White Paper on Financing Workforce Development
Presented to National Association of Workforce Boards 2016 Member Policy Consultation

Stuart Andreason[1,2]

Abstract

The workforce development funding landscape has become increasingly complex over the last several decades. Federal funding for traditional workforce development organizations, now called Workforce Development Boards (WDBs) under the Workforce Innovation and Opportunity Act (WIOA), are at all-time lows (Andreason, 2016) and policy directives since the 1990s have attached financing to students through Pell Grant expansion and individual training accounts (ITAs), rather than organizations or systems (McCarthy, 2014). Given these national funding trends state and local governments, organizations, and businesses are increasingly developing training programs that meet local and organizational training needs that are funded outside of "traditional" federal workforce development funding.

The devolution of funding responsibility leads to a number of important issues. First, while private business is the dominant funder of employee training, the majority of funding is spent on the highest skilled employees and does not benefit unemployed job seekers (Carnevale, Strohl, & Gulish, 2015). Effective workforce development systems must also address the local frontline worker training needs. Second, increasingly diverse funding sources for workforce development often leads to fractures in the system across funding sources. Yet, high functioning and well-coordinated workforce development systems that are well connected to the business community drive local economic development efforts (Brown & Parkins, 2014). Employer engagement, and investment, in creating agile workforce development systems and organizations can drive local economic growth and business competitive advantage. Finally, balancing investment in training for short-term technical skill needs and long-term employability is a challenge with diverse funders.

This review will explore recent trends in public-private partnerships in investment in workforce development systems, including research on restructuring employer-paid tuition programs, the role of new financial tools to scale local investments in workforce development systems, and suggest opportunities for collaboration in developing stronger workforce development systems that serve the needs of various funders and stakeholders.

---

[1] Director of Center for Human Capital Studies Workforce Program, Federal Reserve Bank of Atlanta

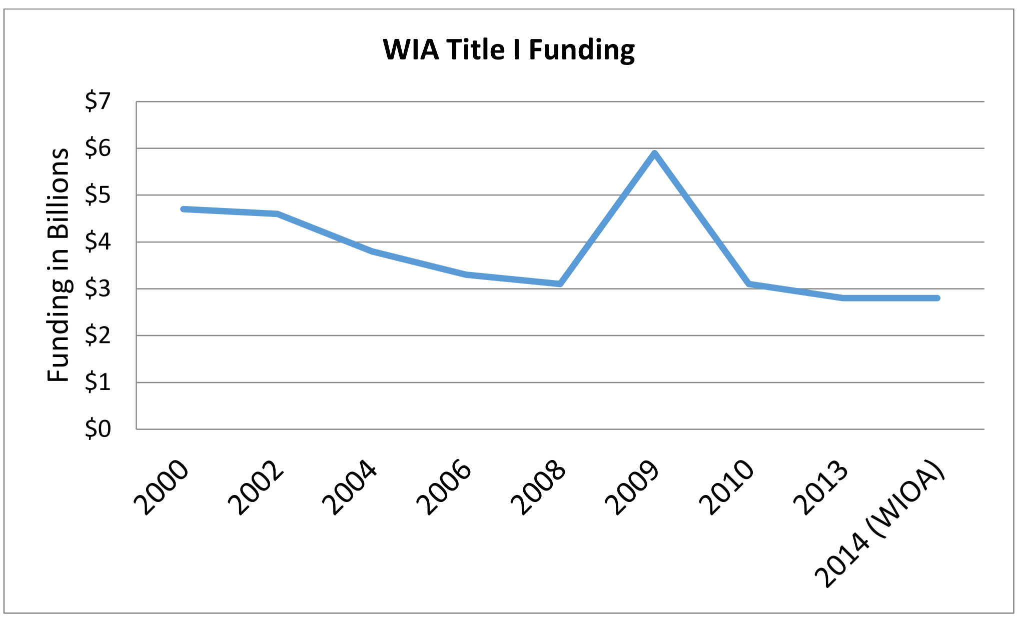
[2] The views in this paper represent those of the author and not those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Introduction

Like the labor market, workforce development financing has become incredibly complex. While traditional conceptions of the workforce development system implied the federally funded system through the Manpower Development and Training Act, the Job Training Partnership Act, the Workforce Investment Act (WIA), and the Workforce Innovation and Opportunity Act (WIOA), today's system of investing in workforce development is much more complex.

