006, 66 percent of WDF funds were allocated to the Dislocated Worker Program, while the remaining 34 percent were distributed between training programs targeting specific populations and occupations (Minnesota Department of Employment and Economic Development 2005). Dislocated Worker Programs are funded by grants to local Workforce Investment Boards to provide training and other services, such as job placement and wraparound support services. Training may be either short- or long-term, depending on the needs of the worker (Minnesota Office of the Revisor of Statutes 2004).
The WDF allocation for FY2007 was $29.2 million (Minnesota Governor’s Workforce Development Council 2006).

In Nevada, an annual 0.05 percent tax on each employer's taxable wages funds the Career Enhancement Program administered by the state’s Employment Security Division (Nevada Department of Employment, Training and Rehabilitation n.d.a). The CEP funds short-term academic and vocational training and on-the-job training designed to build skills of unemployed workers. The CEP is also intended to reduce unemployment compensation payments and enhance job creation activities in the state. Unemployed workers may be randomly assigned to CEP through the state's Worker Profiling and Reemployment Services system, or workers may volunteer for participation. The focus of CEP efforts is to quickly reconnect unemployed workers to the labor market (Nevada Department of Employment, Training and Rehabilitation n.d.).

In Program Year 2003, CEP trained 73 workers for Youth Development Specialist positions with the Boys and Girls Club. At the completion of 13 weeks of training, half of the participants secured full-time employment, while approximately one-third decided to return to postsecondary education institutions for further training (Nevada Department of Employment, Training and Rehabilitation 2004).

In Washington State, depending on an employer’s rate class, an annual tax of 0.02 percent or 0.03 percent of taxable wages is assessed to support the Employment Administration Fund, administered by the state’s Employment Security Department. The EAF provides support for unemployed workers to access training programs offered through the state’s community and technical colleges, as well as job search activities (Washington Employment Security Department 2003).

**UI-associated Training Programs Targeting New Workers**

States often require employers to guarantee a certain number of job positions or a retention period to ensure their commitment to the training effort and to meet state workforce and economic development goals (see Table II.5). (In addition to the states discussed below, Minnesota also funds programs targeting new workers.)

Arizona’s Job Training Program is funded by a tax, set to expire in 2007, of 0.1 percent of taxable wages. This tax generates an estimated $12 to $15 million annually (Burnam 2006). The Arizona Department of Commerce admin-
Table II.4: UI-associated Training Programs for Unemployed and Dislocated Workers

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska State Training and Employment Program</td>
<td>0.1% of taxable wages per employee  Approximate annual funding: $6 million</td>
<td>STEP funds industry-driven training for unemployed and underemployed workers.</td>
<td>STEP funding is released through SGAs in the spring and fall of each year. Applications can be made by employers and training providers.</td>
<td>In FY2004 — 1741 participants exited; $3.8 million training investment. 86% of those employed in 1st quarter following their exit were still employed in the 4th quarter; 12% earned higher wages.</td>
</tr>
<tr>
<td>California Employment Training Panel</td>
<td>0.1% of taxable wages — effectively $7 per worker.  Annual funding available: $70-100 million</td>
<td>Customized training and training targeted at areas with high unemployment. Projects generally have both economic and workforce development goals. Pay-for-Performance system requires trainees to retain jobs for at least 90 days at a preset wage before training costs are reimbursed.</td>
<td>Employers attend an orientation and go through a pre-application site visit before applying for funding with a 1:1 match.</td>
<td>FY2005 unemployed workers placed at an average wage of $12.72/hour. Funded 64 high unemployment area projects, totaling $11.3 million, reaching 10,000 workers. Since 1983, more than 60,000 employers (80% small business) and 650,000 workers have benefited from over $950 million in training funds.</td>
</tr>
</tbody>
</table>

isters the JTP, which has two distinct areas of emphasis: new hires and incumbent workers. JTP funds are intended to support both economic and workforce development goals (Arizona Department of Economic Security n.d.).

In the Net New Hire program, businesses can apply for reimbursement grants to cover up to 75 percent of the costs of training net new employees.
### Table II.4: UI-associated Training Programs for Unemployed and Dislocated Workers, continued

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota Worker Development Fund and Dislocated Worker Program</td>
<td>0.1% of taxable wages in 2006 and 2007; 0.085% in 2008</td>
<td>WDF primarily supports training and other services through the Dislocated Worker Program.</td>
<td>Grants are awarded to Workforce Investment Boards and other eligible organizations.</td>
<td>FY2006: approximately 66% of WDF was dedicated to dislocated workers.</td>
</tr>
<tr>
<td>Nevada Career Enhancement Program</td>
<td>0.05% of taxable wages for each employee</td>
<td>CEP funds short-term, academic, vocational, and OJT for unemployed workers and reemployment services. There is a strong emphasis on culinary training programs to meet employers' need for hospitality workers.</td>
<td>Unemployed workers may be assigned to the CEP as part of the state's WPRS system; or individuals may request to participate.</td>
<td>PY2003: placed half of 73 Youth Development Specialists in full-time positions with Boys and Girls Clubs.</td>
</tr>
<tr>
<td>Washington Employment Administration Fund</td>
<td>0.02-0.03% of taxable wages, depending on employer rating</td>
<td>EAF funds work search and training activities for dislocated workers.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employers must meet eligibility requirements, including wage and training investment standards. An “employer can receive up to 10 percent of the estimated annual fund amount ($700,000 in [FY]2005)” (Arizona Department of Commerce n.d.a), with a per-employee training cost ranging from $2,000 to $8,000 based on the training course, size of the business, and its rural or urban location. By law, 25 percent of grant awards before each June 15 must go to small businesses and an additional 25 percent must go to rural businesses. After June 15, grants may be awarded to businesses without regard to size or location. In FY 2005, $5.3 million in grants were awarded to train 5,181 net new employees (Arizona Department of Commerce n.d.a).
Arizona’s *Incumbent Employee Program* has similar requirements, although its funds can only cover half the cost of training an existing worker. In FY 2005, $10.5 million was granted to train almost 19,900 incumbent workers (Arizona Department of Commerce n.d.a).

Massachusetts employers contribute $8.40 per employee annually to the *Workforce Training Fund* (Massachusetts Department of Workforce Development n.d.d.). The fund supports two incumbent worker programs and one new-hire program. The *Hiring Incentive Training Grant Program* (HIT) allows businesses to access grants up to $2,000 per trainee (up to a total of $30,000 per employer per 12-month period) for new hires who were previously unemployed for more than a year or who were permanently dislocated from their prior position (Massachusetts Department of Workforce Development n.d.c).

Started in 2004, the HIT program focuses on key performance measures, including job retention, job growth, and increased wages to help improve business productivity and competitiveness. Approximately $3 million is available annually for awards, which reimburse employers for training costs once workers have completed half of the identified training and passed their 60th day of consecutive employment. Interested employers must submit an application for funding within the first 30 days after a new employee starts working (Massachusetts Department of Workforce Development n.d.c). In FY2005, 293 companies received funds totaling $786,758 to train 475 workers (Massachusetts Department of Workforce Development n.d.d).

The Division of Career Services in the Massachusetts Department of Workforce Development oversees Workforce Training Fund programs. The two programs for incumbent workers, *General* and *Express*, are targeted at different employers and to different types of training, as detailed in Table 5 below. In FY2005, the General program provided $21.2 million in funding to 209 companies to train 25,669 workers. The Express program, with an annual appropriation of $1 million (Massachusetts Department of Workforce Development n.d.a), provided $806,979 to 154 companies to train 1,083 workers in FY2005 (Massachusetts Department of Workforce Development n.d.d). The FY2006 allocation keeps funding for the HIT and Express programs constant and provides $17 million for the General program (Straghan 2006).

Montana’s *Employment Security Account* is funded by an employer tax of 0.13 percent of employees’ taxable wages. The ESA supports employment security system activities and the *Apprenticeship and Training Program* through the state’s Department of Labor and Industry (Montana Legislative Services
The ATP is one of the oldest workforce programs in Montana, having started in 1941 to meet the needs of growing industries. Participating employers agree to develop journeyman skills for apprentices in a safe working environment. Apprentices must be at least 18 years old and have a high school diploma or GED (Montana Department of Labor and Industry n.d.).

In FY2003-04, the program served 1,300 registered apprentices (approximately 12 percent female, 15 percent veterans, and 9 percent minorities). The FY2006 budget for the ATP is $360,000 (Montana Governor’s Workforce Investment Board 2006). The vast majority (85 percent) of apprentices are working in the construction industry (Montana Department of Labor and Industry n.d.). The state’s Apprenticeship Advisory Committee is seeking to expand the apprenticeship model to new industries, including health care and information technologies.

New Hampshire began the *Job Training Program for Economic Growth* in 2002 to support high-growth industries through job skills training. The Department of Employment Security administers the account, funded by one-third of the revenues generated through a UI-offset tax of 0.1 percent of each employer’s UI taxes. The remaining two-thirds of the tax revenues are dedicated to unemployment compensation administration and the state’s employment offices (New Hampshire General Court 2001).

The New Hampshire Community and Technical College System oversees the job training program for full-time employees, either new hires or incumbent workers. Each community and technical college operates a Center for Training and Business Development, where employers can connect to customized training and find help in dealing “with the rapid evolution in technology, management practices, and sophisticated manufacturing and quality initiatives” (New Hampshire Community and Technical College-Berlin 2006). Interested employers must submit an application for training funds identifying: training needs; the number of jobs to be retained or created as a result of the training; related training efforts the employer has undertaken in the previous two years; detailed training plans; and methods and criteria for program evaluation. Employers must provide at least a 1:1 match for training costs (Smith-Dupree 2006).

In Texas, the Employment Training Investment Assessment was activated on January 1, 2006. This UI-offset tax, set at 0.1 percent of the UI tax, is used to fund both the *Texas Enterprise Fund* and the *Skills Development Fund*. The first $160 million deposited into the fund in any biennium is split...
between these two funds to support training and economic development activities. Prior to August 31, 2007, 67 percent of these funds will go to the TEF and 33 percent to the SDF. After September 1, 2007, 75 percent of the funds will go to the TEF and only 25 percent will go to the SDF (Texas Workforce Commission n.d.).

These two programs largely replace the earlier Smart Jobs and Skills Development Funds that had been enacted in 1993 and 1995, the former an employer-based training program supported by UI taxes and the latter a community college-based program supported by general revenues. The Smart Jobs program was terminated by the state legislature in 2001 due to a lack of accountability and no clear distinction between it and other state-funded training programs (Texas House Committee 2002). In the 2003 legislative session, the TEF was created, in part to replace the economic development function of the Smart Jobs program. In 2005, lawmakers created the Employment Training Investment Assessment to provide an ongoing source of revenue for both the TEF and the Skills Development Fund (Texas Workforce Commission n.d.).

The Enterprise Fund is primarily an economic development tool, used by the governor of Texas to attract new and expanding businesses to the state with job training and other incentives. To date, TEF has not awarded any incentives for job training. Instead, the fund has been used exclusively to award direct payments to companies for meeting job targets. In instances where the TEF has awarded a grant to a company that has also received training grants from the state, training funds have come out of the Skills Development Fund coffers. In order to award TEF resources to an employer, the project must be approved by the governor, the lieutenant governor, and the speaker of the Texas House of Representatives. Since 2003, TEF grantees have promised or created a total of 43,281 new jobs, on allocations of approximately $316.7 million (Texas Office of the Governor, Economic Development and Tourism 2006).

The Skills Development Fund is a customized training grant program administered by the Texas Workforce Commission. Grants are awarded to community and technical colleges and the Texas Engineering Extension Service, working in coordination with businesses and local Workforce Investment Boards. Priority goes to projects that include small businesses. While there are no matching fund, wage level, or health benefit requirements for funding, the application review process takes these factors into consideration. State
guidelines require 60 percent of SDF projects to fund “job retention” projects and 40 percent to fund “job creation” projects (Texas Workforce Commission 2006). In FY2005, 23 grants totaling $8.6 million were awarded. Some 95 employers, 3,351 new employees, and 8,896 incumbent workers benefited from the SDF (Texas Workforce Commission 2006a).

**UI-associated Training Programs Targeting Incumbent Workers**

In addition to the states detailed below, six states profiled above—Alaska, Arizona, California, Massachusetts, New Hampshire, and Texas—fund incumbent worker training programs (see Table II.6).

Hawaii’s *Employment and Training Fund Assessment* is a payroll tax collected in addition to UI contributions, set at 0.01 percent of the employer’s taxable wages. The Department of Labor and Industrial Relations administers the ETF program, which was made permanent by the legislature in 2002 (Hawaii Department of Labor and Industrial Relations n.d.a). Funds may be used to support training as well as employment service activities. Eligible training activities include customized training, skills upgrading, developing new-hire skills, and developing management skills. The funds are used for both workforce and economic development activities, particularly for the 87 percent of Hawaiian employers who have fewer than 20 employees (Hawaii Department of Labor and Industrial Relations n.d.b).

The ETF funds two programs: 1) the State and Countywide Grants, also known as the “macro” program; and 2) the Employer Referral Program, also known as the “micro” program. The macro program targets employer associations and consortia of employers to address industrywide training needs. These funds require considerable planning and documentation, including a needs assessment, program protocols, and a plan for sustainability after grant funds expire. Grant applicants are expected to provide at least a 1:1 match through cash or in-kind contributions. Approximately 18,700 individuals have been trained through the macro program (Hawaii Department of Labor and Industrial Relations n.d.a).

The micro program funds employers who select short-term, noncredit training courses from a list of ETF-approved training providers. The micro program also requires an employer match of 50 percent of the training costs, with a total tuition cap of $500 per course (Hawaii Department of Labor and Industrial Relations n.d.). Since this program began in 1996, approximately 63,900 workers have been trained. In PY2005, about 61 percent of
Table II.5: UI-associated Training Programs for Pre-hire and New Employees

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job Training Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net New Hire Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Job Training Tax is set at 0.1% of taxable wages, paid quarterly; effectively $7 per employee annually. Funding: est. $12-15 million annually</td>
<td>JTP’s NNH program is intended to support training for new employees. Employers who meet certain eligibility requirements may apply for reimbursement of up to 75% of training costs for NNH participants. Awards per participant range from $2,000 to $8,000, based on a number of factors.</td>
<td>In FY 2005, the NNH program awarded $5.3 million to train 5,181 workers.</td>
<td></td>
</tr>
<tr>
<td>Massachusetts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workforce Training Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hiring Incentive Training Grant Program</td>
<td>Employers contribute $8.40 per employee annually. HIT funding: $3 million</td>
<td>HIT provides up to $2,000 to employers for training of new hires who were formerly unemployed or dislocated. An employer may receive grants up to $30,000 in a 12-month period. Employers must apply for funding within 30 days of hiring a new employee. Employers are reimbursed for training after the employee passes 60 days of consecutive employment and has completed at least half of the specified training program.</td>
<td>In FY2005, 293 companies accessed grant funds of $786,758. 475 workers received training.</td>
<td></td>
</tr>
<tr>
<td>Minnesota</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workforce Development Fund</td>
<td>0.1% of taxable wages in 2006 and 2007; 0.085% in 2008</td>
<td>34% of WDF funds are directed to a number of non-dislocated worker training programs, including apprenticeship and youth programs and programs targeting workers with disabilities. Each of the training programs funded by WDF has its own specific application guidelines.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>WDF FY2007 allocation: $29.2 million</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table II.5: UI-associated Training Programs for Pre-hire and New Employees, continued

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Montana</strong></td>
<td>0.13% of taxable wages. FY2006 funding: $360,000</td>
<td>Supports employment security functions and the Apprenticeship and Training Program. Apprenticeship opportunities primarily focus on construction trades.</td>
<td>Eligible employers must provide apprentices with an opportunity to develop journeyman-level skills in a safe work environment.</td>
<td>In FY2003-2004, 1,300 registered apprentices were in the program.</td>
</tr>
<tr>
<td><strong>New Hampshire</strong></td>
<td>One-third of the revenues generated by a tax of 0.1% of each employer’s UI taxes Annual funding: up to $1 million</td>
<td>Support economic development through customized skills training for new employees.</td>
<td>Employers must apply for funds through community and technical colleges. Applications must identify number of jobs to be created, the employer’s related training efforts in the previous 2 years, provide a detailed training plan, and include measures for program evaluation. Funds require a 1:1 match.</td>
<td></td>
</tr>
<tr>
<td><strong>Texas</strong></td>
<td>0.1% of UI taxes 67 to 75% of the first $160 million generated by the tax assessment each year is allocated to the TEF. 33 to 25% is allocated to the SDF. In FY2007, SDF funding is $25 million.</td>
<td>TEF is a customized economic development tool to provide incentives, including workforce training, to attract new and expanding businesses. SDF is a customized training program. Approximately 40% of SDF funds are targeted at new employees or training for “job creation.”</td>
<td>TEF projects must be unanimously agreed upon by the governor, lieutenant governor, and the speaker of the Texas House of Representatives. SDF grants fund training providers working in partnership with business and local workforce boards. Proposal applications are reviewed quarterly.</td>
<td>Since 2003, TEF has generated 14,000 new jobs and allocated more than $181 million. SDF: In FY 2005 3,351 new employees received SDF training. Average cost per trainee was approximately $1,000.</td>
</tr>
</tbody>
</table>
microfund training was in support of computer skills development; 2,030 workers and 534 businesses were served that year (Hawaii Department of Labor and Industrial Relations n.d.a).

In Idaho, the *Workforce Development Training Fund* is supported by a UI-offset training tax of 3.0 percent of each employer’s taxable wage rate. This tax, which is set to expire on January 1, 2012 (Frick 2006), generates approximately $3 million annually (Burns 2006). The training fund provides up to $3,000 per employee for skills training to meet economic opportunities, support industrial expansion, or avert layoffs. Idaho’s Workforce Development Council oversees the fund. Recently, the council raised the minimum wage required for workers trained through the WDTF from $6 per hour to $12 per hour, and it added a new stipulation that employers must provide health insurance (Kramer 2006). Over the last ten years, the program has served 136 employers, training workers for more than 17,000 positions at an average training cost of $1,736 per worker (Burns 2006).

Indiana’s *Skills 2016 Training Assessment* is a payroll tax of 0.09 percent of the employer’s prior year’s taxable wages. The assessment is set to expire on December 31, 2008. It supports training to improve productivity, address the challenges of an aging workforce, create and retain jobs, and decrease unemployment compensation payments. The Skills 2016 assessment funds several training programs run by the Department of Workforce Development, including Advance Indiana, and the Training Acceleration Grant program, formerly known as the Incumbent Worker Training Fund.

In all these programs, two-year grants are awarded to companies to reimburse up to 50 percent of training costs (Muncie-Delaware County Chamber of Commerce n.d.). For the TAG program, small employers (with 100 or fewer employees) are required to use WorkKeys assessments and trained workers must realize increased wages (Indiana Department of Workforce Development n.d.). In addition, TAG “has clear eligibility requirements and return-on-investment evaluations to improve accountability and ensure that grant investments align with the state’s economic development goals of growing high-wage, high-demand jobs in growing industry sectors” (Indiana Department of Workforce Development 2005).

In FY2005, the Skills 2016 assessment generated approximately $17.5 million, and the fund’s balance was approximately $42.6 million (National Federation of Independent Business n.d.). In PY2005-06, more than $17 million was awarded for incumbent worker training to 306 employers, result-
ing in training for 14,834 workers (Richardson 2006).

Rhode Island’s Job Development Assessment, a UI-offset tax of 0.21 percent of the employer’s taxable payroll, supports the Job Development Fund. The JDF, started in 1992, targets a wide range of workforce and economic development activities, including customized training, adult literacy programs, and industry partnerships.

The Human Resources Investment Council manages the annual $10 million JDF. The Workforce Improvement Grant Program is one JDF initiative, with funding of up to $2 million in 2006 (Rhode Island Department of Labor and Training 2006). It provides up to $30,000 in matching funds for customized training at both for-profit and nonprofit businesses. Ten percent of WIGP funding is available for nonprofit organizations. These training grants require a minimum wage of $10.13 per hour for workers who have been with the employer for at least six months (Governor’s Workforce Board Rhode Island 2006). In 2006, the WIGP awarded 105 grants totaling approximately $2 million. These grants will support training for 4,663 employees (McGetrick 2006a).

The Employers Investment in South Dakota’s Future Fund, known as the “Future Fund,” is financed by a UI-offset tax on employers, begun on January 1, 2007. The tax rate ranges from 0.1 percent to 0.55 percent of taxable wages, depending on the employer’s experience rating. The state is also exploring options to broaden the Future Fund’s tax base. A report on Future Fund options was due to the governor on November 15, 2006 (CCH Business and Corporate Compliance 2006).

The Future Fund, established in 1987, is a flexible economic development tool administered by the governor of South Dakota. It provides incentive grants to support a range of research and economic development activities, including workforce and teacher training. Between 1998 and 2003, the fund distributed approximately $29 million (Genesis of Innovation for South Dakota n.d.).

Of the $7 million annually allocated to the Future Fund, $1.5 million funds the Workforce Development Program in the Governor’s Office of Economic Development (Gesick-Johnson 2006a). This program provides matching grants for short-term, customized training for new and incumbent workers. Projects for incumbent workers must result in wage gains. Projects for new workers place a priority on individuals who were formerly receiving unemployment compensation or public assistance benefits. The WDP provides up to 50 percent of training costs (South Dakota Governor’s Office of
### Table II.6: UI-associated Training Programs for Incumbent Workers

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska State Training and Employment Program</td>
<td>0.1% of wages per employee. Approximately $6 million in annual funding.</td>
<td>Incumbent worker training is intended to avert layoffs.</td>
<td>(see Table 3)</td>
<td>(see Table 3)</td>
</tr>
<tr>
<td>Arizona Job Training Program Incumbent Worker Program</td>
<td>The Job Training Tax is set at 0.1% of taxable wages, paid quarterly. Funding: est. $12 to $15 million annually.</td>
<td>IWP provides funding for the existing workforce.</td>
<td>Businesses can apply for reimbursement grants to cover up to 50% of the costs for skills upgrading.</td>
<td>In FY2005, the IWP awarded $10.5 million to train 19,876 workers.</td>
</tr>
<tr>
<td>California Employment Training Panel</td>
<td>Annual tax of 0.1% of taxable wages: effectively $7 per worker. Annual funding available: $70 to $100 million.</td>
<td>The program emphasizes training for incumbent, frontline workers at risk from out-of-state and global competition.</td>
<td>(See Table 3)</td>
<td>In FY 2005, 208 projects, representing a $69.3 million investment, were approved to target 66,614 workers. Cost per trainee: $1,043. Incumbent workers’ post-training wage average: $27.11</td>
</tr>
<tr>
<td>Hawaii Employment and Training Fund State and Countywide Grants (Macro) and Employer Referral Program (Micro)</td>
<td>0.01% of taxable wages. FY 2006 fund balance: $2.1 million</td>
<td>The program supports a variety of training and employment service activities, with a primary focus on small employers and employer consortia.</td>
<td>Macro program funding requires multiple steps, including a needs assessment, sustainability plan, and matching funds. Micro program requires matching funds for training from pre-approved providers.</td>
<td>Macro: 18,653 trained to date. Micro: 63,871 trained to date. In FY2005: 2,030 workers from 534 businesses received training, primarily in computer skills.</td>
</tr>
<tr>
<td>Idaho Workforce Development Training Fund</td>
<td>3.0% of employer’s taxable wage rate. Annual revenues: approximately $3 million.</td>
<td>WTF provides up to $3,000 per employee to meet economic development, layoff aversion, or other goals.</td>
<td>Eligible employers must pay a minimum wage of $12 hour plus health benefits for positions funded through this program.</td>
<td>In the last ten years: 136 employers 17,423 positions. Average training cost: $1,736</td>
</tr>
<tr>
<td>State Program</td>
<td>Financing and Funding Level</td>
<td>Training Program</td>
<td>Application Process</td>
<td>Results to Date</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------------</td>
<td>------------------</td>
<td>---------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Indiana</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills 2016</td>
<td>0.09% of prior year's taxable wages</td>
<td>Skills 2016 funds several training programs, each with a distinct purpose and focus, including Advance Indiana and Training Acceleration Grants. Grants to employers can reimburse up to 50% of training costs up to $200,000 per employer.</td>
<td>Employer applications for funding must identify a training outline and identify performance standards such as job quality, number trained, and economic impact. Employers must use WorkKeys assessments. Trained workers must realize wage gains.</td>
<td>In PY05-06 the Incumbent Worker Training Fund (now the TAG program), served 306 employers and 14,834 workers through grants of approximately $17 million.</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acceleration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Massachusetts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workforce</td>
<td>Employers contribute $8.40 per employee annually. GP funding: $17 million FY2006 EP funding: $1 million annually</td>
<td>Incumbent worker training programs for businesses. The GP will fund training up to 24 months, while the EP only funds training lasting 12 months or less.</td>
<td>The GP allows businesses and unions to apply for 1:1 matching grants of up to $250,000. Grants of up to $1 million may be awarded for efforts involving multiple employer partners, resulting in significant job creation, or other extraordinary circumstances. The EP allows small businesses with fewer than 50 employees to apply for matching grants up to $15,000. Grants reimburse 50% of training costs, up to $3000 per trainee. Training providers must be preapproved.</td>
<td>GP: In FY 2005, 209 companies received grants totaling $21.2 million to provide training for 25,669 workers. EP: In FY 2005, 154 companies received grants totaling $806,979 to provide training to 1,083 workers.</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Express</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table II.6: UI-associated Training Programs for Incumbent Workers, continued

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Hampshire Job Training Program for Economic Growth</td>
<td>One-third of the revenues generated by a tax of 0.1% of each employer’s UI taxes. Annual funding: up to $1 million</td>
<td>Supports customized skills training for incumbent workers to help businesses remain competitive.</td>
<td>Employers must apply for funds through community and technical colleges. Applications must identify number of jobs to be retained and address other requirements. Funds require a 1:1 match.</td>
<td></td>
</tr>
<tr>
<td>Rhode Island Job Development Fund Workforce Improvement Grant Program</td>
<td>0.21% of taxable payroll. JDF funding: $10 million annually. WIGP funding: $2 million</td>
<td>JDF funds a range of workforce development activities, including incumbent worker training programs.</td>
<td>Businesses may apply for matching grants up to $30,000 through the WIGP. Trained employees must have been with the company for at least six months and earn a minimum of $10.13 per hour.</td>
<td>JDF has provided more than $15 million for workforce training at approximately 800 businesses. In 2006, 105 WIGP grants totaling almost $2 million were awarded to train more than 4,600 employees.</td>
</tr>
<tr>
<td>South Dakota Future Fund Workforce Development Program</td>
<td>Tax rate is 0.1-0.55% of taxable wages, depending on employer’s experience rating. WDP Annual funding level: $1.5 million</td>
<td>WDP provides funding for both new and incumbent employee training. Training for incumbent workers must result in wage gains. Training for new employees should place a priority on individuals who formerly collected unemployment compensation or public assistance benefits.</td>
<td>Applicants are education and training providers, working in partnership with employers and industry groups. Employer partners must provide matching funds equal to at least 50% of training costs.</td>
<td>In FY2006, 60 employers received grants to train 2,500 workers at an average cost of $708 per participant.</td>
</tr>
</tbody>
</table>
Table II.6: UI-associated Training Programs for Incumbent Workers, continued

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Employment Training Investment Assessment Skills Development Fund</td>
<td>SDF receives approximately 25-33% of the first $160 million raised by the investment assessment each year. In FY2007, SDF funding is $25 million</td>
<td>60% of SDF resources are targeted at customized training projects for “job retention.”</td>
<td>Eligible training providers working in partnership with employers and the local workforce board can submit funding proposals quarterly. There are few job-related requirements, however factors such as wages, health benefits and matching funds are considered during the review process.</td>
<td>In FY 2005, 8,896 incumbent workers were trained. SDF awarded $8.6 million through 23 grants serving 95 businesses.</td>
</tr>
</tbody>
</table>

Economic Development n.d.). Over $9.3 million in WDP grants has been distributed since 1996 (South Dakota Governor's Office of Economic Development n.d.a). In FY2006, the Workforce Development Program served 60 employers, providing training for approximately 2,500 workers at an average cost per participant of $708 (Gesick-Johnson 2006b).

