

Policy Points

Good Faith Fund

Volume 18

October 2002

Expanding State Business and Industry Training Activities: Some Policy Options Including Making Better Use of the Workforce Investment Act (WIA)

One of the shining successes in workforce development policy in the state of Arkansas is the workforce training programs operated by the Arkansas Department of Economic Development (ADED). These programs, the Existing Workforce Training Program (EWTP) and the Business and Industry Training Program (BITP), reimburse employers for costs associated with providing training to existing employees or potential new employees. These programs provide workforce training that is linked to specific employers, the specific workforce skill needs of employers, and specific job opportunities, all of which are key characteristics of effective workforce development training programs. The widespread and continuing use of these programs among state employers is proof of their success.

But as good as these programs are, they have limitations. Most notably they are restricted to serving certain kinds of industries.

This brief examines these limitations and proposes several ways in which they may be addressed. One solution, and the most feasible at least in the short-term, is to use WIA to complement EWTP and BITP, particularly to serve industries EWTP and BITP cannot. Another solution is to legislatively expand the scope of industries eligible for EWTP and BITP.

The primary benefits to expanding industry access to industry workforce training funds are obvious: more employers, many of which are in industries that can and likely will drive future economic growth in Arkansas, and more workers will have access to public workforce training funds.

For reasons outlined below, the best way to do this is to legislatively expand industry access to EWTP and BITP. But there are some very good reasons for using WIA for this purpose as well. Foremost, WIA is a relatively large, stable and immediately available funding resource. Second, even if EWTP and BITP are expanded, if their funding remains as precarious and inadequate as it has been in the past, there will always be a role for WIA to play in terms of stabilizing and expanding access to industry training funds. Finally, using WIA in this way may improve the WIA program. WIA is a large public workforce development program that, if effective, can play a huge role in upgrading the education and skills of Arkansas' workforce. WIA involvement in the state's industry training

Inside This Issue

Limitations of EWTP and BITP	2
Policy Options for Addressing Limitations	4
How to Begin	5

activities should help WIA establish some much-needed relationships with state employers, and provide WIA practitioners with invaluable lessons in how to provide effective employer-driven workforce training services, all of which could have a broad impact on the performance of the WIA program.

EWTP and BITP

BITP provides funding for training potential new employees, what is often called pre-employment training, at new or expanding businesses in Arkansas. Substantively, pre-employment training can involve a wide-range of skills including intense occupation-specific skills. Other than being a potential new employee, there are no other eligibility criteria for workers to participate in BITP. A new business is one that is locating a plant or office in the state for the first time. An expanding business is one that is undertaking an expansion of its existing operations in the state.

BITP is intended to compliment ADED's main business development tax incentive programs, Create Rebate and AEDA (Arkansas Economic Development Act), which means businesses typically have to qualify for either of these programs to be eligible for BITP. Create Rebate and AEDA have eligibility requirements related to the size of the expansion investment and the number of jobs created, which have the effect of targeting these incentives to larger employers. In addition, only certain industries are eligible for these programs, namely manufacturing, computing, biological research, motion picture production, distribution, office and corporate headquarters, and coal and lignite mining.

The other factor pushing BITP toward bigger projects is the program's budget, which is regularly inadequate, meaning the program often runs out of money before the end of the biennium budget cycle. The budget for BITP this biennium (2001-2003) is \$2.35 million. Because of limited resources, BITP—rightly so—gives priority to larger projects with typically higher returns on investment. Incidentally, ADED's return on investment calculation takes into consideration the wage levels of the jobs targeted for training, which is something that should be considered if BITP and EWTP are opened up to new industries and large categories of jobs. However, it should be noted that nothing in the rules of BITP precludes the program from serving smaller projects, even projects that do not qualify for Create Rebate and AEDA.

EWTP provides funding for training the incumbent workers of existing state businesses. An incumbent worker is someone who has been employed with the business seeking EWTP assistance for at least six months and works an average of 30 hours per week. Other than being an incumbent worker, there is no other eligibility criteria for workers to participate in EWTP. In addition to being limited to incumbent workers, only businesses in certain industries are eligible for EWTP.