Within the federal government alone, nearly two dozen different agencies administer numerous different programs that aim to improve the employability and skills of lower wage workers. Many organizations look to the U.S. Department of Labor as the primary source of workforce development in the country, but it is far from the only significant player in workforce development. The U.S. Department of Education, through the Higher Education Act funds the U.S. Pell Grant program, representing roughly $36 billion annually, and federal student loan programs, representing over $120 billion annually (Andreason, 2016). Pell Grant funding increased significantly under the Obama administration, and was seen as one of the significant efforts to provide opportunity to lower skilled workers and learners. But federal funding programs for workforce development programs, like many federal appropriations are in decline. In 2007 in inflation adjusted terms, Title I of WIA was funded at a rate of 87 percent less than it had been in 1980 (Holzer, 2008).

Figure 1 – Title I Funding in WIA/WIOA, 2000-2014



Source: National Skills Coalition

Given the recent focus of skill upgrading and quality of labor identified as primary drivers of local, and eventually national, economic development, the declines in funding for workforce development are somewhat paradoxical. Local economic developers identify the availability of skilled labor (at all different levels of the labor market) and the agility of local workforce development programs to deliver customized training for employers as the key determinants of relocation and expansion decisions among firms (Brown, 2015; Brown & Parkins, 2014). While additional federal appropriations into existing workforce development programs is a worthy goal, the recommendations in this paper look to identify new funding sources, often from private entities or investors, employers, and in some cases state and local governments, that could help to scale and expand investment in workforce development.

Recent analysis suggests that employers are by far the largest investor in human capital development and skill development for workers. Estimates of employer spending range from roughly $250 billion to over $500 billion in hard costs and expenses related to employee development annually (Green & Galetto, 2005). When indirect costs are factored into estimates of employer spending, the number reaches roughly $1.1 trillion annually (Carnevale et al., 2015).[3] While a significant private investment in workforce development, most of that money is spent on workers who are high skilled, and typically already hold a bachelor's degree or higher. Frontline workers do not receive the same investment, nor do they engage in employer sponsored tuition repayment programs at the same rate, yet these are positions that need significant skill development as middle skill jobs shift towards demanding more unique technical skills (Holzer, Lane, Rosenblum, & Andersson, 2011). Employer sponsored training programs usually do not address the unemployed and workers marginally attached to the labor force as there is less of a business incentive to invest in workers who may not ultimately work for the firm.

The delivery and provisioning of workforce development and job training today is very different than it once was, or at least was conceived of. Some have referred to the modern training system as a marketplace of educational programs, where operators compete for students who use different funding sources like Pell Grants and students loans or Individual Training Accounts (ITAs) funded through WIOA (McCarthy, 2014). This "marketplace" has been driven by decisions among the policy community to inject choice in training into educational and workforce development funding systems through vehicles like Pell Grants and ITAs.

In the current system of choice, much of the risk in determining program quality and opportunities that it may provide has been placed on students and jobseekers who decide how and where to spend scarce resources to improve their employment opportunities. Programs are primarily funded for enrolling students, not for successfully supporting them into employment (which could imply significantly different program delivery strategies). At the same time, the disparate and federated nature of the funding system also creates challenges in supporting job seekers who likely need support from a number of the different training and human service programs available to effectively enter, or re-enter employment (Wolf-Powers & Andreason, 2012).

The current financing system in workforce development has a number of different opportunities for expanded investment in effective programs, ways to increase focus on systems of workforce development, and opportunities to align incentives for workforce development and training organizations towards employment.

[3] Indirect costs include time that employers spend on training and mentoring that are largely driven by staff costs that could be spent in different ways. These might include coaching and mentoring from a supervisor on how to perform a job or classroom-style training that is delivered by the firm directly, among many other examples.

Restructuring Employer Investment in Skill Upgrading

As one of, if not the greatest, investor in workforce skills encouraging employers to fund the training and development of frontline and middle skill workers presents a significant opportunity for expanding the reach of workforce development organizations, especially when they are seen as groups that can develop and provide training that is relevant to the needs of both incumbent workers and businesses looking for skill development.