**State Training Programs Funded by Employer and Worker Taxes**

New Jersey has taken the unusual step of taxing both employers and workers to support its UI-funded training programs (see Table II.7). The Workforce Development Partnership Tax is used to support customized training through matching grants to employers, as well as to support training programs for dislocated workers and OSHA-mandated training programs. This quarterly tax is set at 0.1 percent of taxable wages for employers and 0.025 percent of taxable wages for workers. The Supplemental Workforce Fund for Basic Skills, which assesses a tax of 0.0175 percent of taxable wages on both employers and workers, is used to fund remedial education.

The Workforce Development Partnership Program includes a number of training programs, such as individual training programs for displaced workers and the Customized Training Program. In Fiscal Year 2005, the CTP
Table II.7: State Training Programs Funded by Employers and Workers

<table>
<thead>
<tr>
<th>State Program</th>
<th>Financing and Funding Level</th>
<th>Training Program</th>
<th>Application Process</th>
<th>Results to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Jersey Workforce Development Partnership Tax and Program</td>
<td>WDPT is set at 0.01% for employers and 0.025% for workers. The SWF tax rate is 0.0175% assessed on both employers and workers. WDPP FY2006: $37 million</td>
<td>WDPP supports customized training, OSHA-mandated training, and training for displaced workers. SWF funds remedial education and adult literacy programs.</td>
<td>For customized training, employers must provide at least a 1:1 match.</td>
<td>Customized training served 404 businesses and trained 38,146 workers in FY2005 through funds totaling $22.5 million. Cost per participant: $590 In FY2005, 4,233 displaced workers received grants of $3000 each for training.</td>
</tr>
</tbody>
</table>

granted $22.5 million to 404 firms, to train 38,146 workers (New Jersey Department of the Treasury Office of Management and Budget 2006a). Eligible employers must provide a 1:1 match to qualify for funding for improving worker productivity and increasing business competitiveness. In FY2005 displaced workers could qualify for individual training grants of $3,000. The award was raised to $3,200 for FY2006 (New Jersey Department of the Treasury Office of Management and Budget 2006a). The budget for the WDPP in FY2006 was $37 million.

The Workforce Literacy and Basic Skills Training Program is funded through the Supplemental Workforce Fund. It provides grants to employers to support workplace literacy programs, as well as basic education programs in reading, math, and computer skills (New Jersey Department of the Treasury Office of Management and Budget 2006a).

Barriers to Accessing and Using UI-associated Training Funds

There are a number of barriers to accessing and using UI funds to support workforce intermediary activities, some more serious than others. Interestingly enough, some of the barriers to their use might also be considered opportunities when looked at differently. Moreover, the balance appears weighted in favor of opportunities over barriers at this point. Key barriers highlighted
here are: financing reliability and stability; arduous application processes; the worker groups targeted for services; accountability mechanisms; limited connections to other funding streams; and their inherently political character.

**Financing Reliability and Stability**

When California took the innovative step of creating and financing its ETP program with diverted UI taxes in 1983, it paved the way for many other states to follow and ultimately induced them to devote billions of dollars to training and related activities that very likely would not have been available otherwise. Yet some of these financing mechanisms have limitations when it comes to supporting workforce intermediaries and their activities; the most important ones concern their reliability and stability.

As noted, the 26 separate UI-based funds in the 23 states that have them rely on several different finance mechanisms. Eighteen of these funds are not or are no longer dependent on the level of their UI trust funds. Others, however, are funded by interest earned on UI reserves (2 funds) or trigger only when states’ UI trust funds are above a certain balance (5 funds). In the former group, the interest rate varies with the size of the fund in some but not in others. In the latter group, the trigger levels and provisions vary considerably. In all these states, the amount of funding available for serving employers and workers each year tends to vary significantly and cannot be counted on, making it difficult for intermediary organizations to plan for and deliver services effectively.

**Arduous Application Processes**

Successful grantees report that the application process for these funds is overly time consuming and cumbersome, sometimes requiring multiple proposals for a single grant. Some grantees question whether the resulting funds are worth the effort it takes to obtain them, especially given that they may well be one-time grants. Moreover, the application process for a consortia of providers and employers is likely to be substantially more involved than that for a single employer.

**Matching Requirements**

At least a dozen funds have either cash or in-kind matching requirements for employers, which may hinder their use by intermediary organizations or for intermediary activities. These requirements are well intentioned and have a
solid theoretical justification. Match requirements ensure that participating employers are invested in the training for their workers and are not simply relying on government support for something they would pay for anyway. They also bolster an employer’s commitment to retaining the participating workers once trained. However, if employers cannot come up with the 1:1 match—the most common match requirement—they will not be able to access these funds at all.

**Targeting**

States have carefully considered who should be served by these training funds but generally have imposed fewer specific targeting requirements than are found in WIA and other federal/state programs (Duscha and Graves 1999). Employers are a key constituency for these funds, leading to a strong focus on incumbent workers or dislocated workers. But at least fourteen of these funds support training and related services for new or pre-hire workers and thus appear to be addressing one of the more important intermediary gaps identified: helping low-income individuals advance in their careers. In the nine remaining states with UI-based funds, incumbent workers may well include a large share of low-income individuals as well. The extent to which this might be the case is not clear from existing state reporting.

**Accountability Mechanisms**

Workforce intermediaries and training providers are familiar with the difficulties presented by the performance measurement system under WIA. While neither WIA nor other federally funded workforce programs mandate the use of such approaches for UI-funded training, many states have created their own performance measures and accountability mechanisms for them.

For example, the Texas Workforce Commission has set a target of 85 percent placement and retention of workers who are trained with support from the Texas Skills Development Fund, a goal that appears relatively straightforward and appropriate for a job retention effort. But the application of this “goal” can be problematic. In the case of a consortium of employers and providers, trainees must be working at one of the “contracted business partner” employers to be counted toward the 85 percent goal. Trainees who take jobs in the same industry but with employers who are not part of the consortium do not count toward attaining the goal. Further, any training funds
expended for those working with non-partner employers must be repaid from other unrestricted funds.

Such accountability mechanisms, however well intentioned, may serve as a significant barrier to intermediaries and other providers that are operating with limited funds and may not have large unrestricted balances as insurance for shortfalls of this sort.

**Limited Connections with Other Funding Streams**

With noteworthy exceptions, most of these funds require little in the way of coordination or collaboration with the existing WIA system, whether with the local boards, One-Stop Career Centers, or certified training providers. Fewer than 10 UI-based training programs appear to have such coordination requirements in law or regulation. Innovative employers and workforce intermediary groups may take it upon themselves to go the extra step to secure supplemental funding, but few such requirements exist in the existing funds.

**Conflicting Goals**

The goals of these funds and those of intermediary organizations may conflict. Intermediaries generally emphasize career and earnings advancement for low-income workers. A substantial number of these funds—possibly as many as fifteen of them—appear to be pursuing goals that are broadly consistent with this orientation. At least four funds explicitly seek to reduce the amount of UI claim costs by pushing workers to get back to paid employment as soon as possible. And, as noted below, approximately a dozen funds are now associated strongly with states’ economic development strategies and goals, which may not align well with advancing the careers of low-income workers. Career advancement for low-income workers often tends to take a back seat with employers and policymakers in such states.

**Political Considerations**

A dozen or so UI-based funds are now in pursuit of broader economic development strategies and goals. Providing a commitment of flexible training funds—often financed by UI taxes or diverted UI funds—is often an essential part of the package in old-style economic development strategies, formerly referred to pejoratively as “smokestack chasing.” The economic development process often is inherently political, with elected officials at the state and local levels playing important decision-making roles. This can lead to
reasonably good results, but it may not. Elected officials may be more interested in landing a newsworthy “catch,” with large numbers of new jobs during their term of office or while seeking reelection, than in taking on the more mundane, unheralded work of providing existing employers and workers with support for career advancement and improved productivity. It is encouraging that, despite this barrier, more states now appear to be pursuing career advancement than other goals with their funds.

Opportunities for Using UI Training Funds

As noted, there appear to be more opportunities than barriers when it comes to the potential for financing intermediary organizations and activities through UI-related training funds. In addition, the opportunities seem to have expanded relative to possible barriers in recent years, as states have made significant changes to their UI training funds. Some of the major opportunities discussed here include the funds’ focus on skill building, job retention, and career advancement; broad mix of allowable activities; strong dual-customer focus; reliance on multiple partners; positive labor market results and an associated emphasis on accountability; and potential for leveraging other resources and support.

Focus on Skill Building, Job Retention, and Career Advancement

Most state training funds have program goals, incorporated into their authorizing legislation, that focus on building the skills of new and/or incumbent workers, job retention, and career advancement. These sets of goals clearly translate into one of the key features of workforce intermediary organizations. In addition, many new hires and incumbent workers may well be low-income workers, making the connection even more direct. The opportunity for expanding workforce intermediary activity in the 14 or 15 states that stress these goals seems to be great. It would be helpful if states were to collect and report more complete information on the workers who are being served through their training funds.

Broad Activity Mix

These UI training funds now support a broad mix of allowable activities, ranging from remedial education and job readiness training to occupational, customized, and on-the-job training, as well as apprenticeship (in Montana) and even support services. The mix is much broader now than it was in indus-
trial start-up programs in the 1950s and 1960s. Such an enhanced mix fits well with the types of activities and services that intermediaries seek to provide in order to help low-income workers retain their jobs with employers and advance in their careers.

Even as the activity mix has broadened, UI-related training funds typically can be accessed and operated with fewer restrictions than, say, WIA or TANF work program funding can be.

**Strong Dual-customer Focus**

UI-related training funds serve not only employees and potential employees but employers as well. In fact, it is rare for these funds to operate without the direct participation of employers, as initiators and funding applicants, as training developers and providers, as partners with community colleges and other service providers, and, of course, as the actual employers. UI-related training funds have always tended to be dual-customer by their very nature,

---

**Delaware’s Blue Collar Training Program**

The Delaware Economic Development Office awards training funds to businesses for their current and prospective employees through the Blue Collar Training Program. All training must target full-time employment positions with benefits.

Workforce intermediaries are eligible training providers under the Blue Collar program, which emphasizes curricula development tailored to the employer’s particular needs and career advancement opportunities for trained workers. Targeted industries include: agriculture/poultry processing, communications, financial services and insurance, automotive, chemistry and applied technology, bioscience, manufacturing, and services. State agencies are eligible to apply for training funds.

In FY2006, 49 firms completed Blue Collar training contracts, totaling almost $1 million. The programs targeted 2,332 workers, earning an average of $19.13 per hour. These projects offered training in a range of high-demand skills, including quality management, lean manufacturing, frontline supervision, computer literacy, technical writing, and customer service.

*(Groft 2006; Bedwell 2006; Delaware Office of Management and Budget 2006)*
something that has not always been the case with traditional job training programs. This makes these funds a great match for workforce intermediaries.

**Multiple Partners**

Many of these UI-related training funds explicitly require the participation of multiple partners—e.g., workforce boards, community and technical colleges, other workforce providers, employers—in designing and delivering services to those targeted for assistance. One of the key features of intermediaries is their emphasis on coordinating the activities of multiple programs and partners.

**Positive Labor Market Results and Accountability Emphasis**

While only a few studies of the impacts of participation in these training funds have been conducted, the results to date appear to be quite positive.
As discussed above, Moore et al. (2003) found that California’s ETP program had significant positive outcomes for all actors. Training led to stable employment for participants, real savings for the UI system, greater worker productivity, business growth and expansion, and increased employment generation for other businesses. In addition, in a review of the literature on customized training, Isbell, Trutko & Barnow (2000) conducted case studies of nine exemplary customized training programs that operated in conjunction with the Job Training Partnership Act in the 1990s. Based on document reviews and interviews with the companies and program officials, they found that:

**Arizona’s Job Training Program**

Arizona’s Job Training Program encourages grant applications by consortia of two or more employers, professional and trade associations, apprenticeship committees, small business development centers, and/or other community-based organizations such as chambers of commerce. The variety of organizations that may partner in these efforts suggests that there are opportunities for workforce intermediaries to be involved in each of these grant projects.

To qualify for funding, each business partner must meet certain eligibility requirements, such as paying into the job training fund and providing adequate employee wages to qualify for the training supplement. Prior to June 15th of each fiscal year, 25 percent of JTP funds must be awarded to small employers (those with fewer than 100 employees), and an additional 25 percent must be awarded to rural businesses. In the second half of the year, any business that meets funding requirements may apply for a grant.

The goals of the Arizona Job Training Program seem to support workforce intermediary involvement toward a variety of objectives:

- “developing flexible education and training systems;
- “facilitating and encouraging business partnerships and accessibility to education and training resources; and
- “creating long term strategies to improve the competitiveness of the state’s workforce.”

(Burnam 2006b, Arizona Department of Commerce n.d.a)
• Most participants (80+ percent) completed their training;
• Almost all participants completing their training secured jobs;
• Wages earned by employed participants exceeded placement wages in traditional training programs by a substantial margin;
• Employers provided most employed participants with fringe benefits;
• Job retention rates at six months were close to 100 percent; and
• Participating employers felt that the returns from participating in customized training far outweighed their costs.

Most states now regularly publish the results of their efforts online as well as in paper form, and these results largely appear beneficial as well. In part, this is a result of painful lessons learned about the lack of structured accountability systems.\textsuperscript{25}

**Leverage Potential**

UI-related training funds offer the potential for leveraging with other workforce-related resources. For example, an employer funded through a UI-related training fund to provide customized training to a group of new, entry-level workers might be able to parlay this support into additional services (e.g., remedial education, limited English classes) from the local community/technical college.

**Recommendations for Intermediaries**

A number of recommendations follow from this analysis of UI-based training funds and barriers and opportunities for their use by workforce intermediaries to support their activities.

**Develop a National (State-by-State) Strategy**

The first recommendation is for workforce intermediaries and their supporters to develop a thoughtful national strategy for accessing state UI-based training funding to support their activities. Of course, because these are all state training funds, a national strategy is necessarily a state-by-state strategy that will have common elements or themes. As pointed out above, these funds have varying goals, target groups, and funding provisions, while supporting different activity and service mixes.
A national strategy for accessing these funds should include explicit sub-strategies built around key fund variations. For example, one major sub-strategy would focus on those state funds that seek to foster employment and career advancement for low-income, pre-/new-hire, and similar groups of workers; these are some of the more important gaps with intermediary funding that have already been identified. Another sub-strategy would focus on identifying receptive employer groups and industry associations, as well as community and technical colleges, in these states so that workforce intermediaries have a better idea whom to target for partnerships. It would also make sense to provide labor market information (e.g., from the Bureau of Labor Statistics’ Career Voyages Web site) describing high-growth opportunities in high-skills/high-wage sectors to facilitate pursuit of more effective outcomes from these efforts. Yet another sub-strategy would be partnership building.

As part of developing this national strategy, an online handbook could be developed outlining the major components and directing interested groups to available resources. As an online resource, updates could be more easily handled. This handbook might address such topics as:

- UI-based training fund overview;
- UI training fund characteristics and features;
- Effective targeting: participants and employers;
- Partnership building;
- Successful training fund proposal writing; and
- Helpful resources.

**Partner with Employers, Industry Associations, and Community Colleges**

Employers, industry associations, and community and technical colleges are major players in these training funds. In many states, only employers or employer associations may apply for and utilize the funds for customized training. In other states, employers can access the funds but must rely on community or technical colleges to design and implement the training. It would be very useful for intermediary organizations to develop ongoing partnerships with employers and industry associations as well as community and technical colleges to better position themselves for tapping these funds.
Use Philanthropic or Other Support as Leverage for Training Fund Resources

Many UI-based training funds require cash or in-kind matching, often on a 1:1 basis, to access their support for training and related services. Lining up “seed” funding from national philanthropic organizations—including the *National Fund for Workforce Solutions* national partners, as well as participating regional and local foundations—for intermediaries to use as matching funds would facilitate access and also offer flexibility in their use. Intermediaries and their foundation supporters can identify particular areas in which UI-based funds might present restrictions and explicitly fund them. Under current regulations for these states’ funds, it is not clear whether submarket

---

**Rhode Island’s Industry Partnership Program**

Industry Partnerships hold the most promise for workforce intermediary involvement in Rhode Island. These partnerships bring together employers, industry associations, and other organizations for a variety of economic and workforce development activities. In 2006, this first-year program was allocated $850,000. To date, four partnerships have been funded, with an average grant of $100,000. The Governor’s Workforce Board—RI expects that this program will continue through ongoing support to those projects and new grants to other groups.

While Industry Partnership funds may not be used for training, they can be used for a wide range of activities that workforce intermediaries might facilitate or benefit from, including:

- Building partnerships;
- Analyzing skills gaps;
- Developing training curricula;
- Sponsoring summer youth programs; and
- Improving employer participation in labor market information surveys and other workforce system programs.

Rhode Island is targeting Industry Partnership grants to six high-growth sectors: advanced manufacturing, finance and insurance, health care, construction and marine trades, hospitality and tourism, and biotechnology.

*(McGetrick 2006b).*
recoverable loans would qualify as a match in the same way that a traditional foundation grant would, but it is certainly an issue worth further exploration.

This approach to garnering matching funds for leverage is not limited to philanthropic funding. Other sources of support may serve the same purpose, though they may be more difficult to access than UI funds, and intermediary organizations may not be as familiar with how they work. As Klein-Collins (2006) with the Center for Adult and Experiential Learning has pointed out, workforce intermediaries around the country have tapped a number of less well known funding sources at the local level, including general and sales tax revenues, tax increment financing, tax abatement revenues, real estate fees, and tax credit syndications, all controlled by cities and counties. Moreover, if the National Fund for Workforce Solutions establishes a national fund, this source could provide leverage for UI training funds as well.

**Be Explicitly Results-oriented**

UI-based funds have begun to demonstrate progress is measuring and disseminating their results. Legislatures, foundations, and the general public, however, appear to have an insatiable appetite for results. To the extent that intermediaries can approach state funds with an openness to and capacity for readily measuring their results, including the adoption of return-on-investment methodologies, they will find their access to such financing that much easier. The ongoing work of the National Fund for Workforce Solutions with national evaluators, as well as other evaluation groups locally, is a step in the right direction.

**Seek Enabling Federal Legislation and Support**

A final recommendation looks in a different direction. Clearly, in recent decades, much of the real “action” in workforce development—including innovations in administrative structures and service delivery and the development of creative measurement approaches—has shifted from Washington to the state and local levels, with support from the Annie E. Casey, Ford, and other national foundations. Federal interest in and funding for workforce development has waned considerably, to the point that, despite control being in the hands of a single party, it took Congress and the Administration years to reach consensus and successfully reauthorize national legislation for workforce (WIA), education (Perkins, Higher Education), and welfare (TANF). However, it would be worth pursuing federal provisions—in WIA, Perkins,
TANF, and possibly other federal laws—that would provide for and authorize funding for intermediary support, possibly as matching funds for state UI-based training resources. The effort could be designed first as a demonstration project under existing auspices and, subsequent to positive evaluation findings, expanded and codified as provisions of newly reauthorized laws in the future.

**UI-related Training Fund Scenarios**

Accessing UI-related training funds has become relatively straightforward over the decades since California established the Employment Training Panel in 1983. Application procedures are generally available online or in hard copy from the state agencies responsible for their administration. However, the procedures and eligibility vary from state to state. Three hypothetical scenarios suggest how *National Fund for Workforce Solutions* sites in Austin, Boston, and San Francisco might apply for UI-related training fund support and suggest ways to increase access to this funding by workforce intermediaries. Other sites in the IWI Initiative—Baltimore, New York City, and the Commonwealth of Pennsylvania—do not have UI-related training funds, although Pennsylvania has appropriated more than $20 million in state funds to support intermediary efforts, and it expects to increase this in the near future. Interested parties in Maryland, New York, and other states that do not have such funds could certainly work to establish them in the future.

**Austin: The Central Texas Workforce Intermediary Initiative**

The Central Texas Workforce Intermediary Initiative (CTWII), begun in Austin in 2004, is a collaborative effort of six core partners: Austin Community College, Skillpoint Alliance, Capital IDEA, *WorkSource*-Greater Austin Area Workforce Board, Travis County, and the Ray Marshall Center for the Study of Human Resources, a research institute of the University of Texas at Austin’s Lyndon B. Johnson School of Public Affairs. Additional partners, reflecting the initiative’s emphasis on the health care sector, are the Seton and St. David’s health care networks, the region’s two largest health care providers.

CTWII has operated as a loose partnership, with aligned funding from the Rockefeller and Robert Wood Johnson foundations, *WorkSource*, Travis County general revenues, and the Greater Austin Chamber of Commerce,
plus in-kind support from Austin Community College and the health care providers. The partnership includes two intermediary organizations—Skillpoint Alliance and Capital IDEA—and they also are supported by regional and local foundations (e.g., RGK, Topfer, Michael and Susan Dell, Verton), as well as by WorkSource, the county, and other funders. WorkSource also can be viewed as an intermediary in that it integrates numerous funding streams, serves dual customers, focuses on sectoral strategies, and stresses training for high-wage/high-growth occupations. CTWII is branching out from a primary focus on health care to launch initiatives in biotechnology/biosciences, wireless, and advanced manufacturing, as well as other sectors, based on research conducted by the Ray Marshall Center, which is also serving in an evaluative capacity (Glover et al. 2005).

Texas’s Skills Development Fund, administered by the Texas Workforce Commission, largely replaced two earlier training funds that the state had created in the early- to mid-1990s. Funded by a portion of the UI tax, the fund supports customized training for new workers through grants to community and technical colleges (and the Texas Engineering Extension Service) in coordination with businesses and local workforce boards. It made 23 grants, totaling $8.6 million, in FY 2005. While the fund does not explicitly target sectors for its grants, its companion Texas Enterprise Fund has adopted a strong cluster-based approach to economic and workforce development policy, as has the Governor’s Office, in alloting WIA Discretionary dollars.

The Central Texas Initiative is especially well situated to avail itself of Skills Development Fund support because its partners include the two largest health care employers and Austin Community College, as well as WorkSource and the Health Industry Steering Committee, which is staffed by Skillpoint Alliance. The initiative recently launched a major effort—the Austin Health-care Alliance: Jobs-to-Careers Project—to train frontline workers, with support from the Robert Wood Johnson Foundation. The most likely scenario would be for the Seton and St. David’s health care partners to apply for SDF funding, with Austin Community College and WorkSource as their major collaborators, to conduct expanded customized training for new health care workers. WorkSource and Capital IDEA would likely be able to offer support for much-needed wraparound services, such as child care, job coaches, and work supports. Health care is the most logical initial focus, but the same approach could be taken in emerging sectoral efforts, including biotechnology and wireless.
**Boston: SkillWorks: Partners for a Productive Workforce**

SkillWorks, a five-year intermediary initiative based in Boston, is funded by $14 million, raised from a mix of local foundations, national foundations, and public funds. It is centrally staffed out of the Boston Private Industry Council and operates as a funders’ group supporting three major activities: workforce partnerships, capacity building, and public policy advocacy to effect major workforce systems change. Jobs for the Future provides program development, management, and strategic support. SkillWorks is supporting training partnerships in the health care, hospitality, automotive, and building services industries.

The Commonwealth of Massachusetts’s Workforce Training Fund supports two incumbent worker programs—the General Program and the Express Program—as well as the Hiring Incentive Training Grant Program for new hires, all three of which could be appropriate funding targets for SkillWorks efforts. Only employers can apply for these programs.

Employers associated with SkillWorks training partnerships could apply for either new-hire or incumbent worker training funds, individually or as a group, in tandem with SkillWorks. The Workforce Training Fund is dedicated to worker training, but accessing it would allow SkillWorks to broaden its scope to offer a range of support services (e.g., child care, work-related expenses, transportation) while workers are participating in training.