EWTP-eligible businesses include manufacturers in Standard Industry Classification (SIC) codes 20-39, computer firms with no public retail sales that derive at least 60% of their revenue from out-of-state sales, and businesses primarily engaged in commercial physical and biological research.¹ (See footnote 1 for the listing of specific industries for these SIC codes).

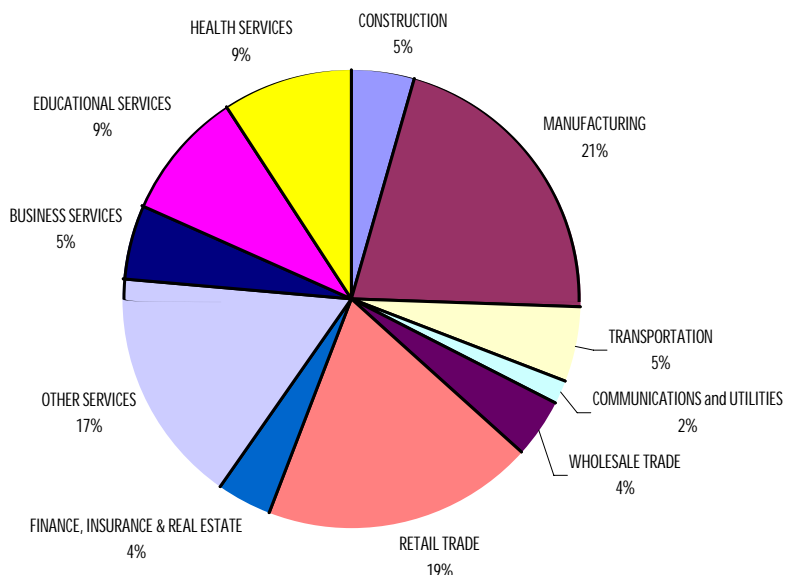
The Limitations of EWTP and BITP

EWTP and BITP, as outlined above, target or serve a limited number of industries, with manufacturing being the primary industry. Although manufacturing and the other industries EWTP and BITP target are key industries in Arkansas, there are many other industries that employ a significant number of Arkansans and that are expected to contribute significantly to the state's economic development in the coming years.

Chart 1 shows the percent of jobs in manufacturing compared to the percent of jobs in several other key industries in the state. Manufacturing employment represents 21% of the total employment represented by the industries in Chart 1, which is a generous estimate because Chart 1 excludes the agriculture, mining, and government industries.

Table 1 gives the estimated actual number of jobs in each industry listed in Chart 1, and the projections for job growth in those industries by 2008. All but four industries listed in Table 1 are expected to experience a higher percent increase in job growth by 2008 than manufacturing. In terms of the actual number of jobs each industry will create, however, only two industries—services overall and health services in particular—are expected to create more jobs. But there are several industries that are not far behind in terms of total employment growth, including business services and retail trade. Table 1 shows clearly, that although manufacturing is still a key industry in Arkansas, there are indeed other industries that are important to the economic development of the state.

Chart 1
Estimated Employment by Industry, 2001 (4th Quarter)



Source: 2000-2002 Short-Term Industrial and Occupational Projections, 1998-2008 Industrial and Occupational Employment Projections Data , Arkansas Employment Security Department

Table 1: Estimated Total Employment by Industry 2001-2008

Industry Title	2001 (4th Quarter) Estimated Employment	2008 Projected Employment	Absolute Change	Percent Change
CONSTRUCTION	53,170	54,840	1,670	3.14%
MANUFACTURING	249,190	280,120	30,930	12.41%
TRANSPORTATION	58,780	67,000	8,220	13.98%
COMMUNICATIONS and UTILITIES	20,590	19,540	-1,050	-5.10%
WHOLESALE TRADE	52,460	57,780	5,320	10.14%
RETAIL TRADE	217,370	246,230	28,860	13.28%
FINANCE, INSURANCE & REAL ESTATE	45,950	50,140	4,190	9.12%
SERVICES	475,490	573,110	97,620	20.53%
Business Services	59,690	78,800	19,110	32.02%
Educational Services	107,690	111,730	4,040	3.75%
Health Services	105,870	152,460	46,590	44.01%

Source: 2000-2002 Short-Term Industrial and Occupational Projections, 1998-2008 Industrial and Occupational Employment Projections Data , Arkansas Employment Security Department

In fairness, industries other than manufacturing and the few others identified above as EWTP eligible, can access EWTP. But they have to be part of a regional consortium of industry employers that includes manufacturers. There are eleven such consortiums in the state, covering many of the larger metropolitan areas. Some non-manufacturers that are part of such consortiums have been able to access EWTP through these consortiums. But some areas of the state simply do not have consortiums, and others do not have manufacturers to include in a consortium, which suggests consortiums are not an adequate method for expanding industry access to EWTP.