Many jobseekers do not take advantage of existing employer sponsored training or education reimbursement programs though. A review of literature on skill development and behavioral economics suggest that this is partly due to challenges in understanding the benefits and institutional structure. The work suggests that institutions need to rethink how they present training opportunities to better match choices that workers would like to make as well as to consider the contexts in which workers who could benefit from training (Juniper & Prince, 2016).

Workforce development boards and workforce development organizations can help to "prime the pump" for different decision-making from both employers and employees in how they make training choices. Estimates from the mid-2000s suggest that states in total spend between $550 and $800 million annually on incumbent worker training, less than one percent of what businesses spend on training, but help to redirect efforts towards programs that help to retain businesses in communities, and potentially provide opportunities for advancement, at a cost of less than $9,000 per job – rivaling or less than many economic development incentives (Hollenbeck, 2008). Programs focused on priming the pump many not help to create new investment in workforce organizations themselves, but help to significantly leverage the funding that workforce boards have, potentially helping to direct employer based investment towards frontline and middle skill workers cost-effectively.

Developing Opportunities for New Investment

There are significant opportunities for new investment in workforce development – both from philanthropic sources as well as return seeking investors. While philanthropies can help to generate new opportunities for service delivery by providing direct funding, leveraging philanthropic investment to help to reduce risk in experimentation in new funding models may provide opportunities for greater funding and investment. Developing blended capital opportunities in new workforce development programs (or efforts to scale programs) will likely require new ways to monetize the benefits associated with skill upgrading in the workforce.

Several new models of bonding, including social impact bonds, have becoming important new considerations for workforce development organizations in recent years (Andreason, 2016).[4] Social impact bonds (SIB) are financial vehicles that help to provide upfront investment in programs that can help to reduce social costs or provide social benefits in the future. The model requires that a rigorous

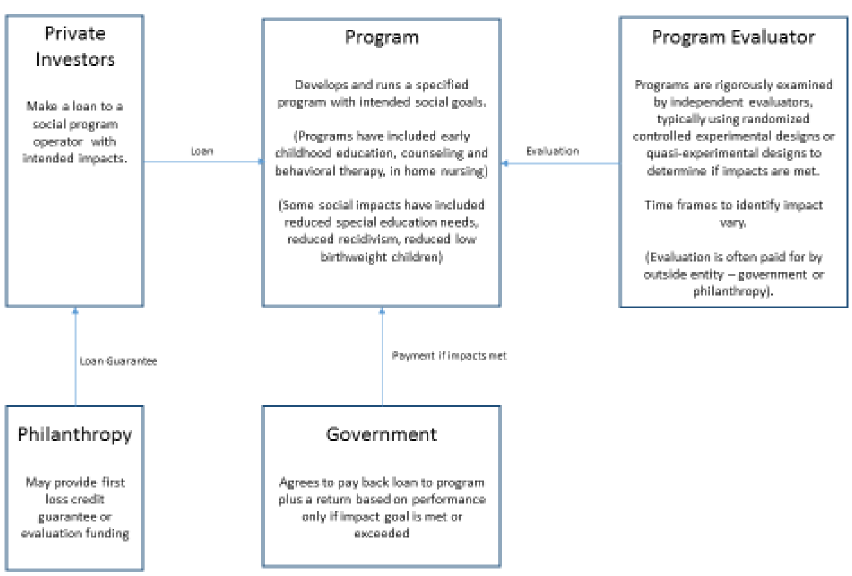
[4] Similar to social impact bonds, a number of states including Iowa and Missouri have developed incremental payroll tax revenue bonds (similar to tax increment financing bonds in real estate development) that help to monetize the benefits of expanded employment that would not have located or expanded in the state "but for" the training that the bonds funded (Prince, 2007). For a longer description of these programs see Andreason (2016) and Prince (2007).