**San Francisco: The Bay Area Workforce Funding Collaborative**

The Bay Area Workforce Funding Collaborative, operating in the 10-county area around San Francisco, comprises 13 private foundations ($2.1 million) plus the California Employment Development Department ($1.2 million). A full-time coordinator based at the San Francisco Foundation manages the collaborative, which also features several area community colleges, the National Economic Development Law Center, Abt Associates, and BTW Consultants as partners. In its initial round of funding, the collaborative focused on training low-income and low-skilled workers in the health care and biotech industries, with grants to area workforce boards (e.g., San Francisco PIC, NOVA Workforce Investment Board, San Mateo Workforce Investment Board), as well as the California Workforce Association and various service providers (e.g., JVS). It is now in its second grant cycle.

California’s Employment Training Panel, the first UI-funded training fund in the nation, established in 1983, supports customized training and
training for unemployed workers, targeted to high-unemployment areas. Employers are the eligible applicants and must provide a 1:1 match to access ETP support. ETP’s budget ranges between $70 million and $100 million annually.

The Bay Area Collaborative is well situated to access ETP funding, given its emphasis on assisting low-income/low-skilled workers to train for jobs in the growing health care and biotech sectors and its broad partnerships throughout the area. The scenario is much like that outlined for Boston’s SkillWorks. An employer or group of employers would need to apply for training funds, with the collaborative or some of its projects as partners, after first attending a required ETP orientation. Foundation support or community college resources might provide some of the matching funds needed from employers. The fact that the collaborative-supported projects can bring considerable support for training, as well as other services, to the table should be an advantage when they apply for ETP funds. In addition, with so many of its grantees being area WIBs, documenting results through existing systems will be viewed as an advantage by ETP as well.

**Concluding Observations**

The UI-based training programs outlined above present a great opportunity for workforce intermediaries working closely with employers or industry groups. These funds present few access barriers and target a wide range of unemployed, new-hire, and incumbent (particularly entry-level) workers. For those projects that involve employers who cannot fund the match requirement, intermediaries may want to consider accessing philanthropic or other local funding to overcome this barrier. The training programs provide a number of opportunities to tailor training to meet specific employer and industry needs, particularly if workforce intermediaries think outside the box in developing their projects. They may have to approach these funds with a broader partnership than is typical for such efforts, including working with a group of employers or an industry association. They may also need to line up matching funds in collaboration with their partners to make it succeed. Given their emphasis on training as a means to meet both workforce and economic development goals, these UI-based training programs are a good fit for workforce intermediary projects.
References


Indiana Department of Workforce Development. n.d. “Innovating Indiana thru the Training Acceleration Grant (TAG).” www.in.gov/dwd/employers/docs/g2.pdf.


Louisiana Recovery Authority. 2006. “Community Development Block Grant Recovery Workforce Training Program Guidelines.”


McGetrick, Mavis. 2006. Staff, Governor’s Workforce Board—Rhode Island. Email, “Re: Job Development Fund,” to Tara Smith, September 13.

McGetrick, Mavis. 2006. Staff, Governor’s Workforce Board—Rhode Island. Phone interview with Tara Smith, October 10.


Strategies for Financing Workforce Intermediaries


Sanderford, Christine. 2006. STEP Program Manager. Alaska Division of Business Partnerships, Department of Labor and Workforce Development. Email, “Re: STEP funding,” to Tara Smith, September 6.


Appendix: Sources For Further Information

Alaska
Alaska Department of Labor and Workforce Development,
www.labor.state.ak.us
State Training and Employment Program,
www.labor.state.ak.us/bp/step.htm

Arizona
Arizona Job Training Program,
http://new.azcommerce.com/Workforce/JobTraining

California

Delaware
Delaware Economic Development Office,
www.state.de.us/dedo/links.shtml
Blue Collar Training Fund Program, www.state.de.us/dedo/delawareworkforce/bluecollar.shtml

Hawaii
Hawaii Department of Labor and Industrial Relations,
www.hawaii.gov/labor
Employment and Training Fund, www.hawaii.gov/labor/etf

Idaho
Idaho Workforce Development Council,
www.idahoworks.org/iw_IWDC.shtml

Indiana
Indiana Department of Workforce Development, www.in.gov/dwd/

Louisiana
Louisiana Department of Labor, www.laworks.net
Training programs and other business services,
www.laworks.net/buspage.asp

**Massachusetts**
Massachusetts Department of Workforce Development, www.mass.gov/?pageID=dlwdhomepage&L=1&L0=Home&sid=Edwd
Workforce Training Fund, www.mass.gov/?pageID=dlwdtopic&L=3&sid=Edwd&L0=Home&L1=Employers&L2=Workforce+Training+Fund

**Minnesota**
Minnesota Department of Employment and Economic Development, www.deed.state.mn.us
Dislocated Worker Program, www.deed.state.mn.us/dw

**Mississippi**
Mississippi State Board for Community and Junior Colleges, www.sbcjc.cc.ms.us

**Montana**

**Nebraska**
Nebraska Department of Labor, www.dol.state.ne.us
Worker Training Program, www.dol.state.ne.us/nwd/center.cfm?PCAT=2&SUBCAT=2B

**Nevada**
Nevada Department of Employment, Training, and Rehabilitation, http://detr.state.nv.us

**New Hampshire**
New Jersey
New Jersey Department of Labor, www.state.nj.us/labor
Customized Training Programs, www.state.nj.us/labor/bsr/custrain.html

North Carolina
Employment Security Commission www.ncesc.com

Rhode Island
Governor’s Workforce Board Rhode Island, www.rihric.com
Workforce Improvement Grant Program,
www.ccri.edu/lifelong/pdfs/2006WorkforceImprovementRFP.doc

South Dakota
South Dakota Governor’s Office of Economic Development,
www.sdreadytowork.com
Workforce Development Program, www.sdgreatprofits.com/F-I/Workforce

Tennessee
Tennessee Department of Economic and Community Development,
www.state.tn.us/ecd

Texas
Texas Enterprise Fund,
www.governor.state.tx.us/divisions/ecodev/ed_bank/tefund
Texas Workforce Commission, www.twc.state.tx.us

Washington
Washington Employment Security Department,
http://fortress.wa.gov/esd/portal

Wyoming
Wyoming Department of Workforce Services,
www.wyomingworkforce.org
Endnotes

20 In addition to state program staff, a number of individuals provided assistance to the authors in the preparation of this report, including Tamara Atkinson, Don Baylor, Sigurd Nilson, Heath Prince, and Martin Simon.

21 The number of states with UI-supported training funds has waxed and waned over the last two decades, with some states becoming disenchanted with them or encountering political pressures to end them.

22 Unless otherwise noted, tax rate information for all states has been obtained through the USDOL/ETA Comparison of State Unemployment Laws (2006).

23 “Experience rating” is an actuarial term in the UI system that refers to an employer’s experience with laying off its workers over some predetermined time period. Employers with higher layoff rates pay more in UI taxes under such experience-rated systems.

24 Of course, economists argue, correctly, that all UI taxes are borne by both workers and employers in reality. Who pays is not the same as tax incidence.

25 The demise of the Texas Smart Jobs Fund, at the time (2003) the second largest fund after ETP, was largely due to the inability of the administrators to show the state legislature credible positive results. Despite several pointed recommendations to establish performance indicators since the fund was first established in 1993, no progress had been made.

26 With the passage of the Economic Stimulus Bill of 2006, Massachusetts recently established a new training fund, the Massachusetts Workforce Competitiveness Trust Fund, which is administered by the Commonwealth Corporation. This fund is well suited to workforce intermediary organizations and their activities but is financed by general revenues rather than UI or other employer taxes.
Part IV.
Food Stamp Employment and Training

by Jeff Jablo

Introduction

In 1985, the Food Security Act established the Food Stamp Employment and Training Program, administered by the U.S. Department of Agriculture. The purpose of the FSE&T Program is to help food stamp recipients who are not receiving Temporary Assistance for Needy Families to gain work skills and become employed through participation in allowable job search, training, education, or workfare activities that promote self-sufficiency.

One part of the Food Stamp Employment and Training program—50-50 match funding—offers a generous, user-friendly, and readily available source of funds for state and local agencies, community colleges, nonprofit community organizations, and other education and training entities. When state FSE&T plans include access to these funds, states can receive millions of dollars of additional support for education and employment activities that serve all food stamp recipients. The result is a potential vehicle for funding selected intermediary services, either on its own or as part of a broader, multifaceted funding strategy.

Overview and Background

Since 1985, many changes have been made to the FSE&T program. In 1996, welfare reform changed important aspects of it, even though food stamps are an entitlement. Most notably, one group of recipients, Able-Bodied Adults Without Dependents (ABAWDs), are limited to three months of food stamp benefits within a thirty-six-month period, unless they comply with work requirements, thus creating a category of mandatory work registrants.
In 1997, the Balanced Budget Act required states to spend 80 percent of their funds on program activities for ABAWDs, and in 1998, Congress increased the funding by an additional $31 million—bringing the total to $131 million—to better serve this population. However, by 2001, states were spending only 30 percent of the funds. In reaction, with the 2002 Food Security and Rural Investment Act (the Farm Bill), Congress cut the total amount of funds given to the states to $110 million and removed the 80 percent spending restriction for ABAWDs. In 2005, the formula for granting funds to the states was recalculated using 2004 levels, and the funding was cut again, to $81 million. But it was later increased to $90 million so that no state would experience a cut of greater than 20 percent of its 2004 allocation in 2006.

All the while, a lucrative and fairly flexible provision of the Food Stamp Employment and Training Program remained available for states to use to offset cuts in their grant funds or increase their program expenditures. Although food stamps are issued as an entitlement, about 25 percent of all recipients must register for work and participate in the FSE&T Program in order to receive this benefit for longer than three months. The program provides employment and training services to clients, ages 16 through 59, who are receiving food assistance, unless exempted by law.

The U.S. Department of Agriculture guidelines for FSE&T programs include the provision for states to use nonfederal state or local funds not otherwise obligated to draw an equal amount of federal FSE&T funding. Together, these funds can be used to provide E&T services to eligible food stamp recipients. This is in addition to the state’s annual FSE&T federal grant allocation.

The regulations allow states to spend more than their annual grant allocation on employment and training services and receive from the federal government a reimbursement for half of such expenditures. To qualify, states must use nonfederal funds to pay the costs of these additional program services. This cost reimbursement mechanism is uncapped and, thus far, not subject to congressional appropriation.

Nevertheless, almost no states used FSE&T match funding until recently, except in the most limited way in accordance with the rules governing allowable expenditures for grant funds. For example, FSE&T rules stipulate that for ABAWDs and other mandatory work registrants, granted funds cannot be used to provide stipends for carfare, even if it is an economic necessity in order for participants to get to work activities. States must provide carfare from their own coffers (using nonfederal money). However, if they do, the
federal government will reimburse them for one-half of their annual expenditures. This provision in the FSE&T program is called the 50-50 match funding program. What most states overlooked was that this program feature was applicable to any nonfederal funds they spent on education, employment, and training services for any food stamp recipients, as long as the recipients were participating in an allowable FSE&T activity and not receiving any other federal cash assistance, such as Temporary Assistance for Needy Families.

A few states, led by Wisconsin and New York, began utilizing the provision and received reimbursements of $25 to $30 million annually. These funds were for services that were delivered to both mandatory work registrants and those who were exempt from such participation (voluntary participants). Moreover, they went well beyond carfare to include vocational training, education, case management, and a host of employment-related services.

Still, until 2004, few states tapped the match funding program to its fullest extent. They were not sure how to expand it within the workforce development system statewide, and they never considered making it available to community colleges or other community-based service providers. Rather, it was limited to intra-agency use within state governments.

In 2004, Jobs for the Future and Social Venture Solutions launched an FSE&T project to help states use 50-50 match funding to finance job training. The project coincided with a change in approach by forward-looking states, like Wisconsin, Texas, Washington, and Colorado, to expand the use of the match funding, and this led to the involvement of more states and a number of national foundations.

Statutory Authority

The FSE&T program is authorized by Code of Federal Regulations 277–282 and administered through a series of guidelines, rules, and interpretations of both. The interpretations can be a key part of the success and expansiveness of a state’s program.

In accordance with the Code of Federal Regulations, Title 7, Department of Agriculture, (7CFR 273.7(e)(4), states may provide access to and expand the availability of FSE&T services to nonmandatory food stamp recipients. Chapter II, Food and Nutrition Service (FNS), Part 277.4 (c), provides guidance on the use of Food Stamp Administrative 50 percent funds, of which FSE&T funds are part.
Traditionally, state FSE&T plans focus efforts and funds on providing services to “mandatory” work program participants. However, most food stamp recipients receive the supplement without condition of work participation. Many of these individuals may be unemployed or trying to survive on low-wage employment, whether full-time or part-time, with few prospects or opportunities for advancement or further training and education. Several states have expanded or are in the process of expanding their FSE&T programs to take advantage of their ability to use nonfederal state and local funds to draw an equal amount of federal FSE&T funding.

While there is no cap on FSE&T funding per se, states must submit plans annually to the USDA Food and Nutrition Service for approval. However, the 50-50 match funds are uncapped and paid as a cost reimbursement program, so states may adjust their annual projects as often as necessary throughout the year. All education and training expenditures must be documented by the state and approved by FNS as part of the state’s annual education and training plan submittal. Plan approval involves estimating the level of education and training participation in the state, among other things. The federal government reimburses states for the 50 percent of support services that states reimburse to participants and providers, with no cap on this reimbursement. This reimbursement is subject to the conditions specified in 7 U.S.C. § 2015 (d) (4).

Types of FSE&T Funding
The U.S. Department of Agriculture Food and Nutrition Service administers the FSE&T program and approves state plans describing services to be provided and the planned use of funds. Funding for FSE&T falls into three categories:

- 100 percent federal grant (for services to all mandatory work registrants);
- State and federal funds at a 50-50 matching rate; and
- 100 percent federal grant funds (for services to ABAWDs only).

100 Percent Federal
The Food and Nutrition Service allocates the 100 percent federal grant authorized by Congress, with each state receiving funds equal to its percentage of a total unduplicated number of all mandatory work registrants including ABAWDs (in all states). Federal grant funds cannot be expended for participant expenses (e.g., transportation) or dependent care expenses.
State and Federal Funds (50-50)
In addition, states may access federal funds at a 50-50 matching rate to provide services. State, local, or other unobligated, nonfederal funds are required to meet the 50 percent of funds that may be matched by the Food and Nutrition Service on a dollar-for-dollar basis. The 50-50 funds allow work activities to be provided to ABAWDs and other work registrants.

States must fund participation expenses (e.g., transportation and dependent care expenses) necessary to enable an FSE&T work registrant to participate. All participant expenses must be funded with 50-50 matching funds, with statutorily defined limits for dependent care up to the maximum provided by a state’s Childcare Block Grant.

ABAWD Only 100 Percent Federal Funds
Additional 100 percent funds are provided for states that make the commitment to offer all ABAWDs qualifying education, training, or workfare opportunities to permit them to remain eligible for food stamps beyond the three-month time limit. States that design their programs to include these provisions are called “Pledge” states and can apply for additional 100 percent funds from a $20 million pool set aside by the Food and Nutrition Service.

Roles and Responsibilities
A state FSE&T administering agency has several responsibilities.

- The agency must ensure that food stamp eligibility is verified monthly before providing FSE&T services for food stamp recipients who voluntarily participate in FSE&T services.
- The agency must ensure that mandatory work registrants, and exempt recipients who volunteer, participate in allowable FSE&T activities. The allowable activities shall meet the needs of employers and prepare the mandatory work registrants and exempt recipients who voluntarily participate in FSE&T services for unsubsidized employment.
- The agency must coordinate the design and management of the delivery of FSE&T activities and support services with the delivery of other workforce employment, training, and educational services, such as WorkFirst, WIA workforce development services, and local workforce development programs and services to meet the needs of low-income families and employers.
**Responsibilities Regarding Access to FSE&T Activities and Support Services**

Allowable FSE&T activities and support services must be provided as specified in the annual state plan of operations approved by the U.S. Department of Agriculture to individuals who are classified as the General Population or as ABAWDs.

Providers of education and training must ensure that the monitoring of FSE&T requirements and participant activities is ongoing as determined appropriate by the administering agency. Monitoring consists of:

- Tracking and reporting FSE&T participation hours; and
- Tracking and reporting support services hours.

It may also include:

- Determining and arranging for any intervention needed to assist the individual in complying with FSE&T service requirements;
- Ensuring progress toward achieving the goals and objectives in the employment plan; and
- Monitoring all other requirements, as stipulated by the state administering agency.

The Food and Nutrition Service has overall administrative authority for FSE&T. The annual 100 percent formula distribution of funds is managed at FNS headquarters in Alexandria, Virginia, and 50-50 match funding is reimbursed upon receipt of claims by FNS, with no appropriation process required.

All FSE&T program activities, including states’ annual plans, are administered through FNS regional offices. The eight regions:

- Review and negotiate state plans prior to forwarding to FNS headquarters for approval;
- Provide technical assistance to states;
- Issue interpretations of federal rules and guidelines;
- Forward unresolved disputes or challenges to rulings/interpretations to FNS headquarters for final decision; and
- Audit program activities and ensure compliance.
Implementing a 50-50 Match Funding Program

There are about 24 million food stamp recipients in the United States. However, unlike welfare recipients, less than one-quarter of them must participate in a work or training activity as a condition of receiving benefits. Nevertheless, state FSE&T plans focus efforts and funds on providing services to these “mandatory” work program participants and ignore the majority of food stamp recipients who receive the supplement without condition of work participation. The majority of these “exempt” recipients often have low levels of educational attainment, are unemployed, or are trying to survive on a low-paying job, with few opportunities for advancement or further training and education to help promote economic self-sufficiency.

The good news is that USDA guidelines for FSE&T programs include the provision for states to use any unobligated nonfederal funds to draw an equal amount of matching FSE&T funds in order to provide services to all food stamp recipients. Perhaps most important, this match funding is in addition to states’ annual food stamp funds federal grant allocation.

Program Highlights

FSE&T provides dollar-for-dollar matching funds for the majority of non-federal workforce development dollars spent on any food stamp recipients. FSE&T 50-50 match funding is uncapped and separate from the 100 percent food stamp formula allocation that all states receive. The match funding is administered as a cost reimbursement program.

The funds are paid in support of allowable expenses—defined by the states themselves under broad federal guidelines—for services provided to food stamp recipients. Customarily, states administer the program through their designated FSE&T administrative agency. State plans must describe what services will be provided and how they will be delivered in order to draw down the matching funds.

Nonfederal matching funds may include (but are not limited to) cash from state budgets, foundation grants, employer contributions, and tuition payments. Allowable costs under FSE&T include (but are not limited to) direct and indirect costs for education, training, job placement, case management, and career coaching, as well as for the administrative costs of managing the program.

States that include FSE&T programs in their plans do not forfeit their ability to use waivers and exemptions for ABAWDs or other populations.
States do not need to significantly increase their administrative staff. As with many other education, employment, and training services, states may devolve much of the administrative and reporting responsibilities to the service providers. Customarily, the states retain an oversight function. States that choose to test the efficacy of the 50-50 match funding provision may structure their service delivery and exercise their waivers and exemptions in such a way to create a program pilot.

In the past, few states availed themselves of the 50-50 match funding to offer services to nonmandatory work registrants. Often it was because they had large TANF surpluses and did not feel a need for additional funds for workforce development services, or they took a minimalist view of service delivery, providing it only to those people who they had to serve. More recently, states have adjusted to cutbacks in workforce development funding by reducing services, overlooking the fact that the FSE&T funds are an uncapped source of revenue that can offset some of these reductions. In addition, FSE&T funds can be used in place of TANF funding, thus freeing the TANF funds to be used in other ways. Furthermore, FSE&T funds can be used to provide child care services at the same rate of reimbursement as the Childcare Block Grant.

**Implementing 50-50 Match Funding with Community Colleges and Community-based Organizations Providing Education and Training Services**

The critical first step is to achieve acceptance and agreement at the appropriate levels of state and local government, seeking consensus for the underlying strategy. The goal is to maximize the use of FSE&T 50-50 match funding to support education, training, and employment services for low-income adults.

A practical next step is to design a pilot project and assign implementation responsibilities. For state and local governments, a pilot program serves as the context to:

- Review the state’s plan for compatibility, flexibility, and expansion;
- Identify any new procurement and administrative challenges, costs, and policy issues that might constrain implementation and expansion later; and
- Devise solutions for overcoming these constraints.

For client services, a pilot program design should include:
• A manageable number of community and technical colleges and other organizations that have the fiscal, administrative, and programmatic capacity to deliver services in compliance with an FSE&T program;

• A process to identify and confirm their “matchable” funds; and

• A service model that meets the current and anticipated needs of the clients and the expected outcomes of the administering agency.

It is also helpful to form a working group that includes representatives from: the agency that administers FSE&T (including the people responsible for writing the plan); the local agency responsible for contracting with colleges and other organizations for workforce development services (if different than the food stamp administering agency); representatives from the relevant local One-Stop system; and the colleges and other organizations selected to participate in the pilot.

**Technical Assistance and Consultancy**

A state and education and training providers are strongly advised to seek experienced assistance to create an efficient plan and timeline for the pilot’s operating plan and budget. It is important to create a program structure and identify areas that may require research or special attention, and then quantify lead times for preparation and problem solving. These activities include but are not limited to a review and planning process that takes into account the state’s current plan and the colleges’ current offerings for education and training.

The critical issues are:

• What is the scope of the project?

• What are the sources and amounts of matchable funds per school and organization?

• What are the services to be provided? How do they align with the state FSE&T plan?

• What are the administrative systems needed to connect and support the schools and organizations and administering agency in the project (e.g., identifying participants, confirming eligibility, tracking, case management)?

• What accounting systems and claiming processes for the cost reimbursement will be needed?

• Does the state anticipate additional administrative costs due to expansion of FSE&T? If yes, how will they be paid?
• What are the contracting and reporting requirements for the school and for the state?
• Will the state FSE&T plan have to be amended in any way in order to implement the pilot?
• Are there any legislative issues that will need to be addressed?
• What is the timeline for the pilot (e.g., the target start date)?

**Specific Tasks and Responsibilities**

Before implementing an FSE&T pilot project, a state and the project’s education and training providers will engage in several additional activities:

• Review and analyze the state’s current FSE&T plan.
• Write/amend the plan to accommodate the 50-50 matching activity beyond the budgeted 50-50 match the state may already be using. This may include providing a new FSE&T program design and specific language for the new plan.
• Create language for the necessary legislative waivers to permit participation by ex-offenders if necessary.
• Prepare any submission to the federal government that the state wishes to make in order to facilitate the adoption of the new plan.
• Gather an overview of the practices and plans of other states that are accessing the funds, including examples of contracts, service agreements, and claiming documentation.

In addition, the local FSE&T administering agency will need to implement new contracts and claiming processes with providers. It will also assess the administrative capacity of participating schools and other organizations and develop an estimate of the revenue they could generate from current activities, ways to expand those activities to increase revenue, and sources of matching funds.

Community colleges and other providers must develop the strategy, tactics, implementation, and management of an FSE&T 50-50 match program. The strategy will include outreach and recruitment, eligibility criteria, budgeting, and program services. At the same time, the project will link the activities among the colleges, other providers, and the local administering agency in order to maximize enrollment and revenue and train staff.
Notable Examples and Lessons Learned, 2005-06

There has been more interest and activity around FSE&T in the past 2 years than in the previous 20. As of fall 2006, no fewer than 10 states had investigated making broader use of the 50-50 match funding provision, with more expressing interest every month. Texas, Washington, Virginia, Massachusetts, Wisconsin, New York, Iowa, Kentucky, Colorado, Rhode Island, Connecticut, Florida, Indiana, and California have all begun investigations or formal processes. These efforts range from the early stages of learning and understanding their own state’s plan and the financial opportunity to launching and operating pilot programs in targeted communities.

At present, organizing and launching an expanded FSE&T program that includes 50-50 match funding is a state-by-state undertaking. For many reasons, a good portion of the effort will always remain as such, due to the peculiar nature of politics and the ways that states have created their decision-making processes, procurement rules, funding governance, and workforce development infrastructure and service plans. Nevertheless, the process could be more efficient and transparent if one were able to share information more openly and states made more effort to learn from one another.

In addition, although implementing an FSE&T program and revising a state’s annual plan to take advantage of the 50-50 match funding program is a bureaucratic process, the impetus to act has always been political, and often financial. Therefore, among the most important lessons about FSE&T is that it is a top-down strategy, and it is a state strategy. Yes, it is possible to start at a local level, but the state must be engaged or the idea will not move. Similarly, it can be difficult to begin below a cabinet-level official: at a minimum, the relevant agency commissioner/director must push the idea from the outset, or it will not gain sufficient traction to move through state government. This is not a groundswell movement. One needs to start at the top and push toward the middle.

With that in mind, virtually all the states mentioned started the same way. Each had an FSE&T “champion” or a small group of well-connected advocates who identified the key individuals or points of political influence, and then made the initial approach. Once the case was made and those with authority and responsibility were sold, the concept was brought to the upper-to mid-level bureaucrats responsible for creating and administering the state’s plan and taking the project forward. It is not always a smooth process, and
it is fairly labor intensive until everyone has developed a positive attitude and understands their roles and responsibilities.

**Washington/Seattle**

Washington is an excellent example of a state that began with sometimes circumspect bureaucrats who were overwhelmed by senior state officials. Discussions about the merits of FSE&T dragged for six months until the Office of Finance and Management pushed decisions forward. The elapsed time from first meetings to launch of the pilot in Seattle was about one year.

The state seems to have taken a cautious posture with the Food and Nutrition Service, which may have burdened providers unnecessarily with more than routine administrative burdens and narrowly defined approaches to program delivery. Nevertheless, the state considers the pilot a success.

As of fall 2006, the Seattle pilot was completing its first year’s activity. Overall, the results have been positive and the state is enthusiastic about continuing and expanding. The pilot served approximately 600 clients, with 250 to 300 enrolled at any given time. Reimbursements for the first year of operation of the pilot reached nearly $1 million.

While Seattle-area offices administering the program were anxious to expand, progress may be slowed by the continued relationship between Olympia and the Food and Nutrition Service. The state continues to receive rules interpretations that are detrimental to the program, of which latest addresses participation by volunteers (non-mandatory work registrants).

It may be useful to get the community college system more actively involved as an advocacy voice in Olympia, along with the Office of Finance and Management. In addition, sufficient time and resources must be devoted to dealing and negotiating with FNS headquarters in order to develop consistent policies and rules interpretations and to share this information nationally. Until such time, consultants are continuing to help Seattle by doing ad hoc research and writing for them in support of their position vis a vis FNS rulings and as the basis for rebuttal to FNS.

**Colorado/Denver**

At the other end of the FSE&T political spectrum is Colorado. Like Seattle and Kentucky, the impetus to undertake an FSE&T match funding program came from the Annie E. Casey Foundation’s Making Connections initiative. Colorado has a fairly progressive and flexible FSE&T plan, solid expertise in
the administering agency, and a very good relationship with their FNS region. At the outset of the FSE&T process, it was expected that the pilot would be operational in April 2006. It appears now that fourth quarter 2007 is a more realistic estimate. So with an entirely different starting place, the elapsed time from first meeting to launch of the pilot will be more than one year.

Work continues toward finalization and implementation of the pilot. The time was moved back due to unforeseen delays in the bureaucratic process related to contracting in the City of Denver. The city needed unexpected legal interpretations for its contracting rules and also assigned the responsibility for spearheading the project to the city’s Department of Workforce Development rather than the local office of the state Department of Human Services, which has the responsibility and authority to administer FSE&T programs. As a result, when the city department began focusing on other issues related to reorganizing its Employment First program, seeking fiscal guidance from the state was temporarily put on a back burner.

In early 2007, the Piton Foundation engaged the director of the Department of Human Services for Denver in hopes of providing the energy and authority for the agency to move forward with the project without further delay. The state has committed to providing whatever resources the city needs in order to make the pilot operational. The pilot is expected to include two or three providers, serve approximately 600 individuals, and generate $1.2-$1.5 million in reimbursable costs in the first year.

**Kentucky/Louisville**

Kentucky provides an example in which an intermediary organization plays the key role. As in Colorado and Washington, the catalyst for action was the Annie E. Casey Foundation’s Making Connections initiative.

The Kentucky FSE&T plan is almost a carbon copy of Washington’s. As in Washington, the state plan provided no services to any food stamp recipients prior to the Casey Foundation’s interest in FSE&T, and like Washington, Kentucky exercised its statutory and administrative exemptions and waivers to permit it to opt out of FSE&T participation. Like Colorado, the state has a number of progressive commissioners and influential thinkers in key positions. Although they lacked the knowledge and expertise to recognize the financial benefit of FSE&T, they were very open to learning quickly and taking advantage of the program as soon as they could. The state is in the process of completely revamping the way it administering FSE&T pro-
grams, and it is moving forward enthusiastically with the design of a pilot. The goal is to be operational in 2007.

In Kentucky, the Making Connections initiative enlisted the help of the Workforce Investment Board, specifically its special projects director, who had previously worked in the Department for Community Based Services. He had a long professional history with the DCBS staff: he began as a caseworker there and moved up through various local and state-level positions. He even had trained many of the DCBS administrative staff in the food stamp program. His relationship with DCBS helped gain easy access to the key staff necessary to approve the FSE&T effort.

After initial contact with the regional DCBS staff, staff of the national FSE&T project met with the state commissioner, deputy commissioner, and other key staff. The state agreed to move forward with an FSE&T pilot program, under the condition it would be used to serve ABAWDs and other mandatory work registrants only and exclude voluntary enrollees. While everyone recognized the difficulty in serving this population exclusively, the WIB wanted to give DCBS a “win.” Without the pilot program, the state would continue to have difficulty serving its target population, so it was also in its interest to allow for services to voluntary participants as well. The state recognized that without allowing services to both categories, there was little incentive for providers to move forward with the pilot. In the end, a compromise included both categories of food stamp recipients.

The next step was to select a group of providers and other helpful partners to form an FSE&T working group. The providers were selected based on the services they offered, their experience with the population, and their administrative capacity. Other group members were selected based on their administrative relationship to food stamp recipients for such issues as eligibility determination and certification and the management of the current FSE&T services. Represented were Jefferson Community and Technical College, Jefferson County Public Schools Adult Education, Neighborhood Places (a system of local offices that provide most social services), the Coalition for the Homeless, Career Resources, the Office of Employment and Training, Louisville Metro Government and Regional DCBS staff for Louisville, Urban League, and Youth Opportunities Unlimited.

It was a challenge to limit first-year partners: different organizations heard about the effort and wanted to participate. It was explained that the pilot was just the starting place. FSE&T rules permit the number of providers to grow
based solely on the state’s desire to expand. Success of the pilot would likely set the pace.

However, based on some due diligence with providers, it was decided that the pilot needed an intermediary—an entity that could function as a cross between a project manager and an administrative/fiscal agent to support the providers. The decision had an additional benefit for the state: it would only need to contract with one entity; instead of five or six separate providers, it would contract with the intermediary.

KentuckianaWorks was selected to be the intermediary. It was formed eight years earlier as the Workforce Investment Act entity for Louisville (Jefferson County) and the six contiguous counties around Louisville and is managed by the WIB. To fund KW’s role as project manager and provide administrative support, the FSE&T working group agreed that the cost reimbursements received from the federal government through the match funding program would be shared as follows:

• 10 percent to the WIB/KW for administration;
• 5 percent set aside for special projects agreed upon by the FSE&T working group; and
• 85 percent distributed to the providers on a prorated basis.

For example, if a provider submitted $100 in costs for reimbursement it would receive $85, with the remaining $15 going to the WIB for administration and the special projects fund.

As a side note, this configuration of intermediary and provider became the catalyst for a larger project. DCBS recognized its challenges around managing workforce development services and meeting federally mandated performance standards. So, although the 50-50 FSE&T match funding program had not begun, DCBS offered the WIB responsibility for TANF programs as well as FSE&T. The WIB accepted, again using KentuckianaWorks as the administrative entity.

FSE&T lessons from earlier developments in other states were applied in Kentucky:

• An intermediary can play a multifaceted role that both includes a number of the critical elements for success and helps overcome the most prevalent weaknesses.
• There must be a high-level, public-sector champion, entity, or group of people with very good political connections.
• A project must garner broad support and cooperation and win trust in the public sector.

• More often than not, local workforce development organizations, particularly employment and training providers, are limited in their administrative capacity and fiscal acumen.

These lessons were applied swiftly in Kentucky, leading to the designation of KentuckianaWorks as the FSE&T intermediary. This decision saved implementation time and money and ought to increase the chances for success.

The Kentucky FSE&T match funding pilot is projected to serve approximately 500 people and generate $2 million in costs in FY 08.

**Wisconsin/Milwaukee Area**

In anticipation of launching an FSE&T program in FY 2005, the Milwaukee Area Technical College submitted a proposal to the state to operate a 50-50 match funding program using a budget/cost methodology outside the traditionally accepted approach.

According to federal guidelines, claims for cost reimbursement under the 50-50 match funding program must be supported by records that:

• Identify every individual who received services;

• Certify that the individuals were “active” food stamp recipients for the entire service period;

• Identify the services that each individual received and the number of hours of service; and

• Identify the actual costs associated with providing the named services to the named individuals.

Instead of this methodology, the college proposed to use the existing state system for FTE student cost calculations, administered by the Wisconsin Technical College System. This process requires that technical colleges remove all other non-state and local tax revenues to determine the amounts of state and local tax funds being used to support the different types of programs the technical colleges offer. The college proposed using this FTE student cost multiplied by the number of FSE&T participants enrolled at predetermined intervals to calculate FSE&T program costs and submit them for reimbursement.

The Milwaukee Area Technical College received verbal support for its approach from the FNS Midwest regional office in Chicago, which administers programs for Wisconsin. Based on this approval, MATC enrolled
FSE&T-eligible individuals for the fall semester and began delivering services. However, the FNS headquarters officially reviewed the state plan in fall 2004 and rejected the cost methodology for the purposes of determining match. The rejection states that the methodology does not conform to regulatory requirements and improperly charges the apportioned amount of the total state and local costs of operating the Wisconsin Technical College System to the education and training program, rather than charging the actual outlays for student tuition and fees.

Months of negotiations ensued. MATC maintained that the program was not cost effective unless the college could use the cost-allocation methodology. MATC enlisted the support of U.S. Senator Herb Kohl, U.S. Representative Gwen Moore, and several other high-level state bureaucrats. FNS did not budge.

On its side, MATC had the verbal commitment by the FNS regional office. Because MATC acted on that commitment in good faith, the federal government agreed to cover the costs incurred for the program's first year by providing the state with additional 100 percent grant money. After all, the negotiations had gone on well into 2005, and additional students had been enrolled for the spring semester.

Unfortunately for Wisconsin, MATC, and the FNS regional office, all three had lost track of a 1997 written ruling the state received from FNS that disallowed the proposed match methodology. Apparently, the state had submitted virtually the identical match methodology seven years earlier. In addition, at that time, the state had filed an appeal to the USDA Office of the Inspector General, who ruled in favor of FNS and issued an additional opinion that FNS had the sole authority to make determinations with respect to the FSE&T program. During the course of the 2005 negotiations, the 1997 letter from USDA to Wisconsin came to light.

Although Wisconsin, under then-Governor Tommy Thompson, was the first to use FSE&T match funding expansively, the evolution of the operating policies for the state workforce system make it a less-than-optimal place for match funding activities. In the late 1990s, under Wisconsin's welfare reform reorganization—Wisconsin Works, or W-2 as it came to be known—one of the state's goals had been to get away from direct administration of hundreds of workforce development contracts, preferring to work with a very small number of intermediaries, who would, in turn, deal with the masses of local contracts statewide. The state entered into a contract with Maximus, a
private, for-profit organization that specialized in providing consultancy, technical assistance, and administrative oversight to state and local governments for program services and revenue maximization strategies. As part of that contract, Maximus had responsibility and authority to administer the FSE&T program.

This scenario, having a nonpublic organization administer the FSE&T program, is unique to Wisconsin. It means that any community organization or other nonpublic entity that wants to develop an FSE&T match funding program would need to receive not only the state’s approval but would also have to contract with Maximus as program administrator.

More important, because Maximus is not a public entity, the provider cannot use any of its nonpublic funds for match without applying to the federal government for a waiver. The waiver process is long, difficult, and annual. Therefore, Wisconsin’s structure is not encouraging in terms of maximizing an organization’s specific financial resources, nor for maximizing the reimbursement program in general.

The state felt that the contract with MATC could provide some relief if selected providers subcontracted with the college. However, MATC was reluctant to change its methodology and did not have a viable, active program, so potential providers were left to wait for MATC to resolve its issues with the federal government before they could move forward.

A case in point: the Wisconsin Regional Training Partnership is a sturdy, multifaceted workforce development organization that has both the administrative capacity and sufficient private and public, nonfederal matchable funds to organize an FSE&T match funding program of reasonably good size. At first, the state wanted WRTP to work through MATC; when that was seen to be impractical, the state offered its standard approach of working with Maximus. Consultants from the national FSE&T project proposed to the state that in order to take advantage of WRTP funding, and to maintain the integrity of its administrative structure, Wisconsin should make an exception and contract directly with WRTP under the condition that WRTP subcontracted with Maximus for all administrative services. DWD representatives initially agreed, but they were later overruled higher up in the state.

For WRTP to move ahead it appeared that it would have to contract with Maximus, use only its public money for match, and apply for a waiver if it wanted to use its private funds for match. Recently, another possibility has arisen. WRTP may be able to contract with the City of Milwaukee instead
of Maximus as the prime contractor. This would allow it to use its private funds for match without the waiver process. At present, WRTP is considering the best way to approach the contracting process.

**FSE&T and Intermediary Funding**

FSE&T is a unique, albeit limited, funding asset for intermediaries. It is limited because organizations must serve food stamp recipients in order to receive cash reimbursements. However, because there are no restrictions on using reimbursements or on what organizations deliver the services, intermediaries can tap into the funding by doing many of the things they do best, without getting involved in providing direct services.

For example: An intermediary receiving nonfederal funds for its activities can use those to contract for services for food stamp recipients from among its network of community-based organizations. The intermediary would pay the CBO a fee for services, and it then could recoup 50 percent of the cost. In addition, the intermediary could receive similar reimbursements for its own administrative costs for managing the FSE&T activities.

The benefit is twofold. The CBO receives payment for services, and the intermediary leverages its funding, creating more disposable funds. In addition, the leveraging aspect is likely to interest private funders and help attract more grants and investments for the intermediary.

There is also the potential to marry FSE&T match funding with other financing strategies, such as bond funding. For example, bond sales might finance training for employers with entry-level jobs. Some percentage of the individuals who receive training are food stamp recipients. As such, the training program qualifies as an FSE&T program and 50 percent of the costs of training of the food stamp recipients could be reimbursed. An intermediary would administer the program—both the sale of the bonds and the delivery of training—and use the reimbursement to increase its capacity or to help retire the bonds.

For example: a $100,000 project is planned to create 100 service-sector jobs. The jobs pay $9 per hour for a 35-hour week; state withholding is estimated at $500 per job annually. If 20 percent of the individuals are food stamp recipients, the intermediary’s reimbursement is $10,000, which it can use to expand capacity in addition to whatever fees it may receive for administering the bond transactions. If 80 percent of individuals are food stamp
recipients, the intermediary receives $40,000, which could be split between the intermediary and debt service.

Other advantages of FSE&T are:

- It is a bureaucratic process, requiring no legislative approval to proceed.
- The start-up cost is very low: by statute all states must have an annual FSE&T plan. Even for states that have effectively abandoned service to the food stamp population, some infrastructure must remain to administer the annual plan. Initiating use of the match funding provision is a question of political will rather than financial means.
- A state can recoup several times over whatever administrative and other investments it makes in advancing a plan to capture match funding, as measured by reimbursement (new money) to the workforce development system.
- Every state can make maximum use of the match funding provision.

One important caveat: FSE&T is governed by a combination of laws, administrative instructions and procedures, and operating guidelines and rules. FNS headquarters issues directives, rules, and guidelines, but regional offices have latitude in interpreting these. FNS headquarters will also issue interpretations and adjudicate disputes between states and regional offices concerning interpretations, and it has the final word.

However, headquarters interpretations and rulings appear to fortify boundaries and define limits rather than encourage usage and inclusion of broader or more creative applications of existing rules. Although directives and rules go to all regions, regional interpretations and accepted practices remain within the regions, so there is very little cross-fertilization and no “best practice” analysis among regions.

Thus, it can be risky to share “good” interpretations. One does not want to risk the reversal of a “good ruling” for one state by using it as an example to help another state overcome a “bad” ruling.

A recent ruling illustrates this. The rule states that FSE&T program participants cannot be required to participate for more 120 hours per month in any activity or combination of activities. In practice, providers have never required food stamp recipients who are mandatory work registrants to participate for more than 120 hours per month. Food stamp recipients who are voluntary participants and working 120 hours a month at McDonald’s would like to enroll in ESL classes 2 nights a week, 2 hours per night, to improve their employability and receive job placement assistance.
The FNS Western Region disallows this practice, interpreting the rule to mean that the 120-hour limit applies to any and all activities for all recipients, whether or not they are part of an FSE&T program, even though employment at McDonald’s has nothing to do with an FSE&T program. FNS headquarters supports the Western Region’s interpretation. However, other FNS regions allow the practice and permit the volunteers to enroll in ESL classes.

Given such inconsistencies several things are needed in order to take full advantage of the match funding program:

• A policy strategy that wins a voice for advocates and practitioners with FNS headquarters in Alexandria;

• An administrative structure that relies more on clear policies and well-defined rules, and less on regional personalities and interpretations; and

• A more transparent system in which regions can share best practices—for example, effective programs that are supported by sensible rulings and interpretations—without fear of undermining positive results in one region with negative ones from another.

• An appeal process that does not permit FNS to preside over the hearings and determine the outcome of challenges to its own rulings.
Part V.
Program-related Investments

by Radha Roy Biswas

Introduction

Program-related investments, which generate both financial and programmatic returns to foundations, are being explored for their potential to support and expand the capacity of workforce intermediaries. This chapter looks at the role of PRIs in supplementing public funds and filling gaps in public financing when put to work in supporting workforce intermediaries and enhancing workforce development activities. It lays out how PRIs may be used to support workforce development activities by intermediaries and addresses the central issue in the use of PRIs: the capacity of workforce intermediaries to carry and repay debt.

A PRI-based strategy is distinct from the other strategies that have been explored in the National Fund for Workforce Solutions in two main ways:

• The primary source of funds is a foundation, rather than a public agency. The Ford Foundation, which commissioned this research, has cited two reasons for starting its PRI program, launched in the 1960s. One, PRIs stretch foundation dollars: they bring a financial return from the foundation’s mission-related activities. Two, PRIs induce other funders and institutions to invest: as a stamp of approval for a program or organization, they are an effective means for leveraging additional funding.

• A PRI strategy is primarily foundation-led, as opposed to state-led, with a lesser role for public policy in making the strategy viable and effective. This factor follows from the first.

Program-related investments are not new, but their use has been limited. In 2001, PRIs accounted for less than 1 percent of philanthropic activity in the United States: $239 million out of $30 billion (The Foundation Center
Their direct use in supporting workforce development has been even more restricted, and it is difficult to gauge just how much PRI activity has occurred in this field. Traditionally, the bulk of PRIs have been directed toward community development and related efforts, which often have embedded workforce development activities. That said, “PRI making” is gathering momentum as foundations realize that they can put much more of their asset base to work in generating returns and furthering their mission at the same time. In fact, PRI making can be viewed as part of the growing philosophy of venture philanthropy that makes program accountability and effectiveness, as well as results and returns from charitable investments, increasingly important in foundations’ investment decisions. Thus, the time may be right to introduce both new funders and intermediaries to this financing strategy.

To date, factors at both ends—funder and recipient—have constrained the use of PRIs.

At the funders’ end, most foundations operate through grants, and they lack the combination of financial, legal, and program skills required to make PRIs. Transaction costs—which include a due diligence and investment monitoring process, legal and documentation costs, and risks and attitudes—are commonly cited obstacles to PRI-making from the perspective of foundation program managers (Arrillaga & Spitzer 2006). This is perhaps why less than 1 percent of the nation’s active foundations made PRIs in 2001, and why those that did often channeled PRIs through intermediaries that possess the requisite financial and technical capacity.

At the recipient end, PRIs are debt instruments that require a return on the money loaned or invested. Also, the recipient of a PRIs must be able to service the debt, as well as have a financial discipline and accountability system; these are often lacking among workforce intermediaries and program operators, who tend both to be accustomed to and to prefer a grant-based environment. PRI recipients must be in good financial health and have an accountability system. Lack of adequate financial discipline and sophistication further hinder debt capacity. When intermediaries’ program models do not include a revenue source directly linked to program outcomes, or do not generate enough revenue to offset costs and service debt, as may be the case with grant-funded organizations, there is a high risk in taking on a PRI. Thus, PRIs have been traditionally used in housing and community and small business development, for projects that have an assured or reasonable expectation of revenue that can be used to service and eventually repay the debt.
Nevertheless, PRIs can be a potentially important source of funding for intermediaries if the recipients can get assistance in overcoming the challenges of revenue generation and fiscal discipline and accountability. The “financial health check” that an intermediary has to go through to qualify for a PRI can be a valuable exercise in getting its finances in order and meeting funders’ accountability requirements—requirements that are expected to increase in the future. An approval for a substantial PRI can confer an important badge of quality and accountability on the intermediary and help it build credibility among funders, even as it provides funders with some assurance of program sustainability.

The creation or enhancement of debt capacity among intermediaries will, therefore, be key to a PRI-based strategy for intermediary financing. Any attempt to explore a PRI-based funding strategy must address these factors and consider what intermediaries need to have in place in order to receive and utilize PRI funds. Intermediaries that consider using PRIs as a funding source must first and foremost demonstrate or develop: a business model that can directly or indirectly provide a revenue source that can be used to service PRIs; and the financial capacity and accountability system to service and manage PRIs.

Funders have a task ahead of them as well. Those foundations interested in investing in workforce intermediaries through PRIs may want to ask: What impedes intermediaries from leveraging PRIs as a source of funding? What can be done to broaden the market for PRIs in workforce development? At what point will the benefits from PRIs offset the costs of making them?

PRIs represent a unique if challenging opportunity. Because PRIs may require considerable change in how intermediaries operate, this may not be a “demand-led” strategy but rather an essentially foundation-led enterprise, a “push” strategy. And despite the challenges, PRIs must be viewed not only as an important source of funding to expand the capacity of workforce intermediaries on their own, but also as a bridging strategy that can shore up and complement other financing strategies.

Overview

In the nonprofit sector, program-related investments are an alternative financing approach in which foundations make investments in programs and projects that involve the potential return of capital and interest within an estab-
lished schedule or time frame. A number of regulations govern the use of PRIs. They were created as an exception to the Tax Reform Act of 1965, which prohibited foundations from making jeopardizing investments.

PRIs are situated somewhere between grants and traditional investments, offering both programmatic and financial returns to foundations. Per IRS regulations, PRIs must be programmatic ally aligned with a foundation’s charitable objectives and activities, similar to grants. PRIs are usually structured as low-interest loans, but they also can be loan guarantees, deposits, or equity holdings in organizations or in commercial ventures for charitable purposes.

PRIs represent an important philanthropic tool that allows foundations to stretch their funds, especially in tight financial environments, and they potentially increase charitable dollars by recycling funds. By making PRIs in the form of loans, guarantees, and deposits, foundations can leverage their own funds to attract other funders to a project.

PRIs have another very important use: they foster and drive accountability among recipients. Because PRIs are debt instruments, they require recipients to be in good financial health and to have an accountability system. A PRI can provide or help a program get credibility among funders, while providing funders some assurance of program sustainability.

When PRIs are structured as loans, interest rates vary from zero to just below the market rate; that is, they operate as subsidized debt instruments. Rates of return in PRIs are also determined on an individual basis but are usually below market rates, on a risk-adjusted basis. PRIs are not always heavily subsidized debt, though. Rather, they are subsidized relative to the risk.

A funder may make a PRI directly to a program operator or channel it through an intermediary. For example, a community development bank that receives a PRI loan or a deposit in the form of a PRI will pass on that subsidized funding to a service provider for a project. In other cases, intermediaries that receive PRIs, and then reloan the funds to program operators and service providers, serve as analogs to community development banks.

Only a few hundred of the thousands of grantmaking foundations in the United States make PRIs, which, as noted, accounted for less than 1 percent of charitable expenditures in 2001, although the share of PRIs has grown in the last 10 years. In 2000-01, the typical PRIs were between $100,000 and $500,000 (Foundation Center 2003).

While a large portion of PRI dollars has traditionally supported community development and affordable housing, foundations are putting PRIs
to more diverse uses. Community development and education accounted for the largest proportion of PRI spending in 2001-02, about 17.7 percent and 16.8 percent respectively. Affordable housing was fourth, after the environment (Foundation Center 2003).

PRIs are challenging to funders in a number of aspects. Because of the nature of a PRI program—risky investments, high administrative costs, and flexible repayment periods—a PRI “cannot be treated as an automatic, self-sustaining revolving fund in which investments are recouped and re-loaned to other enterprises, even though the potential for return is its chief attraction” (Ford Foundation 1974). Returns from a PRI have to be weighed against the costs, primarily transaction costs, which arise from due diligence and investment monitoring processes, as well as legal and documentation costs. There are also opportunity costs to PRIs because some income is foregone by employing assets in investments that have lower returns.

PRIs require three sets of skills from foundations: programmatic, financial, and legal. Because IRS regulations governing nonprofits are complex and nuanced, some foundations prefer to seek a legal opinion before they make a PRI (Baxter 1999). While programmatic expertise is not hard to come by, for most foundations the task of managing and structuring PRIs and assessing and underwriting the risk may be hard to accomplish in a typical grant-funded environment. It is perhaps for this reason that the use of PRIs has been limited, and some PRIs are channeled though intermediaries that possess fiscal and risk underwriting expertise. Seedco is an example of an intermediary that receives PRIs, particularly in the area of workforce development, and in turn makes loans to workforce development service providers and other program operators. Calvert Foundation is another example.

A step toward broadening the base for PRIs is to educate potential funders about the mechanics of PRIs and to illustrate successful examples. This process would also identify low-risk approaches to making PRIs and encourage potential PRI makers to join in a multi-funder collaborative.

**Funding Program-related Investments**

PRIs can be funded out of a foundation’s asset base or its grant base. Which of these options is chosen has important implications for both funder and intermediary. Regardless of where PRIs are located within a foundation’s finances, they count toward the 5 percent minimum annual distribution or payout required from foundations by the IRS. Outstanding PRIs remain on
a foundation’s balance sheet as a separate asset category. When the PRI principal is paid back, it is considered a negative distribution for the foundations: it increases the annual distribution requirement by the amount of the principal repayment.

The major PRI-making foundations have determined their PRI base in a variety of ways.

The Ford Foundation segregates its asset base into two parts: market-rate investments and PRIs. The PRI portion is treated as a revolving loan fund. Anticipated losses from PRIs are charged to the grant budget; PRI interest income is returned to the PRI asset base.

The John D. and Catherine T. MacArthur Foundation allocates a portion of its annual distribution that would normally qualify as grants to be made as PRIs. The entire PRI amount is charged to the grant budget. Repaid PRIs can be recycled or they can increase the grant budget. The MacArthur Foundation also has different categories for PRIs. It funds typical PRIs from the PRI allocation and more conservative investments from its assets.