(typically an experimental or quasi-experimental designed) evaluation take place and if the evaluation shows the outcomes expected, the bond pays and if the evaluation doesn't show effects, the bond does not pay. It is an attractive model for many different groups because it focuses on paying for outcomes rather than outputs and can save governments (or other providers) money when interventions don't provide the desired outcomes. The SIB model is very new, and only a handful have started across the country. Workforce development and adult basic education focused SIBs have launched very recently in the State of Massachusetts and workforce development programs have been components of models (primarily focused on cognitive behavioral therapy) that aim to reduce recidivism among young adults.

The model is very new and has attracted interest from financial institutions and the investment community, as well as the philanthropic community, which has largely been involved by de-risking the investments through providing credit guarantees and first loss provisions in the event that the evaluation shows no impact on the social goals of the SIB. Early philanthropic credit guarantees on SIB deals suggest that investors see SIBs as risky investments, but they are quite new and the model has only been implemented in a few communities and states across the country. Rockefeller Foundation President Judith Rodin notes that philanthropic credit guarantees for these are part of the evolution of new social investment saying, "Philanthropy must do what it does best: peel back the first layer of risk, and experiment where other sectors cannot, making development and commercial investment dollars more productive and less risky (quoted in Global Impact Investing Network, 2013)." These programs are also challenged in that they have relatively high upfront transaction costs given the complexity of the model, the required rigorous evaluation, and associated contracting.

As the model matures these challenges are likely to be better addressed through refining the structures of and transactions associated with running a SIB.

Figure 2 – Example Mapping of Social Impact Bond Deal Structure



(Adapted from Rudd, Nicoletti, Misner, & Bonsu, 2013)

Creating Long Term Partnerships between Programs and Participants

Creating incentives for workforce development organizations and educational groups to have long term relationships with students and job seekers can help to address some of the challenges that students face. Many students face challenges in employability that go beyond skill development and imply greater needs for basic education (needs are often as much as 1,000 hours of basic education) and other human and social services. Many training providers do not have the capacity or partnerships to help address these gaps. "Wrap around services" are often identified as a challenge from both jobseekers and organizations looking to serve them, but developing comprehensive employment and service interventions are costly and difficult to scale.

New structures of funding complete employment and service programs deserve further attention. Some models like income share agreements (ISA) may be, among others, a model. Income share agreements have been discussed in the context of financing four-year university and college education, but are likely applicable to workforce development programs and potentially more comprehensive programs as well (Andreason, 2016; Palacios, DeSorrento, & Kelly, 2014).[5] ISAs are agreements between training organizations and students where in return for free (or significantly reduced) tuition, students commit to pay a portion of their income for a period of time. If the student earns a lot, they pay more, and if the training doesn't lead to a job that pays well, the student pays less. The model, as applied to workforce development and comprehensive employment interventions, helps to incentivize job placement, career advancement, and stability in work in ways that current funding systems do not.

ISAs are a likely a longer term opportunity for workforce development organizations. There is not a national framework for either a private or public market of ISAs, but a number of proposals have gone to Congress (Holt, 2014). While ISAs are just one of many different ways to encourage long term relationships and build bonds between training organizations and jobseekers, models that help to create a shared commitment to advancement and labor market success are important steps forward.

New Financing and Workforce Development Boards

Workforce development boards face great challenges and opportunities in the coming years, especially in terms of a complex and evolving workforce development financing landscape. State and local workforce development boards have to grapple with the paradoxical heightened interest and largely bipartisan support, but declining traditional appropriations. Addressing this challenge effectively is a vital step for the future of the workforce development system, and the new Workforce Innovation and Opportunity Act provides some initial steps forward.

WIOA offers new "Pay for Performance" provisions, that for many purposes provide a very similar payment structure that social impact bonds offer. A significant benefit to this provision is it allows for local workforce boards to develop payment and evaluation programs based on outcomes for job seekers without developing the relatively complex funding structures that SIBs require. Experimentation and program development around this provision is a clear opportunity to help prove training models and evaluate them. Proving these funding models could make going to the investment

---

[5] Some of the first ISA programs were launched at Perdue University under the "Back a Boiler" program. Currently it is entirely private.

community for additional funding, potentially through a true social impact bond, to scale programs much more cost effective in the future. The provision allows for ten percent of annual appropriations funding to be used on the Pay for Performance provision, which converts money in the program to "no-year" funding, so it represents very little risk to the workforce board.