The F. B. Heron Foundation has used a larger portion of its asset base (24 percent of assets, 28 percent including grants) than almost any other foundation to create a mission-related portfolio, rather than limit its mission-related investing to the traditional 5 percent payout. The board decided to make a broader range of the foundation’s assets available to support its work. Starting with grants at one end, the foundation makes PRIs that include insured deposits, senior loans, subordinated loans, and equity investments. Then come the market-rate, “double-bottom-line” (programmatic and financial) investments, which seek a risk-adjusted, market rate of return consistent with the foundation’s mission, and these also have the same asset-class distribution: insured and uninsured deposits, loans, subordinated debt, private equity, etc. There is a wide range of asset classes, both in the below-market area and the market-rate area (Heron Foundation 2005).

When PRIs are funded out of a foundation’s asset base, the expected returns are lower than those for foundations’ traditional market investments, from which they derive their grantmaking base. PRIs funded from the asset base thus represent higher risk for, and lower returns to, a foundation’s assets. At the same time, these PRIs put both the principal and interest to work toward the foundation’s programmatic ends, in contrast to traditional market investments, in which only the interest earned from invested assets is put to work for charitable ends.
When PRI are funded out of a foundation’s grant base, they are usually structured as interest-bearing grants or recoverable grants that must be repaid once certain conditions are met. When PRI are located in the grant base, they are a less risky proposition to the funder: they represent a potential return on funds where none would be forthcoming from grants. And because the principal is eventually returned, grant-based PRI are a source of recyclable funds that add to the total resources of the foundation.

PRI from the grant base have another important advantage. They are simpler transactions: modified grant agreements in which the principal is repaid, typically when the program succeeds in meeting its objectives. In the event of a default, foundations can usually write the loss off as a grant and do not have to be burdened with liabilities on the balance sheet. On the downside, PRI funded out of the grant base detract from the total grant-making pool, and they are limited by the payout money that foundations set aside for grantmaking.

The location of the PRI base within a foundation is an important indicator of the risk that foundations are willing to take with their funds. Recent discussions among PRI-making foundations indicate that most of this activity is done from the grant base. This is not surprising because it is less risky and provides some return from grants. Viewed another way, when a foundation funds PRI from its grant base, it effectively uses PRI to meet its minimum annual payout rate; it can therefore write off PRI as it would grants. In other words, the financial risk that the PRI carries has no effect on the foundation’s finances.

PRI making from the asset base is less attractive: PRI may both be riskier and yield lower returns than the more conservative market investments into which the foundation place their assets. This is especially important to those foundations chartered to preserve their endowment into perpetuity.

However, as noted, PRI funded out of the grant base are ultimately limited by the amount a foundation sets aside from its investment income or what it determines its annual payout level to be. In fact, the push for foundations to increase PRI has come as some funders have begun to ask if their asset base cannot be employed more effectively in service of their mission beyond the typical 5 percent payout structure in which most foundations operate.

How PRI are funded may be an important consideration in designing a demonstration project for a multi-funder initiative to support workforce
intermediaries. While some funders might be encouraged to follow the example of the Heron and MacArthur foundations and devote more of their assets to PRIs, other funders may be more attracted to a lower-risk approach to making PRIs: funding them out of the grant base and structuring them as recyclable grants. That way, a foundation can potentially reap the benefits of PRI making—achieving programmatic ends with a financial return, leveraging funds through a collaborative, and driving accountability in the field—without taking on excessive risk.

How a PRI is structured is equally important. Tying in a PRI as a recoverable grant along with traditional grants, as some foundations do, so that not all of a project’s funding is contingent upon the success of PRI, may broaden its appeal to funders as well as to intermediaries. For instance, a funder may make a loan in the form of a recoverable grant to support an intermediary’s outreach efforts and help the program go to scale, or it may give a cash-flow loan whose payment schedule is tied to the intermediary’s contracts with employers. And it may also provide a grant to the intermediary to continue its advocacy or systems change work at the same time.

**PRIs in Workforce Development**

The Foundation Center’s PRI Directory identifies foundations and others that make PRIs for employment services, jobs, and related categories. But it is hard to calculate the amount designated for workforce development. Moreover, PRI spending on community development, affordable housing, and human services often includes projects with a substantial job creation and workforce component. In other words, there may be more PRI investment in workforce development than we know. Some of the largest PRI-making foundations appear to use this approach in some aspect of workforce development. However, while many of the projects fund job creation, training, and placement, few appear to be dedicated to funding workforce intermediaries that offer the comprehensive roster of services required for successful workforce development outcomes. In 2000-01, two workforce intermediaries—CAEL and Origin, which received $2 million and $1 million, respectively, from the Ford Foundation—appeared among the top fifty PRI recipients.

Intermediaries can use PRIs to:

- Bridge temporary gaps in finances, especially in grant-funded projects where financial capacity is limited;
• Support outreach and business development efforts to help a program go to scale;
• Build capacity and put accountability systems in place;
• Provide access to capital at lower rates than may otherwise be available, especially where borrowers are vulnerable to predatory credit or where no other sources are available;
• Become more bankable and enhance credibility with other funders, thus leveraging more resources by demonstrating a sound financial structure or creditworthiness;
• Promote long-term relationships with funders, offering mutual financial and programmatic benefits for funders and intermediaries.

However, there are barriers to using PRIs. The key element to a PRI project is to identify an opportunity where a return on the funding can be assured or reasonably expected, with an assured or reasonable expectation of an income stream or revenue. In an environment where many (if not most) service providers and organizations are grant-funded, and where program business models do not include earned income or revenue streams, this is a major constraining factor in the demand for, and use of, PRIs. Another important factor is lack of the capacity and ability to manage and service PRI debt. Overcoming this is key to exploring and implementing a PRI-based funding strategy.

Interviews with intermediaries receiving PRIs reveal the need for two kinds of expertise: technical and financial. Developing this is not easy; setting up the expertise to use PRIs requires considerable resources and expertise, not to mention a culture shift in organizations not already geared up to do so.

Our inquiry into intermediaries that have received PRI support from foundations shows how this finance mechanism can be applied to workforce development. It also shows the challenges that both intermediaries and funders face in receiving and making PRIs in this field. One example, Seedco, is a self-described workforce intermediary; another, Coastal Enterprises, Inc., specializes in small business development but has programs with strong workforce components. A third, the Maryland Center for Arts and Technology, provides workforce development services to low-income residents in the Baltimore area. The fourth, Origin, is a workforce intermediary that received a PRI to expand to a national scope the model it had developed in New York for training and placing low-income workers.
In all of these cases, key to the organizations’ ability to access and use PRIs have been models for generating revenue to repay the PRIs. In two cases, the organizations have acted as financial intermediaries and repay or service their own PRI loans; they have made loans to programs at slightly higher rates to generate income and also gain revenue through employer contracts. In the other two, PRIs have been based entirely on the organizations’ training and workforce development contracts.

**Seedco: The Structured Employment Economic Development Corporation (www.seedco.org)**

The Structured Employment Economic Development Corporation, based in New York City, with additional regional offices in the South, is an example of a PRI-funded intermediary operating in community and workforce development. Seedco has traditionally funded and assisted projects in affordable housing and homeownership, but it has increasingly invested in workforce development. Seedco uses its asset base, which is funded through PRIs and grants, to make loans and lines of credit available to support a variety of business and programs that improve employment opportunities for low-income people. Seedco recently spun off its loan funds into a subsidiary. The subsidiary, Seedco Financial Services, has an asset base of $75 million; about $20 million comes from PRIs provided by banks and foundations; $20 million comes from a grant received for post-9/11 economic development programs and that is now channeled into loans for small business development; $35 million is from New Market Tax Credits.

While Seedco supports businesses and organizations with the ultimate aim of influencing workforce outcomes, it does not fund all programs on that basis. In some cases, Seedco acts mainly as a financial intermediary, channeling funds—including its PRIs—to program operators in the form of subsidized, risk-adjusted loans. In other projects, it provides both financial and technical workforce development services. In effect, Seedco has two parts—financial and program—with the latter providing workforce and technical assistance services. Often, Seedco’s loan recipients are referred to it by the program side of the house.

Seedco earns its operating income from contracts and from the difference between its borrowing and lending rates. It receives subsidized loans, including PRIs, and lends out at a risk-adjusted rate that is slightly higher than it pays as borrower and typically lower than the market rate. Two chal-
Challenges for Seedco are: to maintain the right spread between the PRIs it receives and the loans it makes; and to keep the balance between the capitalization of its loan funds and the rate of utilization of those funds. In this respect, Seedco operates like any financial institution or intermediary. The terms and conditions of utilization associated with PRIs—how they must be applied—play an important role in Seedco’s ability to fund programs. The more flexible the PRIs, the greater the leverage in investing in programs. Seedco seldom has to pay back its PRIs; most are rolled over and recycled. When Seedco assesses a potential loan recipient, it looks at all possible sources of income that could allow for debt servicing. Some projects that Seedco invests in have larger workforce components than others.

In making loans, Seedco screens at the outset for sources of income and earned revenue that can be used to pay the loan. Like any mainstream financial intermediary, it does due diligence for its loan approval process—tracking a potential recipient’s fiscal and financial history and health, especially its record for debt servicing, and identifying sources of revenue—after which it makes the loan on a risk-adjusted basis. Even though Seedco’s objective is to generate workforce outcomes, it does not always tie the loans to those outcomes. They are given to affordable housing or business development projects with workforce development and training components.

One notable Seedco program in workforce development that involves debt is EarnFair Alliance. This alliance of service providers brings together small, local, community-based organizations that individually lack the expertise and capacity to handle larger government and business contracts into a pool to provide training and employment assistance to low-income neighborhood residents. EarnFair is managed by Seedco’s subsidiary, the Non-Profit Assistance Corporation (N-PAC). Through N-PAC, Seedco provides financial assistance in the form of cash-flow loans, lines of credit, and operational capital, along with fiscal management, customer services, and program supervision. N-PAC subcontracts with the CBOs to provide workforce development services, passing on about 85 percent of the contract money, retaining about 15 percent for its own services. In this model, loans are made and repaid on the strength of the employer contracts.

EarnFair presents an interesting case of how small organizations can address debt-capacity problems. It operates on a 100 percent performance-based compensation model, but N-PAC is fully responsible for the risk and passes on only 50 percent to its subcontracted CBO partners. CBOs are reim-
bursed for line-item expenses equal to half of their EarnFair contract. The remainder of the contract payment is based on performance. This shared risk is an important feature in addressing risk and debt capacity among workforce development service providers. By reducing the risk to CBOs, Seedco reduces their financial burden. The program design and this innovative method of pooling and reducing risk for loan recipients may provide lessons for designing a PRI-based funding strategy that could address the risk and debt-capacity issues that surface in workforce intermediaries.

**Coastal Enterprises, Inc. (www.ceimaine.org)**

Coastal Enterprises, Inc., based in Maine, provides financial assistance to small businesses. CEI defines its business as development finance and providing loans and taking risk where conventional banks won't go. Like Seedco, CEI is funded through a mix of PRIs and grants. It operates similarly to Seedco, by partially deriving its income from loan spreads. CEI’s loans are also subsidized in relation to the risk and may be slightly lower than market rates. CEI has two main workforce development programs that are of interest in how they operate in terms of financing.

*CEI’s Employment and Training Agreement:* The central objective of the ETAG is to link low-income workers with job opportunities in CEI-financed firms. CEI acts as an intermediary and broker between the companies it funds and public system job seekers (e.g., individuals on TANF or receiving WIA assistance). When a business receives a CEI loan, it can enter ETAG to use this arrangement as a first-source hiring system. As part of its due diligence process, CEI screens deals based on job quality and the accessibility of entry-level jobs to people with low incomes. A firm that is approved for financing under the ETAG agrees to make CEI its first source for job candidates, usually with the goal that 50 percent to 75 percent of the new hires be people with low incomes. CEI screens participants and provides training and training assistance; if pre-employment training is needed, the public workforce development system does it. In some cases, CEI helps firms to restructure jobs and access government training resources and subsidies. CEI earns fees from employers for job fulfillment and from the public development system through One-Stop money for job development.

In a separate, grant-funded program for transitional jobs, CEI goes to large companies that have some positions with high turnover or are difficult to fill. Through a subsidiary, CEI screens, hires, and acts as the employer of
record for workers from the public system until they are hired by the company in which they are placed. Until then, and after placement, CEI provides retention services. This is a fee-based model: employers pay CEI based on guaranteed fulfillment. However, the cost of fulfillment (e.g., for recruitment, outreach, and screening) is borne by the grant funding and the program is not self-sufficient.

Both CEI programs contain elements that may be useful in shaping a PRI-funded demonstration program. The ETAG program suggests a way to link intermediaries to an external source of revenue for servicing a PRI loan—in this case, it was the public workforce funds that CEI received for its job development services. The transitional jobs program, on the other hand, presents a case where PRI funding might be used to help bring a program to a larger scale. An interview with a CEI official explored the idea of using a PRI loan to take the program to scale. The program, currently grant funded, would use the PRI to fund additional business outreach and to increase economies of scale and reduce cost per worker. If successful, the PRI loan could provide the capital to expand the program enough to earn revenues above cost and make it possible to channel some funds to service the PRI loan.

Seedco and Coastal Enterprises have elements in common. Neither relies solely on PRIs for funding; instead, each operates through a mix of grants and other funding. Both are performance- or contract-based organizations with revenue sources that they use to service their PRI loans. And both earn part of their income from their loan spread—the difference in their rate of borrowing and lending.

**Maryland Center for Arts and Technology**

The Maryland Center for Arts and Technology partners with local employers to provide customized career training to low-income youth and adults in the Baltimore area. MCAT also helps build the community through economic empowerment.

MCAT trains workers for industries as diverse as health care and retail. It is funded through private foundation grants, employer contracts, and, on occasion, PRIs. Since its inception in 1999, it has placed more than 500 students into the workforce and maintained a one-year retention rate of 85 percent in its customized financial and health care training classes. Employers include Baltimore-area hospitals and CVS pharmacies.
Despite its successes, MCAT almost ceased operations in 2003 due to financial problems. By scaling back overhead costs and renewing employer partnerships, MCAT returned to a solid financial position by the end of 2004. However, at the end of 2006, it was again undergoing significant restructuring.

MCAT received two PRIs from Abell Foundation, one in 2000 and another in 2003, both in the form of interest-free loans of about $406,000. Abell structured the first PRI in two installments in order to provide cash flow for MCAT’s operations while the organization was negotiating a contract with the Maryland Department of Social Security to train TANF recipients and other low-income individuals. The first installment, about $382,000, was a bridge loan based on MCAT’s impeding contract with the state. MCAT required capital to begin the training, and the department’s payments were not expected for several months. Significantly, the PRI covered both direct training costs, based on the contract with the department, and overhead. Repayment began two years after the PRI was made, when the training contract was complete. However, during this time, MCAT experienced financial upheavals due to the withdrawal of some grant funding, as well as relocation issues. It repaid more than half the PRI amount, and in 2003 Abell forgave almost $75,000 worth of the loan and converted it into a grant. Another bridge loan of up to $150,000 was granted in 2004, based on MCAT’s signed contracts with Empower Baltimore Management Corporation and the Mayor’s Office of Employment Development; MCAT borrowed and paid back $24,000.

According to interviews, the MCAT experience was not unusual for PRI makers. For Abell, PRIs are a viable source of bridge financing to help organizations get through lags in government and private contract payments, as well as to provide cash flow for small operations. However, they must be backed up by a revenue source. In all its PRIs, Abell does the due diligence to see if the receiving entity has such a source to repay the PRI. When it wants to fund organizational capacity and growth, it typically does so with grants. But even when it makes PRIs for specific programs, Abell expects that the amount of a loan or grant includes some overhead and that employer contracts also cover more than just the direct costs of training. Abell’s PRIs are made from its investments base, and, as with MCAT, it has forgiven a PRI loan in more than one case and converted the PRI into a grant.
Another illustration of the direct use of PRIs in workforce development comes from Origin, a nonprofit organization that received PRIs from the Ford and Rockefeller foundations to expand to a national scale. The expansion was based on the Private Industry Partnership, a successful program developed by Origin’s predecessor organization, Wildcat Service Corporation of New York. The PIP provided pre-employment, training, and career retention services for placing low-income adults, especially women receiving public assistance, in jobs starting at $25,000 in the financial services sector in New York City Metropolitan Area.

Participants began the PIP with a 16-week pre-employment phase, alternating between classroom training and a week of subsidized employment, where they performed jobs similar to those for which they were being prepared. Through public funding, they received minimum wage for this employment. At the end of the 16 weeks, Wildcat referred them to financial services employers for 16-week internships, after which participants competed for permanent jobs. Throughout the training, Wildcat worked closely with both workers and employers to monitor performance and provide support. As the program grew and more employers signed on, Wildcat explored ways to expand even further. At its peak, in 2000, the agency had annual revenues of $60 million, an 85 percent placement rate, and a 90 percent retention rate after five years.

In 2001, Jeff Jablow, originator of PIP and former executive vice president of Wildcat, in collaboration with Jobs for the Future, formed Origin to expand the model to a national scale and in other sectors. The goal was to establish programs in up to eight additional New York sites, as well as at least five other large cities in order to secure multi-city job orders from large corporate customers. In the expansion, Origin’s aim was to reverse the typical sequence of training participants and then placing them in jobs; instead, Origin first help employers identify business problems that could be solved through improved human resource practices.

For the expansion, Origin needed about $1.5 million to develop a marketing and services infrastructure. Between 2001 and 2002, Origin received two PRIs in the form of low-cost loans for working and growth capital, based on its expansion business plan and revenue projections. The Ford Foundation made a $1 million PRI; the Rockefeller Foundation PRI was for
$500,000, in two $250,000 installments. Jobs for the Future acted as loan guarantor for a portion of the PRIs.

Origin sought the PRIs for two reasons. The terms were much more flexible and generous than those for loans from commercial banks and venture capital firms, mainly because the foundations were interested in more than financial returns. Second, Origin needed one large but quick infusion of cash to launch its operations. Quickly raising $1.5 million in grants would have been very difficult. It was unlikely that foundations would have made grants that large in one installment, which was important for Origin. Therefore, the choice for Origin was between getting a commercial loan, which would have been expensive, or a PRI. It is worth noting that the choice was not between a grant and a PRI but between a commercial loan and a PRI. Origin worked closely with the foundations in the use of the PRIs. Based on the expansion model, it set up interim goals for job placements and other measures. The foundations monitored the process closely.

As described by Origin founder Jeff Jablow, this process of applying and receiving the PRIs was very much like going to a bank or any other commercial venture. There was rigorous financial investigation of both past performance and future projections. The period of application was longer—six months as opposed to roughly one month for commercial lender. But the Ford and Rockefeller foundations were far more flexible and invested in the process of developing and steering the model than any commercial lender would be.

Despite the projections, Origin suffered a major setback in the aftermath of 9/11 and from the simultaneous drastic weakness in the IT sector, which the organization had targeted for job placements. Moreover, problems in establishing and identifying the right local partnerships in the locales where the employers wanted to expand lessened Origin’s ability to deliver on its milestones and generate enough cash flow to repay its PRIs. In 2004, it became evident that the expansion projections would not be met. Origin faced two choices: return the unused PRI capital to the foundations and ask to have the rest of the loan forgiven; or continue to develop its business, accepting liability for the entire sum of the PRIs. Origin opted for the former. The foundations wrote off $1.2 million and the loan guarantee as forgiven loans; $280,000 was returned to the foundations. Origin ceased this aspect of its operations in 2005.

The experiences of MCAT and Origin with PRIs show the risks associ-
ated with PRIs even when a viable revenue model is in place. In the case of MCAT, organizational turbulence and dislocation led to a loan default. In the case of Origin, unusually harsh external conditions were at least partly to blame. There is a risk associated with workforce development programs, and indeed with all business ventures, when it comes to debt. Even with a healthy financial history, a viable revenue model, and sufficient debt capacity, the income may not materialize and a PRI may not bring the desired results to either funder or intermediary. That is true in all investment processes, but the difference in using PRIs, according to Jeff Jablow, is that the close involvement of the funders gave them and the intermediary the means to check and minimize losses and liabilities.

**Demonstration Scenarios to Address Debt Capacity**

Interviews suggest a substantial need for PRI-financed capital in workforce development. In fact, the need may be inversely proportional to the number of programs and intermediaries that have the business model or accountability systems in place to receive PRIs. As a result, any strategy or pilot demonstration program to bring PRIs to workforce intermediaries would have to answer two questions:

- How might workforce intermediaries possessing adequate financial and other capacities use PRIs?
- Assuming that most intermediaries do not possess the appropriate business model or financial capacity to take on PRIs, how might a demonstration project build the requisite capacity?

**Structuring PRIs for Workforce Intermediaries**

To answer the first question, PRIs may be structured in different ways to address different needs. For instance, for a service provider whose revenue comes primarily from government contracts or job development for publicly funded training programs, a PRI may be used for a cash-flow or receivables loan to tide over the delay in payments. When the provider receives payments for outcomes, it can channel a portion to servicing the PRI. Similarly, if a workforce program’s revenue model is contingent upon the employment and retention of program graduates, a cash-flow loan can bridge the lag in payments.

In another scenario, a PRI loan for growth capital could fund business outreach to bring a program to scale or to reduce the per capita cost of train-
ing and services. Revenues from increased outreach and placements can free up funds for servicing PRI debt after costs have been addressed (as has been discussed for the CEI program). Or the PRI can be structured as a loan guarantee to leverage more resources from other funders or employers.

To illustrate how PRIs may be used, consider the case of Twin Cities Rise!, a Minneapolis-St. Paul training program that focuses on long-term career retention and advancement for low-income individuals. TCR!’s clients are mostly African-American men who are either long detached from the labor market or churning through a succession of low-wage jobs. TCR!’s market-driven approach to job preparation includes six to eighteen months of soft and advanced skill development, career training, and customized, one-on-one coaching. At approximately $18,000 per client, the program costs significantly more than most of its publicly funded counterparts. Graduates of the program typically earn $25,000, plus benefits. This represents a nearly 280 percent increase in income for the student. Job retention after the first year of placement is 85 percent.

Recognizing that effective training is costly, the organization has developed an innovative, “pay for results” funding model with the State of Minnesota and several foundations. Arguing that the higher-cost training model would generate a significant long-term return on the state’s investment through increased tax revenues and decreased public spending (e.g., on welfare or incarceration), TCR! convinced the state to provide funding contingent on the placement and retention of program graduates in jobs for up to a year. When TCR! secures a placement for a client, the state pays TCR! half the training cost. Following one year’s retention, the state pays the remaining training cost. In addition, many employers pay TCR! between $2,000 and $3,000 when they hire a TCR! graduate. This fee is similar to what they would pay a temporary agency for screening and placement services.

In 2005, grants and other donations constituted 67 percent of TCR! revenue. Earned income covered 30 percent. Among program expenses, services accounted for 81 percent, with fundraising, management, and administration accounting for the balance. The program had a net surplus of $80,000 in 2005. However, as TCR! continues to grow, it needs to raise additional earned income and philanthropic dollars.

TCR!’s funding model and situation present a case where PRIs may be used either as cash-flow loans or to inject capital for growth and reduce reliance on donations. By providing low-cost growth capital, a PRI can help
the program reach a size where earned income revenues cover PRI payments in addition to program expenses.

For instance, because the state and employers only pay for successful graduates, TCR! must fund the cost of all those participants who do not complete the training. The state puts a cap on the annual payment that TCR! may receive. During the current contract term, TCR! has reached this cap and is not being paid by the state for some graduates. The subsequent discussion regarding how a PRI may be used to fund growth is dependent on the ability of TCR! management to remove this cap so that additional placements can trigger additional payments.

For example, at $500,000 in grant funding, TCR! can bear the cost of preparing and placing 27 individuals at $18,000 per individual. Because a typical participant is in the program for 14 months, TCR! has a significant cash-flow issue. Under the current state model, half the payment for the graduate would occur at job placement and the other half at one-year retention. This means that TCR! cannot fully recover expenses until 26 months after training was initiated.

A PRI could bridge the gap. The loan could be used to expand the program, with the subsequent increase in graduates driving payment from the pay-for-placement contract. The payments could then be used to repay the PRI. “Credit” risk would include such issues as: Could the training program actually scale up as anticipated? How reliable and renewable would the contract with the state be (e.g., what would happen if the state experienced a significant deficit and cut back job training in general)?

**Demonstration Scenarios**

TCR! and the CEI Transitional Workers program described earlier offer cases where PRIs may be used effectively in existing workforce intermediary structures and models, but a PRI-based strategy also needs to ask: Assuming that most intermediaries do not possess the right business model or financial capacity to take on PRIs, how might a demonstration project build the requisite capacity?

A number of demonstration scenarios may be considered, based on the readiness of receiving organizations to take on PRIs. Each scenario suggests a role for a national intermediary that controls and operates a national fund that includes assets set aside for PRIs. The national intermediary makes PRIs to local workforce funding collaboratives or to workforce intermediaries, but
depending on the scenarios, it provides different services to the PRI recipients. In one scenario, it may restrict itself to market research and financial responsibilities; in another, it may provide a deeper set of interventions and assistance that may be both financial and programmatic.

Another issue explored here is how PRIs can be a source of bridge financing to cover gaps in public funding or as a means of supplementing those sources of funding. In such cases, the question is: How can PRIs effectively leverage more public funds (e.g., Unemployment Insurance offsets, payroll tax offsets, Food Stamp Employment and Training funds) for workforce intermediary services and activities and workforce development itself? As noted, a PRI strategy can be designed not just as a separate source of funding but also as one that can complement other financing strategies.

**Scenario 1: A national intermediary works with organizations that already operate with PRIs to see how their workforce operations may be enhanced.**

In this scenario, the national fund would be charged primarily with disbursing funds to local workforce intermediaries that possess the requisite capacity and expertise around PRIs. It would provide services in market research and business development, and it would perform financial functions, including risk assessment and structuring debt, but it would provide no direct technical or “workforce program” services. (Expertise in workforce development business models, conditions, and outcomes will still be necessary.) The fund would have strong clauses for utilization of its PRI funds in workforce development or for workforce outcomes.

Operationalizing this scenario would require a PRI fund and a fund-managing intermediary to support existing workforce intermediaries that have expertise in PRI funding and management. Seedco and CEI’s Transitional Workers Program offer cases where PRIs may be effectively used in scaling up operations based on existing workforce intermediary structures and models. The primary role of the national intermediary would be to act as a financial intermediary, making PRIs to these organizations and identifying others like them—a market research function.

However, this approach may be limited, given that few intermediaries may have the requisite structure and capacity to carry debt. Therefore, assuming that many intermediaries do not possess the right business model or financial capacity to take on PRIs, a PRI strategy would have to ask: How might a demonstration project build the requisite capacity?
**Scenario 2: A national intermediary identifies local workforce intermediaries that have a business model with a revenue stream but lack the financial expertise and system to carry and service a PRI.**

After identifying such intermediaries, this project would then determine how financial capacity could be built. Operationalizing this scenario would be similar to the first, but the national intermediary may provide a more comprehensive roster of services that includes technical assistance in addition to its financial services and the disbursement of funds. For instance, in the case of Twin Cities Rise!, the national intermediary would have to help the organization adjust its business model in order to service the PRI—an approach requiring in-depth services.

A more interesting and potentially effective approach to building capacity would provide national intermediary funds to one or more of the local funding collaboratives in the *National Fund for Workforce Solutions*. This can be done in two ways: The national fund makes PRIs to local funding collaboratives—such as the Bay Area Workforce Funding Collaborative in San Francisco or SkillWorks in Boston. These, in turn, following the Seedco model, make PRIs to grantees and generate a small spread between their borrowing and lending activities in order to service their PRIs. Or they could receive grant funding from the national fund but set aside a portion to make PRIs to grantees.

The Bay Area Workforce Funding Collaborative and SkillWorks possess the programmatic and financial expertise in grantmaking, but they may have to acquire additional expertise in PRIs. Such a role would not be too far from their domain of expertise. This is where the national intermediary may take on additional functions: providing financial and technical assistance to help the local organizations develop their expertise and capacity to handle and make PRIs.

**Scenario 3: Link PRIs to other financing sources.**

A third scenario would explore the potential to link intermediaries that lack a direct revenue source to external or indirect sources of income (e.g., for successful workforce outcomes) that can be used to service PRI debt. Funding would come from public sources being explored as part of this research: Food Stamp Employment and Training funds, Unemployment Insurance, public workforce development funds. Ideally, this would be a second phase of a pilot, because it is much more complex and should be explored after successfully demonstrating the viability of either of the first two scenarios.
To address the issue of revenue sources, this model would link a workforce intermediary program to external, public sources of income that can be used to carry and service a PRI. The model is predicated on a return-on-investment argument: because employers, communities, and states are beneficiaries of successful workforce development outcomes, this model proposes repaying a PRI through partial diversion of employer payroll taxes, FSE&T funds, Lifelong Learning Accounts, Unemployment Insurance, or public workforce development system money. It thus links PRIs to some of the other financing strategies being explored as part of this research.

**SkillWorks—The Hotel Career Center, Boston:** Consider a case using Unemployment Insurance funds as part of a PRI strategy. In Boston, SkillWorks might make a PRI to the Hotel Career Center, one its grantees.

The Hotel Career Center is a partnership of the International Institute of Boston, the Vietnamese American Civic Association, and Hilton Hotels Corporation, Boston’s largest hotel property management firm. It offers both pre-employment training to job seekers and education and training for employees at five Hilton-affiliated hotels. Much of the education centers around English for Speakers of Other Languages: only 7 percent of pre-employment participants and 14 percent of incumbent worker participants speak English as their first language. Training also focuses on job-readiness skills and an internship for job seekers, and computer courses, career coaching, and customized occupational training for pre-employment and incumbent workers. Since becoming a SkillWorks grantee in 2003, the HCC has trained over 300 job seekers and workers, with about 80 percent of job seekers securing employment in the hospitality industry. Employer partners provide significant support for the Hotel Career Center. Each hotel provides 100 percent paid release time for incumbent workers in training, even though the original agreement was for 50 percent. Each hotel also releases managers, supervisors, and human resources staff to review curricula, attend coordinating meetings, and work with career coaches and participants. And each hotel provides space for the classes and career coaching.

As it plans for sustainability, the HCC is considering a number of strategies. Two main goals are: to diversify the funding base to include employers, the public sector, and private philanthropy; and to expand the model to other employers, both within and outside the hospitality industry, a strategy that should also reduce per-student costs. Thus far, the HCC has leveraged public dollars from the Massachusetts Workforce Training Fund, the Boston
Neighborhood Jobs Trust, and a Targeted Assistance Grant from the City of Boston. It also receives funding for Individual Training Account vouchers through One-Stop Career Centers for participants in the pre-employment program.

A PRI to the Hotel Career Center could provide it with the capital to pursue its growth strategies and expand its program to train and place more workers. When HCC successfully trains and places candidates from its program, employers would access Unemployment Insurance tax funds to pay the center. HCC uses a portion of those funds to repay the PRI. If HCC can expand the program enough to secure a large number of placements, the PRI debt can be serviced and eventually repaid. As with all financial ventures, there is risk, in this case centering around the HCC’s ability to grow enough to both cover program costs and service a PRI loan.

Bay Area Workforce Development Funding Collaborative—JVS, San Francisco: A similar linking of public funds and PRIs can be envisaged for the Bay Area Workforce Funding Collaborative, by linking one of its programs to Lifelong Learning Accounts. Imagine that JVS San Francisco, a collaborative grantee that trains and places workers in health care, biotech, and other industries, received a PRI from the local collaborative to expand the training program. Program participants are linked to Lifelong Learning Accounts. In addition to employer fees, JVS is allowed to access a portion of the LiLA funds, which it uses to repay the PRI.

In either scenario, the national intermediary will have to provide the local collaborative and the local intermediary with more than PRI funds. There will be a need for assistance with developing a PRI program at the local level, including assistance with program and risk assessment, structuring the PRI, and managing the LiLAs.

Needless to say, this introduces new dimensions and complexities. There is now the need for further research to address the following questions: How are the issues of UI or payroll tax diversion or LiLAs to be addressed? What are the limitations to the use and diversion of public funds? At what cost per capita does this become viable? What are the risks to the intermediary in repaying PRI debt with public funds?
Conclusions

PRIs have tangible benefits for intermediaries and funders, but their use has been limited. A PRI-based funding strategy on its own may not generate adequate support for workforce intermediaries. It is worth remembering that PRIs are sought mainly in the absence of grants. But a PRI strategy may work well to supplement other financing strategies—as one window in a “multi-window” fund that houses various financing mechanisms.

Interest in PRI making is growing, but the market has to be developed by broadening the base of both PRI makers (foundations) and recipients (intermediaries). This will require a careful consideration of the main factors that have impeded their use so far: the risk associated with making and taking PRIs; the reluctance of both parties to step out of the grant-based environment; and the limited financial capacity of intermediaries to carry and service PRI debt.

An approach that addresses these factors for both funders and intermediaries, while providing the benefits of PRIs to both, would be key to any demonstration project.

Devising a low-risk strategy is critical. This can be addressed initially by structuring most of the PRIs as recoverable or interest-bearing grants. Because PRIs are typically repaid only when the program succeeds, this would represent a low-risk funding opportunity for intermediaries. Further, the possibility of rolling over/recycling the PRIs in the event of program success should be explored. There is a strong incentive to do so: rolling over the PRI would stretch the PRI dollars in a tested model and ensure some continuity and stability to an intermediary’s activities.

The pilot should be implemented in phases, starting with intermediaries that have an established revenue model and can pass a financial diligence check. In this case, the demonstration might start with an established intermediary like Seedco. This may be somewhat limiting but would reduce risk. The other approach would be to invest in the local funding collaboratives in the National Fund for Workforce Solutions. PRIs might best help intermediaries by providing the growth capital to help programs go to scale, although the actual use of a PRI would be determined on an individual program basis.

While the market for PRIs may be broadened by linking programs to external sources of revenue, such as UI offsets or public workforce development, as suggested in the third scenario, putting such a scenario into opera-
tion is no small challenge. It will take considerable time and resources to get the requisite buy-in from all stakeholders. But this approach may be useful at a later stage, in helping intermediaries find a revenue source linked to program outcomes and to broaden the market for PRIs.

Given the popularity of grants, PRIs may have to be large in order to attract “PRI-shy” intermediaries. As did Origin, an intermediary would seek out a PRI when it needed an amount that would be hard or take too long to raise through grants.

Finally, pairing a PRI with a grant would help an intermediary pursue long-term capacity-building and/or systems-change activities, where results are indirect. For instance TCR! is heavily invested in advocacy and systems change at the state and federal levels. A grant might help TCR! address that aspect of its work, while the PRI would be dedicated to actual program expenses.

In conclusion, a PRI strategy can play a valuable role in the National Fund for Workforce Solutions—as the linchpin financing strategy that addresses gaps in financing and supplements other financing strategies, especially in the demonstration phase of the project, as intermediaries try to adopt one or more of the alternative financing strategies.


References


Part VI.
Tuition-based Strategies

by Victoria Choitz, FutureWorks

In spring 2005, the Annie E. Casey, Ford, and Rockefeller foundations hosted a dialogue among researchers and practitioners on the question of investing in workforce intermediaries. This chapter is the product of research into “tuition-based” strategies for financing intermediaries—strategies that leverage or directly derive from tuition activities. None of the strategies proposed here can in any way fully fund the activities of a workforce intermediary. Full funding, by definition, would require a dedicated funding source. Instead, this chapter explores ways to generate a margin from tuition payments that can provide unencumbered and flexible funding to help support workforce intermediary functions.

Overview

“Tuition-based strategies” is an amorphous term. The first task was to put shape and definition to what approaches might be included in this set of strategies. The research for this chapter was approached from two converging angles:

• Explore how existing workforce intermediaries might assess tuition charges for their workforce services or otherwise leverage tuition-based sources of financing; and

• Explore how tuition-charging entities (i.e., community and technical colleges) might strengthen their workforce intermediary functions.

Workforce Intermediaries and Tuition-based Funding

There are several ways in which workforce intermediaries might assess tuition charges for their work or tap into sources of funding related to tuition charges.
Some might include:

- A workforce intermediary might attain approval to charge tuition for education and training activities and, if possible, participate in federal student financial aid programs and/or administer its own loan program.

- A workforce intermediary might establish a strong working partnership with a local postsecondary education institution to design labor market-responsive programs that meet the needs of targeted workers and employers and leverage the institution’s accreditation and federal student aid program eligibility to assist students in accessing student aid.

- A workforce intermediary might adopt a “boutique product” designed to leverage private funds for education and training and that may leverage additional sources of funding and provide intangible benefits for the workforce intermediary, i.e., Lifelong Learning Accounts.

- A workforce intermediary might leverage and expand company tuition assistance/education benefit programs by collaborating with employers to market and manage these programs, with the goal of increasing their use by lower-wage, lower-skilled workers (specifically focusing on IRS code Section 127 benefits)

These strategies are explored in more detail in the next section. Following that is an exploration of the strategy to strengthen community colleges as workforce intermediaries. The final section proposes specific pilot projects. The workforce intermediary field is at the beginning of the conversation about using tuition-based strategies to help finance their work. This chapter reflects the newness of the discussion, and the ideas presented herein are the product of a “brainstorming” session on what might be possible. It will be important to discuss and debate the merits of these ideas, their downsides, and the feasibility of piloting or adopting them. It also will be important to assess the approach taken to the research and what it may have left out. The author looks forward to a lively and productive continuation of this discussion.

_A workforce intermediary might attain approval to charge tuition for education and training activities and, if possible, participate in federal student financial aid programs and/or administer its own loan program._

Since the 1998 changes to the Workforce Investment Act moved workforce funding from a contract-based system to a voucher-based one, many workforce intermediaries have assessed charges for their training activities. Gen-
eraly, this charge is paid for by federal or state workforce development dollars (e.g., an Individual Training Account) or sometimes by employers. Rarely is it paid by the participating student, for two primary reasons. First, depending on state policy, it may not be legal for workforce intermediaries to charge “tuition” to students. For example, in many states organizations must be licensed by the state to charge tuition. Second, workforce intermediaries may not bother to set up a tuition process because they believe their student market does not have the funds or access to funds to pay the tuition anyway.

If a workforce intermediary can charge and collect tuition payments from students, it gains a flexible source of funding that can be used to support functions that are unsupported by other sources of funding (e.g., labor market research, building partnerships). A prime example of a workforce intermediary that charges tuition for its training programs is Focus: HOPE in Detroit, Michigan.30

**Focus: HOPE loan program.** Focus: HOPE offers training programs in machining and metalworking, as well as in computer and information technology. These programs have been accredited by the Accrediting Council for Continuing Education and Training, and Focus: HOPE is licensed in Michigan. Because it is licensed and accredited, Focus: HOPE is eligible to distribute federal Title IV student financial aid through the U. S. Department of Education, including Pell Grants and student loans. This organization initially participated in the federal guaranteed student loan program; however, it withdrew in the early 1990s.31 Instead, Focus: HOPE now offers Pell Grants, other scholarships, government workforce funds, and its own loan program to help students finance their education.

Focus: HOPE leadership began developing a student loan program in 1995 for several reasons. First, it was clear that government support for workforce development education and training activities would continue to decline. Therefore, workforce development organizations would have to be creative about how to accommodate these gaps. Because 85 percent of Focus: HOPE’s funding was from governmental support, its leaders believed that it was important to diversify funding streams in order to survive. Second, the private sector was not a viable alternative for significant investments in workforce development—employers traditionally do not invest in low-income, low-skilled workers, and foundations typically strive to “seed” projects or affect systemic change, not continuously fund ongoing education and training activities.
Finally, Focus: HOPE experienced a mismatch between what Ken Kudek, who has been with the organization since 1970 (two years after its founding), describes as a “helix mission” and “starburst funding.” Like a helix, Focus: HOPE’s programs are designed to gradually lift low-income participants to careers with family-supporting wages. However, funding often appears abruptly, at times depending on funding cycles and grant-writing success, and often pulls the organization and programs in directions not necessarily along the upwardly traveling helix. A loan fund administered by the organization itself could help to smooth inconsistent funding.

Focus: HOPE started the loan fund with $14 million to $15 million from foundations over the first few years of the fund. The loan fund’s original design, as it was rolled out in 1998, was that students would apply for a loan automatically upon enrolling in a Focus: HOPE training program. As funding from outside sources came in, it would be applied to tuition, reducing the student’s loan amount. Focus: HOPE initially assumed that government dollars would pay for about half the tuition. It also envisioned that, once the student completed the program and was hired by a company, the employer would pay for half of the student’s remaining loan burden. Focus: HOPE worked with Northwest Airlines, Ford Motor Company, and General Motors to establish a process in which employees with Focus: HOPE loans would sign up for a payroll deduction to make regular payments on their loans, which would be matched by their employers. Unfortunately, the recession in 2000 led to hiring freezes, and the original program model could not be implemented. Focus: HOPE went ahead with the loan program, but each student is responsible for repaying all of his or her loan.

Today, the model still starts with the student signing up for a Focus: HOPE loan automatically upon enrolling in training. Students pay tuition for their course of study ($9,250 for the 31-week Machinist Training Institute program; $12,700 for either the 52-week network administration program or the 52-week desktop and server administration program in 2006). Focus: HOPE subtracts from that tuition any Pell Grant, workforce training support, scholarship, or other free aid the student may receive. For the remaining amount, the student is eligible for a Focus: HOPE loan.

While they are enrolled in a Focus: HOPE program, students make $10 weekly co-payments on their loans. They have 90 days after they graduate from the program to begin making loan payments. The interest rate is a flat 5 percent, and interest does not begin accruing until the student graduates.
or leaves the program. A student who does not complete the program must pay back a prorated amount of the loan (i.e., a student who completes 20 percent of the program pays back 20 percent of the loan). However, a student who completes 60 percent of the program or more must pay back 100 percent of the loan, even if he or she does not graduate. Focus: HOPE contracts with University Accounting Service, LLC (UAS) to collect and manage loan repayments.

Both the overall loan and the $10 weekly co-pay have the tangible benefit of cash flow for the organization (in addition to providing much needed financing for the student). This benefit is significant: as of January 2007, Focus: HOPE students had paid over $3 million in co-payments, principal, interest, and loan fees. This funding provides unrestricted revenue that the organization can use to finance workforce intermediary functions that often are difficult to fund.

There also are many intangible benefits. According to Kudek, students making loan payments are “stakeholders” in their educational process and have “some skin in the game.” They also have higher expectations for a professional and quality program. Additionally, staff members, knowing that students are paying for much of their training out of pocket, are more motivated to provide a quality educational experience.

From the beginning of the program in July 1998 through September 2004 (latest available detailed data), Focus: HOPE loaned $22.3 million to students. Governmental aid paid $8.5 million of this amount (38 percent). Student co-payments amounted to $600,000 (2.7 percent); $1.9 million (8.5 percent) was deferred because the students were still enrolled in Focus: HOPE programs; $2.2 million (9.7 percent) was in the 90-day grace period, so the students did not yet owe any of this amount, and $1.85 million (8.3 percent) had been paid back by students directly to Focus: HOPE. (Some students preferred to make payments directly to the organization, bypassing the UAS collection organization, which Focus: HOPE allows.) $7.4 million (33 percent) was in the process of being collected. Technically, this amount was in default because students had not made payments within 90 days of the due date; however, the payments were still being collected by UAS or Focus: HOPE and had not been referred to a collection agency.³³

Focus: HOPE recently completed a longitudinal study of students participating in its training and student loan programs in 2001 through 2003. A significant finding was that as post-program wages increase, loan repay-
Tuition-based Strategies

ments go up. The study used a comparison group model to measure the impact of the training programs on loan repayment. The treatment group consisted of students who had enrolled in any Focus: HOPE training for any period of time. Researchers also isolated members of this group who had received “full treatment,” which meant they were enrolled in and completed all or most of one of the organization’s 30- to 40-week vocational training programs consisting of more intensive technology training. The comparison group consisted of students who were eligible to enter Focus: HOPE training but decided not to.

The study found that the members of the whole treatment group were significantly more likely to be employed than the comparison group—by a full 10 percentage points. The “full treatment” group had even higher employment outcomes and showed significantly higher quarterly wage income than the comparison group. The full treatment group earned $4,000 to $6,000 more annually than the comparison group. Regarding the loan program, the full treatment group was more likely to repay student loans than the whole treatment group or the comparison group. Focus: HOPE concluded that the state of the economy significantly affects loan repayment. Many in the treatment group were trained in manufacturing and high-tech jobs that had been in high demand. However, with the rapidly changing Michigan economy and slump in these industries, students faced more competition in the job market. Those with more education and training secured the jobs and, subsequently, repaid their student loans.

Focus: HOPE is unique among community-based organizations and workforce intermediaries because it has been able to create a tuition-based revenue stream that can help to support its workforce intermediary functions. It has overcome two major barriers to do this. First, the route to state licensure, program accreditation, and eligibility to distribute federal Title IV student financial aid is arduous and fraught with challenges. Second, designing and implementing a multimillion-dollar loan fund is no easy task. These twin challenges represent two reasons why replication of this strategy will be limited and why those organizations robust enough and willing to take this on will need support.

A workforce intermediary might establish a strong working partnership with a local postsecondary education institution to design labor market-responsive programs that meet the needs of targeted workers and employers and leverage the institution’s
accreditation and federal student aid eligibility to assist students in accessing student aid.

This strategy may be more appropriate for institutions not up to the arduous process of licensure, accreditation, and seeking approval to participate in federal Title IV student aid programs. Many, if not most, workforce intermediaries include community colleges among their important partners. They work with the colleges to revamp existing education or training programs or to design new ones to meet employer or industry needs. Perhaps the best example is Project QUEST in San Antonio, Texas.

Since 1992, Project QUEST (Quality Employment Through Skills Training) has provided “tuition subsidies and ancillary support services to low-income San Antonio residents while they are enrolled in two-year associate’s degree and one-year certificate programs at local community colleges” (Rademaker, Bear, and Conway 2001). QUEST carefully selects which certification programs it will support, focusing on occupation-specific programs in local high-demand industries that pay family-supporting wages. Almost all QUEST training is conducted through a partnership with the Alamo Community College District’s (ACCD) four affiliate campuses. This relationship is “symbiotic.” ACCD improves its ability and reputation for serving the training needs of the local population, and QUEST ensures its participants are well-trained for quality local jobs. The two entities have worked closely together to revamp education and training programs to meet local labor demand and to accommodate local job seekers.

Given the strong and growing importance of postsecondary credentials for economic success in the labor market, a key feature of this strategy is the connection to college credit and credentials. Also, because of this link, QUEST leverages significant amounts of federal student aid to support education and training of its targeted population of lower-skilled, lower-income working adults who normally have little access to these programs or this support.

On the surface, working with community college partners seems relatively simple. However, workforce intermediaries often struggle to make this relationship work, and to make the resulting product responsive to local labor market needs. In some cases, especially when the intermediary is a community-based organization, the two partners have very different cultures and do not speak the same language. Colleges may be perceived as “large, bureaucratic, inflexible, and insufficiently sensitive to the needs of disadvantaged students.” On the other hand, CBOs can be perceived as “inattentive to stan-
Tuition-based Strategies

dards, and at times, unprepared to manage or facilitate a structured academic program” (Gruber 2005).

It can be difficult to work with colleges to redesign or design new employer-driven workforce education and training programs that are eligible for student financial aid. There are a number of barriers, including: faculty resistance or time constraints to develop new programs; lack of incentives to create new programs or change old ones; and time-consuming and energy-sapping state curricular review processes. It is often easier to develop such programs in the workforce and business services department of the college; however, these courses almost never carry academic credit and are not eligible for student financial aid. In the example above, Project QUEST has much political power in the San Antonio area, which gives it extra weight in dealing with community colleges. Not all workforce intermediaries will have this asset.

Another potentially valuable partner in this work to connect workforce intermediaries, postsecondary education, and adult students is the National College Access Network. Since 1995, NCAN has assisted local communities in initiating, developing, and sustaining college access programs. Its 161 member organizations in 43 states and the District of Columbia have helped over 4 million students access postsecondary education. Typically, NCAN members focus on traditional students who are 18 to 19 years old, just graduating from high school, and planning to attend college full time. However, some NCAN member organizations provide college access services to non-traditional adult students, and the national organization is seeking to expand services to adults.34

One example of an NCAN member that provides extensive college access services to adults is the Cleveland Scholarship Program in Ohio. Since its inception 40 years ago, CSP has awarded thousands of dollars annually in scholarships to adult students, and it has operated an Adult Learner Program for adults seeking to enter postsecondary education. The program is housed in a Resource Center in downtown Cleveland, staffed by two to three full-time employees. Most participants are 25 years old or older and are dislocated workers, recent divorcees, ex-offenders, or have recently completed a drug treatment program. All are seeking to get back on their feet or launch a new career—usually in a high-demand industry. CSP advisors help participants complete interest inventories and understand jobs in high-demand occupations; they provide career counseling, support services, ongoing educational
counseling (for those returning between degrees), and last-dollar scholarships.

The program conducts extensive outreach in libraries, neighborhood centers, churches, worksites, and other locations. The Resource Center serves 1,700 to 1,800 adults annually. Each year, CSP awards about 500 scholarships to adults and tracks them through college. Most scholarship recipients are female; 80 percent attend school full-time. Many are enrolled in health care programs, especially nursing. The average grade point average is 3.4. According to the CSP’s president and CEO, the adult college access participants are the most labor intensive because they have so many obligations to balance, but they also are the most committed because “they really know the value of an education.”

Another model of an extensive outreach program to encourage and assist adults to access postsecondary education are the activities sponsored by the Kentucky Higher Education Assistance Authority, in partnership with the Kentucky Council on Postsecondary Education, the Kentucky Department of Education, and the Association of Independent Kentucky Colleges and Universities. Under the “Go Higher Kentucky” campaign, KHEAA takes a three-pronged approach to reaching out to potential adult students:

- **The Go Higher Kentucky Website** is a one-stop online guide and management tool for helping individuals of all ages explore, plan, and enroll in college. Students can create individual accounts from which they can automatically insert their information into financial aid and college applications, visit campuses virtually, explore career options, get adult education information, and receive help transferring to another school. The site has three sections, with specific information for elementary and middle school students (Gear Up), high school students, and adult students. KHEAA and its partners have coordinated their efforts to drive students toward this Web site as a central source of information and resources.

- **Regional field counselors** in nine territories throughout the state reach out to potential postsecondary students of all ages, including adults. For example, the counselors make presentations about college at adult education centers, family resource centers, social service offices, unemployment offices, civic organizations, companies, and other locations. One of the most innovative outreach tactics is the “mobile classroom,” a roving resource to provide college planning information and resources throughout the state. It houses 10 laptop computers and satellite Internet access for students to use the Go Higher Kentucky Web site, as well
as a podium and projector for the College Info Road Show mobile presentation on college.

• *Adults Returning to School* provides information on colleges, college admissions, financial aid, and other topics. The publication is updated annually, and individual colleges can use a back section to provide information specifically on their institutions. This is KHEAA’s most popular publication, and it quickly runs out of hard copies every year, which is why it is also available online. A wide variety of staff across the state, including the regional field counselors, adult counselors at postsecondary education institutions, adult education centers, and others, use this publication to advise adults as they explore postsecondary education.

Workforce intermediaries can use this model to help members of the workforce access postsecondary education, and, by extension, potentially significant financial aid to support their credentialed education.

Strengthening partnerships with tuition-charging institutions and college access organizations is a viable strategy for workforce intermediaries seeking to increase access to financing (e.g., student financial aid) for education and training. However, this strategy does not provide direct funding for the workforce intermediary itself.