Expansion and inclusion of new financing opportunities is essential to workforce development organizations in the future. While there has been significant focus on identifying what programs work best, there has been somewhat less of a focus on figuring out how to scale these programs, develop new funding to increase the reach and scope of the work that workforce development organizations do. Developing innovative partnerships between workforce boards, employers, philanthropy, investors, and other funders is an important first step. Challenges exist in defining who has responsibilities to help to train certain groups – employers currently focus much of their attention on their highest skilled workers, while frontline workers often do not utilize funding opportunities available to them. Workforce boards, especially in local contexts can help to heighten the awareness of opportunities that exist, create programs that experiment with new models of partnership and finance and then can work through networks to help to scale the effective programs and to develop policies that help to expand financing available.

References

Andreason, S. T. (2016). Financing workforce development in a devolutionary era. *FRB Atlanta Community and Economic Development Discussion Paper*, (2016-2). Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2774638

Brown, E. (2015). *Shifting Workforce Development Into High Gear*. Washington, D.C.: International Economic Development Council.

Brown, E., & Parkins, M. (2014). *Raising the Bar Together: successful Strategies for Workforce and Economic Development Collaboration* (Economic Development Research Partners) (p. 42). Washington, DC: International Economic Development Council.

Carnevale, A., Strohl, J., & Gulish, A. (2015). *College is Just the Beginning: Employers' Role in the $1.1 Trillion Postsecondary Education and Training System*. Washington, D.C.: Georgetown University Center on Education and the Workforce.

Global Impact Investing Network. (2013). *Catalytic First-Loss Capital*. New York, NY: Global Impact Investing Network.

Green, G. P., & Galetto, V. (2005). Employer Participation in Workforce Development Networks. *Economic Development Quarterly*, *19*(3), 225–231. https://doi.org/10.1177/0891242405276125

Hollenbeck, K. (2008). *Is There a Role for Public Support of Incumbent Worker On-the-Job Training?* (SSRN Scholarly Paper No. ID 1105365). Rochester, NY: Social Science Research Network. Retrieved from http://papers.ssrn.com/abstract=1105365

Holt, A. (2014, April 9). What's in Rubio's New Income Share Agreement Bill? Retrieved from http://www.edcentral.org/rubio-isa-bill/

Holzer, H. J. (2008). *Workforce Development as an Antipoverty Strategy: What Do We Know? What Should We Do?*. Washington, DC.

Holzer, H. J., Lane, J. I., Rosenblum, D. B., & Andersson, F. (2011). *Where Are All the Good Jobs Going?: What National and Local Job Quality and Dynamics Mean for U.s. Workers*. Russell Sage Foundation.

Juniper, C., & Prince, H. (2016). *Behaviorial Economics and Workforce Development: A Review of the Literature from Labor Economics and the Broader Field* (p. 16). Austin, TX: Ray Marshall Center for the Study of Human Resources.

McCarthy, M. A. (2014). *Beyond the Skills Gap*. Washington, D.C.: New America Foundation.

Palacios, M., DeSorrento, T., & Kelly, A. P. (2014). *Investing in Value, Sharing Risk* (AEI Series on Reinventing Financial Aid) (p. 18). Washington, D.C.: Center on Higher Education Reform American Enterprise Institute.

Prince, H. (2007). *Strategies for Financing Workforce Intermediaries: Working Papers*. Boston, Mass.: National Fund for Workforce Solutions.

Rudd, T., Nicoletti, E., Misner, K., & Bonsu, J. (2013). *Financing Promising Evidence-Based Programs: Early Lessons from the New York City Social Impact Bond* (p. 84). New York, NY: MDRC. Retrieved from http://www.mdrc.org/sites/default/files/Financing_Promising_evidence-Based_Programs_FR.pdf

Wolf-Powers, L., & Andreason, S. T. (2012). Aligning Secondary and Postsecondary Credentialzation with Economic Development Strategy, or "If Low Educational Attainment = Poor Metropolitan Competitiveness, What Can Be Done About It?." In L. W. Perna (Ed.), *Preparing Today's Students for Tomorrow's Jobs in Metropolitan America* (pp. 224–244). University of Pennsylvania Press.