*A workforce intermediary might adopt a “boutique product” designed to leverage private funds for education and training and that may leverage additional sources of funding and provide intangible benefits for the workforce intermediary, i.e., Lifelong Learning Accounts.*

The Focus: HOPE student loan program described above leverages private funds for education and training from individuals through a unique organization-based student loan product. This product provides financing for students in the organization’s training programs, but it also generates a small revenue stream through the loan repayments. Similarly, the Council for Adult and Experiential Learning has pioneered a product that leverages private funds for education and training and that may leverage additional sources of funding and provide other nonmonetary benefits to a workforce intermediary. This product is Lifelong Learning Accounts, or LiLAs. As envisioned by CAEL, LiLAs are worker-owned, employer-matched portable accounts used to fund education and training throughout one’s lifetime. They are similar in concept to 401(k) retirement accounts; however, a LiLA is a revolving fund used for education and training.
LiLAs are in the demonstration phase now. In 2001, CAEL implemented a multisite, multisector demonstration program with staggered start dates. In fall 2001, the organization rolled out the demonstration in Chicago’s restaurant industry. The next year, it added the public sector and manufacturing in northeast Indiana, and the following year, it added the final site in San Francisco in healthcare. Interim evaluation results show positive results. Workers and employers are contributing to the accounts, and workers are using the funds to enroll in education and training. There is preliminary evidence that LiLA participants are slightly more likely than their comparison group peers to receive promotions and wage increases. Employers are satisfied with the program and believe that it has improved morale, productivity, and retention.

In addition to running this demonstration program, CAEL has worked to advance federal and state policies in support of LiLAs. Specifically, it has promoted a federal LiLA demonstration that would provide tax credits to both workers and employers for contributions to LiLA accounts. CAEL’s ultimate vision is that all workers would be able to contribute to a LiLA, employers would contribute matching funds into the accounts, and both would receive federal tax credits for the contributions.

While it is still early, LiLAs have shown promise for leveraging additional sources of flexible funding to support workforce intermediary activities. First, LiLAs could be a boutique product that a workforce intermediary might market to employers. It is possible that the workforce intermediary could charge the employer who sponsors LiLA accounts small fees for LiLA-related transactions, generating a small revenue for the intermediary. Such transactions could include setting up the accounts for employees, annual account maintenance, and education vendor payment. While promising, this fee-based model has not been tested and would require further consideration and analysis to determine the actual feasibility. It has been introduced here to begin a discussion about possibilities.

A second way in which LiLAs might leverage additional funds to support workforce intermediaries is to position the organization as a vendor of LiLA-related services or a technical assistance provider. The LiLA model offers many possible opportunities for organizations to provide fee-based supportive services for workers pursuing postsecondary education and participating in the LiLA program. Such services might include education/career advising, child care, transportation, and others. The organization might assess the fee
on employers, workers, or a combination of both. Again, LiLAs is a relatively new model, and much more deliberation is required to assess the viability of these possibilities.

CAEL, as a workforce intermediary itself, has found that it has leveraged opportunities to provide technical assistance to state agencies and other organizations on LiLA programs and generate additional funding for the organization. LiLAs have gained significant momentum over the last six years, and a number of regions and states have implemented, are planning, or are considering a LiLA program. As the originator of the concept, CAEL has shared its expertise and experience with LiLAs with others and leveraged some funding in the process. As LiLAs expand, opportunities may be available for more workforce intermediaries to serve this function.

A third way in which CAEL has leveraged LiLAs for additional resources is by tapping into new kinds of public-sector investment. For example, two of the regions in the U.S. Department of Labor’s major WIRED initiative (Workforce Innovation in Regional Economic Development) include LiLAs as a key strategy in their plans. The Governor of Illinois authorized a statewide LiLA pilot program in health care, infusing additional public support for LiLAs. Also, Maine has leveraged funds from the U.S. Department of Labor Employment and Training Administration for its state-based LiLA demonstration (in addition to Ford Foundation funds). These examples show how LiLAs are not limited to foundation support but are attractive to the public sector as an investment in both worker education and training and also regional economic development.

Finally, LiLAs have helped open doors to new partnerships that benefit the organizations involved, even if it does not provide direct financial support. CAEL has greatly deepened its working partnership with Jewish Vocational Services in San Francisco, which is a local partner in the CAEL LiLA demonstration. In turn, JVS-San Francisco has strengthened its relationships with employers as a result of working with them in the LiLA demonstration. CAEL also has strengthened relationships with many employer partners that participated in the demonstration, as well as others that did not have the opportunity to participate but are very interested in the LiLA model. For example, a major health care organization in Missouri has approached CAEL about adapting the LiLA model as a corporate-based employee benefit even without the federal tax advantages.
Overall, CAEL’s experience with LiLAs demonstrates that offering such a boutique product aimed at private-sector investment in education and training may generate some additional funding for the organization and certainly opens doors to valuable partnerships and opportunities. Additionally, there may be room for exploration and experimentation around other ways LiLAs might generate small revenue streams for workforce intermediaries.

A workforce intermediary might leverage and expand company tuition assistance/education benefit programs by collaborating with employers to market and manage these programs, with the goal of increasing their use by lower-wage, lower-skilled workers (specifically focusing on IRS code Section 127 benefits).

Employer-provided tuition assistance policies and programs vary dramatically from company to company. Four IRS regulations help to shape these policies:

- **IRS code Section 127**: Educational assistance provided by an employer to an employee for job-related or non-job-related courses (except those related to sports, games, or hobbies) up to $5,250 may be excluded from the employee’s gross income.

- **IRS code Section 117-Qualified Scholarships**: Educational assistance provided by qualified educational institutions to employees and their dependents (no limit) can be excluded from employees’ gross income.

- **IRS code Section 132-Certain Fringe Benefits**: Employees can exclude employer-provided educational assistance (no limit) from their gross income if it qualifies as a working condition fringe benefit (a service an employer provides to an employee such that, had the employee paid for the service, the employee could deduct the payment from his/her income as a business expense).

- **IRS code Section 62(a)(2)(A)-Reimbursed Expenses of Employees**: Employees can exclude educational assistance (no limit) from their gross income if the assistance is provided as part of an employer’s “accountable plan.” (Assistance must be business-related, expenses be documented, and employees required to return any excess payments.)

Section 127 is the most promising for workforce intermediaries and the education and training of lower-wage, lower-skilled workers. It allows employers to provide up to $5,250 per year to their employees in tax-free reimbursement for tuition, books, fees, supplies and equipment for job or non-job-related education as part of a “qualified educational assistance program.”
In order for the plan to be qualified, it must meet a number of requirements, including:

- The benefit must be offered on a nondiscriminatory basis that does not favor highly compensated employees.
- Reasonable notification of the availability and terms of the program must be provided to eligible employees.
- There must be a separate written plan for the program.
- The program may only be for the benefit of employees (including retired, disabled or laid off employees) and not for the benefit of the employee's spouse or children.
- The plan cannot offer the employee a choice of taxable income or educational assistance.

Enacted in 1978 as a trial program, Section 127 received 10 short-term extensions from 1993 to 2001, and it has undergone numerous changes, including whether graduate education was eligible. Today, under the *Economic Growth and Tax Relief Reconciliation Act of 2001*, Section 127 has been extended “permanently” for both graduate and undergraduate courses beginning January 1, 2002 (until this act sunsets in 2010).

Estimates of the prevalence of employer-provided educational assistance under Section 127 or otherwise vary considerably, depending upon who is included in the sample. For example, a 2005 benefits survey of 2,000 members of the Society for Human Resource Management seems to indicate that *about two-thirds of companies offer education assistance to employees.* (On average, 67 percent of members offered undergraduate education assistance that year (down from 71 percent in 2004 and 72 percent in 2003); 64 percent offered graduate education assistance in 2005 (down from 67 percent in 2004 and 69 percent in 2003) (Burke 2005).

The SHRM survey did not ask about specific types of educational assistance companies provided; therefore, we do not know the extent to which those responding positively to the surveys offer Section 127 benefits in particular. However, a survey of the members of the International Foundation of Employee Benefits in 2000 found that, while a significant 89 percent of members responding to the survey had at least one educational benefit program (101 out of 114 respondents), just 26 percent offered Section 127 educational assistance programs specifically (International Foundation of Employee Benefit Plans 2000). The vast majority of companies with educa-
tional benefit programs offered the more restrictive Section 132 benefit (for business-related i.e., job-related, tuition expenses). Data from this survey indicates that about one-quarter of companies offer Section 127 benefits that allow employees to deduct employer-provided educational assistance for either job-related or non-job-related education.

This last survey is in line with a U.S. Government Accountability Office study on use of Section 127 benefits specifically. While this study is dated, it provides the most comprehensive data available on usage of the Section 127 policy. The study found that from 1992 to 1994, companies annually filed 3,200 returns with information on Section 127 educational assistance provided to employees, representing about 900,000 employees annually (United States General Accounting Office 1996). According to IRS estimates, this number represented just 8 to 9 percent of the total employees who were eligible for Section 127 educational assistance. According to this data, use of Section 127 educational benefits is not widespread.

Across the surveys, the data indicate that employers with over 250 employees are more likely to offer tuition assistance benefits. The IRS study found that most of the Section 127 undergraduate recipients worked in the private, for-profit sector (61.3 percent). Thirteen percent worked in the private, nonprofit sector, almost 12 percent in the local government sector, and the remaining 13 percent in federal or state government.

In terms of which employees receive employer support for educational assistance, a forthcoming summary of data from the U.S. Department of Education found that employees with more education and higher incomes receive more education and training benefits than those with less education and lower incomes (Bosworth 2006). Also, employees with more tenure are much more likely to receive employer support than those who have been employed less time. Full-time employees are much more likely to get help than part-time employees. Finally, employers spend more to help employees gain Bachelor’s and advanced degrees than sub-baccalaureate degrees, and they spend more for more previously credentialed and higher-wage employees than they do for less credentialed and lower-wage workers.

It is fair to say that reasons why more companies do not offer Section 127 benefits to their employees or encourage a higher take-up rate include:

- The program is not a stable part of the tax code, so companies have not established policies to take advantage of it.
• Companies do not know this benefit exists (especially true for small and medium companies with limited human resources capacity).

• Companies do not have the HR capacity to develop the required policy for a tuition assistance program, to administer it, to track participating employees, or to track outcomes (again, especially true for small and medium-sized companies).

• Companies do not know or understand the potential return on investment that could result from higher usage of this benefit.

• Employees do not know that it is a benefit and do not advocate for it.

Working with companies to manage and increase usage of educational benefits is one potential strategy to better leverage this assistance in order to, at minimum, increase funding for the education and training of targeted populations served by workforce intermediaries, and, in the most ambitious scenario, provide additional funding for the workforce intermediary organization. The best (and possibly only) example of a workforce intermediary that markets and manages employer tuition assistance programs is the Council on Adult and Experiential Learning. CAEL has worked with employers for several years to help them understand the benefits of and manage tuition assistance programs to their employees. CAEL’s employer clients provide tuition assistance to over half a million workers annually.

CAEL has established a sophisticated management system that includes an extensive database to track participants, their courses, their grades, their account balances, and other important information to report on usage and program outputs. The system includes a call center to assist participants with questions about their company’s policy, their own accounts, etc. An optional feature for participating companies is a career and educational counseling service that helps employees to assess their knowledge, skills, and interests; determine a career path and educational resources; and receive coaching to get through their education.42

CAEL is one of only a handful of organizations providing tuition assistance management services to companies. Other smaller, less experienced, and less extensive providers include Educational Advisory Services, Scholarship America, and Ceridian. Edcor, a private company, has over 20 years experience managing tuition assistance programs; it serves exclusively Fortune 1000 companies.
**Community and Technical Colleges as Workforce Intermediaries**

How might entities that currently charge tuition also provide an intermediary function? One advantage to developing community and technical colleges as workforce intermediaries is that postsecondary institutions have the infrastructure to provide a “home” for the intermediary. Also, community and technical colleges already interact with both sides of the labor market—employers and job seekers or workers. Postsecondary institutions also frequently are key players in the regional labor market and economy; therefore, they have access to and credibility with stakeholders that are important players in any workforce intermediary.

The research for this chapter focused specifically on public two-year colleges, especially community and technical colleges, for several reasons: first, the “natural fit” between these institutions and the workforce intermediary function. Indeed, the multiple missions that community colleges balance represent this fit. They strive to serve the community with affordable and accessible educational opportunities, which is especially important for low-income workers. They generally provide the bulk of remedial and developmental education in a region or state, positioning them to better understand the needs of workers with limited education. Community colleges specialize in sub-baccalaureate education that provides a quicker route to a credential than a four-year Bachelor’s degree.

Another way in which community colleges are well positioned to be workforce intermediaries is that most have continuing education, business services, or workforce departments that collaborate with companies to design and deliver customized job training courses and programs. Many community colleges are highly responsive to employers’ education and training needs and deliver these services effectively. Some community colleges have gone a step further to help develop career pathways at specific companies or in particular industries, and then provide the education services that open up advancement opportunities along these pathways (Workforce Strategy Center 2002).

Community colleges often are important partners that any workforce intermediary would engage. As established entities in a community or region, they can provide credibility, partnerships, and infrastructure. Finally, with over 1,100 community colleges nationwide, there is a campus or branch in
virtually every community, which holds some promise for bringing the workforce intermediary function to scale.

Many community colleges already see themselves as workforce intermediaries. In a 2002 survey conducted by the National Network of Sector Partners, 25 community colleges from 12 states and the District of Columbia identified themselves as workforce intermediaries. (These colleges are noted in Appendix C.)

Despite what may appear to be a natural fit for community colleges as intermediaries, many of the same characteristics that position community colleges as promising workforce intermediaries also represent significant weaknesses. First, community colleges perhaps should be at the table but as education and training providers, not at the head as the workforce intermediary. There may be a conflict of interest: community colleges may not be able to be entirely unbiased intermediaries and to separate their roles as training provider and intermediary.

Second, community colleges often struggle to balance their multiple missions, apportioning resources and energy among them and their respective departments, programs, and faculty. This often results in a “silo effect” in which the faculty, students, and resources do not cross departments (e.g., remedial and developmental education, academic programs, and workforce and business services). The Ford Foundation has identified this as a significant barrier to serving underserved students in general and has launched the Bridges to Opportunity initiative to help community colleges to overcome these silos. This weakness is compounded when the mission to transfer students to four-year colleges and universities trumps all other missions, as happens in many community colleges.

Third, there is a certain cognitive dissonance among community college leaders and faculty to serving in one initiative low-income, low-skilled adults (usually in the developmental education side of the house or in special workforce training programs, such as for TANF recipients) and business clients (usually with high-level, customized training programs or business services). We saw more than a few instances of this cognitive dissonance in interviews with community college researchers and practitioners.

Fourth, community and technical colleges often serve individual companies with their individual training, workforce, and business services needs. An important part of being a workforce intermediary is aggregating workforce needs across multiple employers to address regional and/or industry-
wide needs, create workforce and career advancement systems across a region or industry, and achieve efficiencies of scale. Only the best workforce intermediaries actually do this, and many in operation today struggle with this exact issue. Simply, most community and technical colleges are in about the same place as most average workforce intermediaries in terms of aggregating employer workforce needs and solutions.

Finally, community colleges may not be as responsive as community-based organizations to low-skilled and economically disadvantaged workers who may be marginally connected to the labor force. Community colleges are academic institutions and generally quite limited in the types and intensity of supportive services they can offer. This is generally the result of underfunding of these services, not necessarily the colleges’ lack of acknowledgment of their need.

Research for this chapter revealed a number of community and technical colleges that have many of the pieces in place to be workforce intermediaries. Well-known examples are Mt. Hood Community College and Portland Community College in Oregon, City College of San Francisco in California, Community College of Denver, Kirkwood Community College in Iowa, Cuyahoga Community College and Sinclair Community College in Ohio, Owensboro Community College in Kentucky, and La Guardia Community College in New York. These colleges are developing innovative education and training programs designed specifically for workers, listening closely to employers to understand their workforce needs, and strengthening regional economies. Instead of recapping this well-established body of research, we have selected two examples of technical colleges to feature.

The Georgia Technical College system is one of the nation’s best two-year postsecondary education systems. Since 1985, it has served over 1,800,000 students through its technical colleges, associated university technical divisions, and other services. The network includes 34 technical colleges, 31 branch campuses, and 4 joint college technical divisions (located on 4-year campuses). This system serves as a foundation for innovative technical colleges to meet the workforce and economic development needs of their regions. Two institutions stand out: Coosa Valley Technical College in Rome and Savannah Technical College in Savannah.

Coosa Valley Technical College serves 10,000 students annually in credit and noncredit programs. Since opening in 1962, it has enrolled over 100,000 students, providing occupational education, skills training, and workforce
development to support the educational, economic, and community development of Floyd, Gordon, and Polk counties.

Coosa Valley serves various segments of the workforce, from emerging workers in the high schools, to incumbent workers, to dislocated workers. It offers over 70 programs of study in credit, continuing education, adult literacy, developmental studies, and general core classes. The Relevant Education And Life (REAL) program reaches out to the emerging workforce by placing career transition specialists in high schools to teach students about jobs, skills, and the value of technical education. Also, the Service Industry Academy, started a decade ago, graduates over 400 students in the Certified Customer Service Certificate program.

Coosa Valley also provides workforce and business development services to local companies. For example, it offers workplace seminars in customer service at over 30 companies. Responding to the high demand for training health care workers, it has developed 29 health occupation programs, which is more than any other college in Georgia. The college’s small-business incubator, started five years ago, has served over 35 companies.

Partnering with the workforce development system, Coosa Valley houses a One-Stop Career Center. Partnerships with community-based organizations include a fatherhood program to provide scholarships to struggling low-income fathers and an adult literacy program in local housing authorities. Coosa Valley is determined to foster student success and has developed a student Success Center, which is a one-stop center for students to access the services they need to complete their program.

Savannah Technical College, too, has many of the pieces of a workforce intermediary. It offers more than 50 Associate’s degree, diploma, and certificate programs and serves more than 4,000 students annually. In addition to offering credential programs, it works closely with regional businesses to meet their workforce needs. Savannah Tech is especially dedicated to serving disadvantaged individuals. For example, it runs the Starfish Café, a restaurant that employs and trains individuals who are homeless or in drug rehabilitation programs. It also is a primary partner in the city’s Project Workforce initiative led by the Chamber of Commerce. This initiative is one of the Annie E. Casey Foundation’s Making Connections sites and is focused on implementing a 10-year, overarching community action plan to strengthen Savannah's workforce/education systems.

Coosa Valley Tech and Savannah Tech have most of the pieces to be work-
force intermediaries. These include “dual customer” services, innovative and demand-driven programs and services, career advancement opportunities, and multiple partners and funding streams. However, neither college seems to be a catalyst for systemic change in how businesses or the workforce and economic development systems do their work. In fact, this is true of almost all community and technical colleges around the country that show promise as workforce intermediaries: they have the pieces but lack the positioning and leadership to make systemic change.

The missions of most community and technical colleges center on providing educational, workforce, and economic developmental services, not leading and affecting systemic change. This is the central reason why a project to test the concept of “community/technical college as workforce intermediary” is critical. Can those institutions with all the right pieces ramp up to become regional leaders for systemic change, both within companies and in public workforce and economic development systems? Is it even appropriate for these institutions to take on this role? Can they redefine their roles and position in the state to take on this charge? These are the fundamental questions that should be answered in a pilot project that supports community and technical colleges’ evolution into workforce intermediaries.

**“Tuition-based” Strategies as Pilot Programs**

The first part of this chapter explored several ideas under the general concept of leveraging tuition activities to provide financial support for workforce intermediaries. This part proposes pilot projects that might test these ideas, including:

- A project to assist workforce intermediaries in becoming licensed and accredited in order to charge tuition to individual students for education and training programs and leverage student financial aid programs;
- A workforce intermediary student loan program;
- Technical assistance and seed money for workforce intermediaries to strengthen partnerships with colleges and/or college access organizations; and
- A workforce intermediary tuition assistance/education benefits management project.
Tuition-based Strategies

**Assist Workforce Intermediaries to Attain Licensure and Accreditation and to Leverage Student Financial Aid**

Workforce intermediaries could gain access to significant flexible funding through the student financial aid system if they were licensed, accredited, and eligible to participate in federal Title IV programs. This is a tall order, and only a small percentage of workforce intermediaries would be good candidates for this strategy. It requires a large, well-established organization that has the capacity for significant amounts of documentation, internal policy development, and data collection. It also requires a well-established, robust training program that produces the stellar outcomes required by accreditation agencies. Finally, the process requires significant time and energy—a minimum of three to four years.

However, it is likely that there are workforce intermediaries interested in and robust enough to undertake such an effort. For example, *New Century Careers in Pittsburgh* may be interested in seeking licensure in Pennsylvania to charge tuition. Currently, state policy prohibits non-licensed entities from charging tuition to individuals, although they can charge training fees to companies.) To identify other potential candidates for such a pilot project, we listed workforce intermediaries that have distinguished themselves through their work (see Appendix B). We suggest a pilot project begin by inviting these organizations to apply to be a part of a small group of workforce intermediaries that currently provide training and are interested in exploring licensure, accreditation, and eligibility to participate in the federal student aid programs.

The pilot would consist of both group and individual technical assistance. The group of grantees could learn together about the process of attaining and maintaining accreditation and eligibility as Title IV institutions. They could hear from other organizations that have attempted and succeeded (or failed) in this process.

The project also would require highly individualized technical assistance to each organization due to the varying state processes for licensure to charge tuition. Additionally, organizations may seek accreditation from different national, regional, or specialized accrediting bodies, which would require individual or small-group technical assistance. The U.S. Department of Education recognizes nearly 100 accrediting agencies, and approximately 40 of these grant accreditation that allows an institution to seek Title IV eligibility. Certainly the pilot would require a team that includes experts in accredi-
itation, practitioners who are familiar with the process, and consultants who can work with individuals and organizations through a challenging process over a long-term.

This pilot has enormous potential: once an institution completes the licensure and accreditation process and becomes a Title IV-eligible institution, it is relatively easy to maintain this status. Therefore, if a workforce intermediary can clear the initial hurdles, it can access a relatively significant and stable source of funding.

**Workforce Intermediary Student Loan Program**

Another potential pilot project is for a foundation to use Program-related investment funds to seed loan funds similar to the *Focus: HOPE loan fund*. This pilot would target workforce intermediaries with robust, well-developed training programs that produce graduates with high potential to repay the loans. Such a loan fund would provide much-needed financing for low-income job seekers seeking training. Prior to the pilot, project management staff would research other similar loan programs and lay out the specific components of these programs. Research would include special loan programs designed by organizations and states in order to understand the broad range of relevant issues and challenges.

An important decision to be made at the beginning of project development is whether to establish the loan program only in organizations with accredited programs or if it should be open to organizations offering industry-recognized but non-accredited credential programs. If the former, stricter standard is selected, most workforce intermediaries will have to go through the process of licensure and accreditation. If the later standard is selected, many existing intermediaries would be eligible to participate in the pilot.

Again, we would suggest a competitive process among outstanding workforce intermediaries currently providing robust education and training programs with proven results. The list in Appendix B can serve as a starting point for this process. The pilot project would consist of providing training and technical assistance to workforce intermediaries in establishing a loan fund, start-up capital for the fund, and evaluation of the longer-term success of the fund. The project team would include experts in loan financing, practitioners experienced in setting up and running special loan funds, and consultants who can work effectively with organizations to establish, implement, and evaluate the funds. Evaluation questions should focus on both processes
and outcomes, documenting how this experiment worked and what benefits it provided.

Finally, this pilot requires a long-term commitment. It could take years just to set up the fund (assuming that there are loan fund-ready workforce intermediaries). Participants will need one to three years to complete the training financed by the loan fund (depending on the training program), and then time to begin loan repayment. A proper evaluation will require a few cohorts of students to build a large enough pool of cases to analyze. At a minimum, this appears to be at least a five-year endeavor.

**Technical Assistance and Seed Money for Strengthening Partnerships**

Many workforce intermediaries are not in the business of providing education and training services directly. Instead, they broker these services with local or regional training providers. This pilot project would assist such intermediaries in strengthening their relationships with postsecondary educational institutions that provide employer-driven credit-bearing credentialed programs to job seekers and incumbent workers. It also could be used to initiate or strengthen adult-focused college access programs (e.g., per the Kentucky Higher Education Assistance Authority or the National College Access Network models). The ultimate goal would be to provide job seekers and workers with access to credit-bearing, credentialed programs and student financial aid financing.

This pilot idea would not provide direct support for the workforce intermediary itself, but it does promise to build a sustainable partnership with key stakeholders and to increase access to financing for education and training. Depending on the goals of any pilot effort, it may be worth testing this strategy.

Although strengthening partnerships to ease access to postsecondary education often is a core mission of workforce intermediaries, it is one that is not specifically supported by any funding stream. However, it does not require long-term, ongoing funding. Once a strong relationship has been created and the college is on board to work with the intermediary to create such programs, little funding is needed to maintain the relationship.

Nevertheless, many workforce intermediaries still need help getting educational partners on board. The seed funding from this pilot would fund staff time to research colleges, programs, and curriculums; develop relationships
with college staff; develop curriculum and programs; and help oversee implementation. It also might provide the college partners with money to fund faculty time to develop the programs and shepherd them through what can be a long and time-consuming state curricular review process.

Finally, at least part of the funding should be used to explore college access issues and challenges that adults face in returning to school or going for the first time. For example, defaulted student loans and Pell Grants often present a barrier to adults returning to college (Matus-Grossman 2002). If a workforce intermediary can aid them in working with the schools to overcome this issue, it could have a significant impact on increasing postsecondary access.

**Workforce Intermediary Tuition Assistance/Education Benefits Management Pilot**

Employer-provided tuition assistance is a much coveted, yet seemingly out-of-reach, source of financing for the education of low-income and educationally disadvantaged workers. This potential pilot promises to increase workers’ access to this resource, while at the same time possibly providing some financial support for the workforce intermediary itself.

The concept is straightforward: a competitively selected group of workforce intermediaries works with local and regional employers to initiate (if necessary) and manage the companies’ tuition assistance/education benefit programs. As part of the pilot, intermediaries would develop strategies and materials to market these programs to companies, drawing especially on evidence of return on investments that other companies have gained from their effective utilization. Intermediaries would focus on increasing policies and usage of Section 127 benefits in particular; these seem to be the most flexible and the simplest to manage. They would learn how to help companies set up a qualified education assistance plan (required for the federal Section 127 education benefit). They would establish a system for tracking workers’ educational enrollment, completion, grades, and account reimbursements and drawdowns.

Workforce intermediaries would be especially proficient at working with small and medium-sized companies that lack human resources capacity. They could work with companies to help them use the tuition assistance/education benefit programs as strategic workforce development tools rather than simply as employee benefits. Workforce intermediaries also are well posi-
tioned to help companies understand the variety of educational opportunities these programs may be able to fund, including adult basic education, English for Speakers of Other Languages, and academic courses. Finally, workforce intermediaries could be well positioned to provide career counseling services that help workers navigate labor market information, career choices, and educational options.

It is possible that the workforce intermediaries could expand their services to the company even more once they master management of tuition assistance/education benefit programs. One can imagine workforce intermediaries offering an expanded set of services to include management of other workforce development and human resources functions. An intermediary might even become, in effect, a company’s “workforce development arm.” On the other hand, this function would add to the human service functions intermediaries provide to employers. For example, The Source, in Michigan, offers an array of worker “retention and support” services. Tuition assistance/education benefit program management would be a natural extension of these services.

Potential pilot sites would be carefully selected, based on such criteria as:

- Organization is an established and experienced intermediary (e.g., in operation for more than five years);
- Organization has strong connections with a significant number of employers (e.g., at least thirty);
- Organization has experience providing human resources or labor market services to employers;
- Pilot project includes a cross section of types of institutions (e.g., workforce intermediaries operated by /based in business associations, community-based organizations, community colleges, Workforce Investment Boards); and
- Pilot project includes a cross section of industries served (e.g., health care, manufacturing, retail).

There are certainly even more important criteria for inclusion of organizations and the pilot project itself, and they can be established if funders believe this idea has merit and decide to pursue it. Appendix B lists several organizations that could be considered. Also, the community colleges in Appendix C could be considered for this pilot.
Community and Technical Colleges as Workforce Intermediaries

Community and technical colleges may be a natural fit as workforce intermediaries, but none have been specifically funded for this role. Therefore, we do not know the true extent of their potential, nor do we know if this is a feasible or even appropriate role for these institutions. A potential pilot project could specifically support the intermediary role of a competitively selected group of community and technical colleges. Colleges would receive funding for staff to conduct regional labor market research to understand economic and industry needs in the aggregate (not just of individual employers, as is usually the case now). Staff would work with consortia of companies to understand and, to the extent possible, aggregate workforce needs and solutions. This function likely would be the least challenging for community colleges because many engage in this sort of activity daily (albeit with individual companies most of the time).

However, colleges would go beyond providing and brokering workforce services. They would work closely with companies to understand the industry dynamics, competitiveness challenges, and appropriate non-training strategies to boost competitiveness, while at the same time buyuing worker education and career advancement. Colleges would work closely with companies to implement these strategies and track their effectiveness. Finally, colleges would have to go beyond working with workers and employers to lead efforts toward a regional workforce development vision and to advocate for supporting policies. They would bring together the stakeholders in this effort, including community-based organizations, unions, Workforce Investment Boards, One-Stop Career Centers, researchers, and policymakers.

This pilot also would include developing a collegewide strategic plan to ensure that the entire institution is on board to become a workforce intermediary. This is a prerequisite if the expectation is that the college itself (e.g., the administration, board, and trustees) will fund the intermediary function once the pilot ends. This also implies that a sustainability plan to embed the workforce intermediary staff and functions into the college budget must be in development from the beginning of the project.

The state government and legislators constitute another important set of stakeholders that must be convinced that a college’s new role as a workforce intermediary is a good idea. Because college funding is controlled by one or both of these bodies, they must understand the importance of the workforce
intermediary function. A pilot project could work with colleges on this awareness building and advocacy for the college’s expanded mission. A related strategy for sustainability is to lobby for state funding to colleges for the workforce intermediary function specifically.

Another aspect of the workforce intermediary function to test in this pilot is approaches to increasing job seekers’ and workers’ enrollment in college, with or without their employers’ support. Specifically, these approaches would reach out to adult students about the benefits of a college education and the resources available to support them in college. Such efforts would assist adults in career exploration, decision making, applying for college, and applying for financial aid or accessing employer and other supports. They would not stop there—the approaches also should continue to support the adult while they work their way through their program, all the way through graduation.

This is partly a “Gear Up program for adults” and partly an expansion of the National College Access Network in that it raises awareness of and support for college going. It also is partly an expansion of the Economic Opportunity Centers that exist on some campuses but are severely limited in the numbers of adults they can serve and the services they can provide. A good model is the three-pronged approach of the Kentucky Higher Education Assistance Authority.

Again, potential pilot sites would have to be carefully selected. To start, only those community colleges that understand and strive toward the workforce intermediary approach would be considered. Good candidates may be those community colleges that considered themselves to be as workforce intermediaries in the 2002 NNSP survey (noted in Appendix C). Other good candidates include community colleges that are especially responsive to business clients and that have engaged in career ladder strategies, thus demonstrating their ability to work inside companies and serve “dual customers” (also noted in Appendix C).

Another important issue is the extent to which community college candidates have bridged the internal silos discussed earlier. This initiative will require colleges to think about low-skilled job seekers and workers in their developmental and workforce development programs, about business services to employer clients, and about how to bring the two together. Some community colleges we interviewed as part of this research appear unable to overcome their cognitive dissonance on this issue; they would not be good candidates for this pilot.
An interesting aspect of the well-developed Georgia Technical College System is the Certified Economic Developer Training program. Established in 1989, its purpose is to achieve quality and consistency statewide in the delivery of state-supported economic development services. All Georgia technical college vice presidents of economic development, Quick Start directors, and Quick Start training coordinators must complete this training, and others may enroll at the recommendation of technical college or Quick Start leadership.

Over 18 months, students spend between 400 and 500 hours learning about Georgia’s economic development resources, how to market and operate programs, how service and manufacturing industries are organized, how to assess job training needs and establish a training plan, how to support “high performance work organizations,” using project management and tools, and performance measurement techniques. Program activities include interactive training sessions, three company site visits, completion of three action learning projects, and participation in a live project study.

This program is important to the success of Georgia’s technical colleges in working with companies and being demand-driven—their professionals are trained in how to do this. It also can be an important model for a pilot project to strengthen the role of community and technical colleges as workforce intermediaries. Perhaps a similar training program (or “academy”) could provide specific information on the work of an intermediary. Because our proposed pilot would target colleges that have in place many of the pieces of an intermediary, such a program would focus less on the nuts and bolts of intermediaries and more on strategies for ramping up the colleges’ vision and leadership in creating systemic local change. Such a program would include much discussion and peer learning, as well as specific analysis and activities to help the colleges achieve their goals.

**Conclusion and Next Steps**

Tuition-based approaches to financing workforce intermediaries can include a broad and diverse set of ideas. To rationalize this amorphous concept, a framework steers the research in two converging directions: moving existing workforce intermediaries toward tuition activities; and moving tuition-charging entities toward the intermediary function.
From the discussion of strategies under each of these approaches emerged several potential pilot projects to test the feasibility and effectiveness of various tuition-based approaches to increasing financial resources for education and training of workers, and also to provide financing for the workforce intermediaries themselves. The next step is for an experienced group of researchers and practitioners to analyze, discuss, and critically evaluate the approaches and potential pilot projects proposed here.
Bibliography


Appendix A: Individuals Interviewed for this Research

Paul Anselmo, New Century Careers, Pittsburgh, PA
Maria Boss, Cleveland Scholarship Program, Cleveland, OH
Andrew Brower, The Source, Grand Rapids, MI
Laura Dresser, The Center on Wisconsin Strategy, Madison, WI
Terri Feeley, San Francisco Works, San Francisco, CA
Pam Griffin, Department of Technical and Adult Education, Atlanta, GA
Charlotte Hatfield and staff, Washington State Community College, Marietta, OH
Susan Hopkins, Kentucky Higher Education Assistance Agency, Frankfort, KY
Jim Jacobs, Community College Research Center, New York, NY
Davis Jenkins, Community College Research Center, New York, NY
Lauren Kaufman, Connecticut Business and Industry Association, Hartford, CT
Ken Kudek, Focus: HOPE, Detroit, MI
Emalyn Lapus, San Francisco College Access Center, San Francisco, CA
Craig McDaniel, Coosa Valley Technical College, Rome, GA
Jim McKinney, American Association of Community Colleges, Washington, DC
Carlita McMiller, Focus: HOPE, Detroit, MI
Tina Milano, National College Access Network, Cleveland, OH
Dennis Obergfell, State Student Assistance Commission of Indiana, Indianapolis, IN
Eric Parker, Wisconsin Regional Training Partnership, Madison, WI
Mark Peters, Butterball Farms, Inc., Grand Rapids, MI
Dr. C.B. Rathburn, Savannah Technical College, Savannah, Georgia
Judith Resnick, Connecticut Business and Industry Association, Hartford, CT
Jackie Rohosky, Georgia Department of Technical and Adult Education, Atlanta, GA
Lynn Schroeder, Council for Adult and Experiential Learning, Norwalk, CT
Andy Van Kleunen, The Workforce Alliance, Washington, DC
Appendix B: Promising Workforce Intermediaries for Pilot Projects

This listing is drawn from a literature review, interviews with researchers and practitioners in the workforce development field, Annie E. Casey Foundation Jobs Initiative sites, Workforce Innovation Networks sites, and a 2002 survey by the National Network of Sector Practitioners of workforce development intermediaries.

Boston Health Care and Research Training Institute, Boston, MA

Capital IDEA, Austin, TX

Coastal Enterprises, Inc., Wiscasset, ME

District 1199C Training and Upgrading Fund, Philadelphia, PA

Focus: HOPE, Detroit, MI

Instituto del Progresso Latino, Chicago, IL

JVS San Francisco, San Francisco, CA

Project QUEST, San Antonio, TX

The Reinvestment Fund, Philadelphia, PA

Seattle Jobs Initiative, Seattle, WA

The Skill Point Alliance, Austin, TX

The Source, Grand Rapids, MI

Westside Industrial Retention and Expansion Network (WIRE-Net), Cleveland, OH

WINs sites

American Society of Employers, Southfield, MI

Arlington Chamber of Commerce, Arlington, TX

Brooklyn Chamber of Commerce, Brooklyn, NY

California Association of Employers, Sacramento, CA

Capital Area Training Foundation, Austin, TX

Connecticut Business and Industry Association, Hartford, CT

Employers Association, Peoria, IL

Greater Cincinnati Chamber of Commerce, Cincinnati, OH

Greater Cleveland Growth Association, Cleveland, OH

Greater Durham Chamber of Commerce, Durham, NC

Greater El Paso Chamber of Commerce, El Paso, TX

Greater Holyoke Chamber of Commerce, Holyoke, MA
Manufacturers Association of South Central PA, York, PA
New Century Careers, Pittsburgh, PA
San Diego Employers Association, Inc., San Diego, CA
San Francisco Works, San Francisco, CA
SMC Business Council, Pittsburgh, PA
Tulsa Metro Chamber/Workforce Tulsa, Tulsa, OK
Wisconsin Regional Training Partnership, Milwaukee, WI
WorkSource Partners, Brookline, MA
Appendix C: Promising Community and Technical Colleges for Pilot Projects

This listing is drawn from interviews with researchers and practitioners in the workforce development and community college fields, a 2002 survey by the National Network of Sector Practitioners of workforce development intermediaries in which these community colleges self-identified as workforce intermediaries based on a definition of four criteria provided in the survey,48 and a 2002 report by Julian Alssid, et al. at Workforce Strategy Center: Building a Career Pathways System: Promising Practices in Community College-Centered Workforce Development.

Alamo Community College District, San Antonio, TX
Atlantic Cape Community College, Atlantic City, NJ
Austin Community College, Austin, TX
Bellevue Community College, Bellevue, WA
Cabrillo College, Aptos, CA
Central New Mexico Community College, Albuquerque, NM
Chemeketa Community College, Salem, OR
City College of San Francisco, San Francisco, CA
Clackamas Community College, Oregon City, OR
Clover Park Technical College, Lakewood, WA
Coastline Community College, Westminster, CA
Columbia Basin College, Pasco, WA
Columbus State Community College, Columbus, OH
Community College of Denver, Denver, CO
Coosa Valley Technical College, Rome, GA
Cuyahoga Community College, Cleveland, OH
Delgado Community College, New Orleans, LA
Essex County College, Newark, NJ
Frederick Community College, Frederick, MD
Guilford Technical Community College, Jamestown, NC
Henry Ford Community College, Dearborn, MI
Houston Community College, Houston, TX
Howard University (four-year college), Washington, DC
Tuition-based Strategies

Kirkwood Community College, Cedar Rapids, IA
La Guardia Community College, Queens, NY
Lake Washington Technical College, Kirkland, WA
Lane Community College, Lane County, OR
Lincoln Land Community College, Springfield, IL
Macomb Community College, Warren, MI
Mission College, Santa Clara, CA
Montgomery College, Takoma Park, MD
Mt. Hood Community College, Gresham, OR
North Seattle Community College, Seattle, WA
Owensboro Community and Technical College, Owensboro, KY
Portland Community College, Portland, OR
San Diego Community College District, San Diego, CA
Savannah Technical College, Savannah, GA
Shoreline Community College, Seattle, WA
Sinclair Community College, Dayton, OH
Sojourner-Douglass College (four-year college), Baltimore, MD
Southeastern Community College, Whiteville, MS
Umpqua Community College, Roseburg, OR
Walla Walla Community College, Walla Walla, WA
Endnotes

27 The research for this chapter included secondary and significant amounts of primary research, as well as a literature review of papers, reports, and books on workforce intermediaries. Over two dozen workforce development researchers, workforce intermediary practitioners, and community college presidents and staff were interviewed to solicit ideas and feedback. An advisory committee helped to shape early research activities and have provided valuable feedback along the way.

Thanks to the Ford Foundation for its generous support of this important research and Jobs for the Future for providing us the opportunity to learn more about and explore possibilities within this area of research (especially our Project Manager, Heath Prince). Thanks also to the members of an informal but extremely helpful advisory group: Paul Anselmo, New Century Careers; Lauren Kaufman, Connecticut Business and Industry Association; Tina Milano, National College Access Network; and Dennis Obergfell, State Student Assistance Commission of Indiana. Final thanks to all of the researchers and practitioners interviewed who helped lead to a better understanding of what is meant by “tuition-based” strategies and what the possibilities are for leveraging them to finance this valuable work (see Appendix A).

28 When this paper was commissioned and first drafted in spring and summer 2006, the author was employed by FutureWorks, LLC.

29 “Boutique product” refers to a small, exclusive, customized product offered by an organization. It differs from the “bread and butter” products of an organization such as large-scale training programs.

30 Special thanks to Ken Kudek of Focus: HOPE for multiple interviews in summer 2006 and winter 2007 on the organization and its student loan program.

31 Focus: HOPE discouraged students from taking student loans unless they had no other means of financing. Early in the program, 16 out of 300 students did take federal student loans, and 4 students defaulted on them. This translated into a 25 percent default rate, which was perceived by the federal government as unacceptable (four loans under $20,000 total). Focus: HOPE leaders did not want the program tainted by this seemingly high default rate; therefore, it withdrew from the federal student loan program.

32 Personal communications with Ken Kudek, August 24, 25, and 30, 2006.

33 The 90-day no-payment default criterion is closer to how the commercial financial sector would define “default” and is much more conservative than how the federal student loan program defines it.

34 Personal communication with Tina Milano, President of NCAN, March 28, 2006.

35 Personal communication with Maria Boss, President and CEO, Cleveland Scholarship Program, September 12, 2006.

36 Information on KHEAA’s outreach activities comes primarily from personal communication with Susan Hopkins, Outreach Manager at KHEAA on August 30, 2006.

37 http://www.gohigherky.org/

38 http://www.kheaa.org/serv_pub_arts.html

39 Special thanks to Amy Sherman and Becky Klein-Collins of CAEL for significant input on this section.
Tuition-based Strategies


41 This is underscored in two recent reports: (1) The Promise and Practice of Employer Educational Assistance Programs: 2004 State of the Field Strategies and Trends by the Council for Adult and Experiential Learning and (2) Tuition Assistance Plan Benchmark: Managing TAP as a Strategic Asset by Eduventures, 2003.

42 Personal communication with Lynn Schroeder, Regional Vice President, Council for Adult and Experiential Learning, June 2006.

43 One study found that the ratio of students to career counselors was about 1,000 to 1.

44 Personal communication with Craig McDaniel, President, Coosa Valley Technical College, August 30, 2006. Also see the Coosa Valley Technical College Web site: http://www.cvtcollege.org/About_Us/index.html.

45 Personal communication with Dr. C.B. Rathburn, President, Savannah Technical College, August 2006. Also see the Savannah Technical College Web site: http://www.savannahtech.edu/index2.html and the Chamber of Commerce Web site for Project Workforce http://www.savannahchamber.com/workforce_development/education_actionplan.shtml.

46 Personal communication with Paul Anselmo, Director of New Century Career Services, August 7, 2006.

47 Students who receive a Pell Grant to pay tuition but then drop out of their courses must repay the grant before they can resume their studies. This can be a significant barrier for low-income workers. Students who take a student loan to pay tuition but fail to repay the loan (whether they complete the courses or not) are in default and are not eligible for additional student aid. However, they may be eligible to continue taking courses.

48 The four criteria included: (1) Operate programs with a focus on two primary customers—those whose skills are being built and the employers/industries in which the workers do or will work. (2) Expressly work with low-income individuals and low-wage workers to benefit their position in the labor market. While low-income individuals may not be their only service population, the organization is focused on investing in this population and has designed its efforts to address the needs of this group. (3) Provide a menu of services, not just job placement and create and manage a mix of funding streams to support this menu. (4) Provide an investment in the longer-term career advancement of those it serves, extending services past the placement of an individual into a job. (See Marano, Cindy and Kim Tarr. 2004. “The Workforce Intermediary: Profiling the Field of Practice and Its Challenges,” in Workforce Intermediaries for the Twenty-first Century, Robert P. Giloth, ed. Published in association with The American Assembly, Columbia University. Temple University Press: Philadelphia.)
About the Authors

RADHA ROY BISWAS, a member of JFF’s Building Economic Opportunity Group, is researching state workforce and economic development policy. She is the author or coauthor of several JFF publications, including *Building Skills, Increasing Economic Vitality: A Handbook of Innovative State Policies*; *Our Success Is Our Graduates: Case Study of Year Up*; *The Right Jobs: Identifying Career Advancement, Opportunities for Low-Income Workers*; and *Access to Community College for Undocumented Immigrants: A Guide for State Policymakers*. She received a B.A. in economics from the University of Pune (India), as well as a B.A. in economics and an M.A. in regional economic and social development from the University of Massachusetts, Lowell.

VICKIE CHOITZ is LiLA State Policy Director at the Council for Adult and Experiential Learning. Ms. Choitz directs CAEL’s multistate policy campaign to establish Lifelong Learning Account initiatives at the state level throughout the country. She conducts policy analysis and develops strategies for expanding the LiLA initiative and works with a variety of stakeholders to raise awareness and build support for LiLAs, including state policy makers, employers, educational leaders, unions, foundations, and workers. She also provides technical assistance to state leaders in developing LiLA initiatives and manages the communications and public relations components of the LiLA campaign.

Prior to joining CAEL, Choitz split her time as a senior policy analyst at Future-Works, LLC and as a research associate at Workforce Learning Strategies. Her work focused on researching and analyzing postsecondary education policies and practices for increasing access, persistence, and completion of credentialed programs by working adult students. She also provided technical assistance to state governments and community-based organizations seeking to improve postsecondary educational opportunities for workers. Additionally, she focused on the workforce development field through research, analysis, and technical assistance projects on workforce basic skills and workforce intermediary/sectoral approaches. Vickie has a Masters in Public Policy from the Kennedy School of Government at Harvard University and, from Kansas State University, a BA in political science, and a BS in secondary education.
JOHN COLBORN is the Director of Program Operations and Services for the Ford Foundation’s Office of Program Management. He is also a grantmaker in the workforce development field of the foundation’s Asset Building and Community Development program, where he focuses on community colleges. He is has been active in several foundation-related affinity groups, including networks of funders focusing on community colleges, program-related investments, and workforce development. Prior to joining the foundation, he worked for over 12 years for a variety of nonprofit organizations, most recently, The Reinvestment Fund, a community development financial institution serving the greater Philadelphia region. There, he headed up the capacity-building, training, and technical assistance affiliate of the fund and served as director of its Jobs Initiative, a regional job training and placement effort, targeting low-income communities and focused on job training and placement in the manufacturing and data intensive sectors of the regional economy. He holds Bachelor’s degrees in government and economics from Oberlin College and a Master’s of Business Administration from the University of Pennsylvania Wharton School of Business.

JEFFREY JABLOW is the founder and president of Social Venture Solutions, Inc., a national research, consultancy, and technical assistance organization. SVS is dedicated to assisting adults achieve improvement in education and employment. SVS advises state and local governments, public agencies, and private workforce development organizations and their funders on creating alternative financing strategies; implementing revenue generating activities; increasing capacity and capability; and building better connections with the labor market. SVS receives a broad range of public and private support. Current consultancy and technical assistance projects include work with state and local officials, community colleges, and nonprofit workforce development organizations in California, Connecticut, Colorado, Florida, Iowa, Indiana, Kentucky, Massachusetts, New York, Rhode Island, Washington, and Wisconsin.

Before forming SVS, Mr. Jablow was executive vice president of Wildcat Service Corporation in New York City. During his seven-year tenure at Wildcat, Mr. Jablow pioneered innovative program models and financing strategies that helped advance that nonprofit employment and training organization’s annual budget of $8 million to $55 million. Mr. Jablow has more than 15 years experience in the private sector, with particular emphasis on financial and strategic planning and business development. Formerly, he was a group president at Crystal Brands, Inc., a subsidiary of General Mills, and prior to that, president of Absorba, Inc a division of Poron S.A. Mr. Jablow has a degree in Economics from New York University, and resides in Round Rock, Texas.

DR. CHRISTOPHER KING is director of the Ray Marshall Center for the Study of Human Resources and a lecturer at The University of Texas at Austin’s Lyndon B. John-
son School of Public Affairs, where he holds the Mike Hogg Professorship in Urban Management. He has written widely on education, workforce, and social policy, including *Welfare and Work: Experiences in Six Cities* (2005, Upjohn Institute Press, with Peter Mueser) and *Improving the Odds: Increasing the Effectiveness of Publicly Funded Training* (2000, Urban Institute Press, with Burt Barnow). He has worked closely with the National Governors Association on several recent projects, led the Central Texas Workforce Intermediary Initiative, and is directing the Central Texas High School Data Center Project and evaluations of locally funded workforce services in Austin. Dr. King was assistant professor of economics at the University of Utah (1973-1976), an economist with the U.S. Secretary of Labor (1976-1980), and director of Research, Demonstration and Evaluation for job training programs in the Texas Governor’s Office (1983-1985). He has a B.A. in economics from the University of Texas at Austin and both an M.A. and Ph.D. in economics from Michigan State University.

**Heath Prince**, senior project manager at JFF, specializes in state and federal workforce development policy analysis related to building economic opportunity for low-wage workers. He has authored or co-authored a number of JFF publications, including *Creating Careers; Improving Care: A Win-Win Economic Advancement Strategy for Certified Nursing Assistants in Long-Term Care; Career Ladders: A Guidebook for Workforce Intermediaries; Building Skills, Increasing Economic Vitality: A Handbook of Innovative State Policies;* and *Building New Labor Market Institutions: State Policies That Support Workforce Intermediaries*. He has a B.A. in international affairs from the University of Colorado, Boulder, and an M.P.Aff. from the LBJ School of Public Affairs at the University of Texas, Austin.

**Tara Carter Smith** is a Social Science Research Associate at the Ray Marshall Center for the Study of Human Resources. She is involved with many of the center’s ongoing projects, including the Central Texas High School Graduate Data Center and evaluations of local public workforce investments. Prior to joining the center, Ms. Smith was an analyst in the Employment and Training Administration’s Office of Policy Development and Research in Washington, DC, where she worked on demonstration research projects focused on youth, ex-offenders, and unemployed workers. Ms. Smith is a former teacher, with seven years of experience in preschool and elementary school classrooms. She holds a Master’s degree from the LBJ School of Public Affairs and a B.S. in applied learning and development from the University of Texas at Austin.
Contributing Organizations

The Council for Adult and Experiential Learning is a national nonprofit organization that creates and manages effective learning strategies for working adults through partnerships with employers, higher education, government, and labor.

Jobs for the Future seeks to accelerate the educational and economic advancement of youth and adults struggling in today’s economy. JFF partners with leaders in education, business, government, and communities around the nation to strengthen opportunities for youth to succeed.

FutureWorks is a consulting and policy development firm that designs and builds strategies and institutions that promote sustainable, skill-based regional economic growth.

The Ray Marshall Center at the University of Texas, Austin, conducts research and evaluation on a broad array of human resource development issues, including employment training, education, child care, and welfare reform.

Social Venture Solutions, Inc., a national research, consultancy, and technical assistance organization. SVS is dedicated to assisting adults achieve improvement in education and employment. SVS advises state and local governments, public agencies, and private workforce development organizations and their funders on creating alternative financing strategies; implementing revenue generating activities; increasing capacity and capability; and building better connections with the labor market.