In summary, there are some very significant limitations in the types of industries and projects BITP and EWTP can serve. Chart 1 suggests that as much as three-quarters of Arkansas' workers are excluded from benefiting from the EWTP program, because of its industry restrictions alone, which in turn means a majority of the state's employers are excluded as well. And BITP is not much more accessible. It is not good economic development policy to limit the business development incentives embodied in BITP and EWTP to so few industries unless these industries are expected to be the sole drivers of future economic growth in Arkansas, which, of course, they are not. It is imperative, therefore, that workforce development policymakers and practitioners figure out a way to broaden industry access to BITP and EWTP or otherwise expand access to industry workforce training assistance, so that more state employers and workers have access to the workforce training they need.

What Can Be Done

There are at least two policy options for addressing the industry and project limitations of EWTP and BITP. And both of these options should be pursued because they complement each other.

Policy Option One. The first option, which is the only option in the short-term, is to use WIA to address the limitations of BITP and EWTP. Some workforce development practitioners have successfully used WIA in this way, and others are considering doing so.² Very simply, an employer that wants to provide training for either potential new employees or existing employees, but knows that BITP or EWTP cannot provide funding assistance because of industry ineligibility or some other reason, could go to its local Workforce Investment Board (WIB) for funding assistance. The WIA program is administered at the local level through WIBs which make decisions about how WIA funds are spent. WIA allows local WIBs to approve training "contracts" for employers to conduct workforce training. There are "On-the Job" (OJT) training contracts that target new employees, and "Customized" training contracts that can target either new employees or incumbent workers. Contracts enable training to target specific jobs and provide for relatively quick attachment to the labor market and further skills development. Another potential mechanism is an ITA (Individual Training Account) but that requires project training providers to be approved by a local WIB as a WIA Training Service Provider and thus is better-suited to more permanent training programs that have continuous enrollment. Given that the rules for using contracts and ITAs can be complicated, and certainly not very well understood by employers and workforce development practitioners outside of WIA, a forthcoming *Policy Points* brief will examine the specific rules for using contracts and ITAs for industry training, and the particular policies each local WIB in Arkansas has established that could impact their use.

The use of WIA for pre-employment training contracts is particularly appealing for several reasons. First, the aforementioned limitations of BITP, which is the only state-funded customized industry *pre-employment* training program, in effect significantly restrict the number of businesses with access to pre-employment training assistance. Second, the state already invests over five times more money in customized industry incumbent worker training via EWTP and the AWIB Incumbent Workforce Training Program, which is described below, than customized industry pre-employment training, excluding certain workplace adult education services. The inadvertent effect of this emphasis on incumbent worker training is that a large population of workers, the unemployed and underemployed, are being underserved by the state's customized industry training efforts. 4

Encouragingly, there is precedent for using WIA for customized industry pre-employment training. At least one local WIB recently used WIA funds for a relatively large pre-employment training project, and another local WIB has been successful with using OJT contracts for smaller pre-employment training projects. But WIA is appealing for incumbent worker training as well. WIA could be used to target those industries that EWTP currently cannot serve. It also could be used to supplement EWTP funding on relatively large training projects that neither program alone can fund. In fact, there is precedent for this; EWTP and the Little Rock WIB recently co-funded a large incumbent worker training project targeting the HVACR industry (heating, ventilation, air conditioning, and refrigeration). And finally, WIA funds could be used to substitute for EWTP funding, or BITP funding for that matter, on projects that serve low-income worker populations, thus saving EWTP funds for projects targeting relatively higher-income workers. Sometimes WIA and local WIB policies restrict WIA training services to relatively low-income populations. Accordingly it may make sense sometimes to use WIA for a project that targets low-income workers, especially when there is another pending local EWTP project targeting relatively higher income workers and EWTP funding is limited. In this way WIA could in effect extend the existing resources of EWTP, which is needed. EWTP funding for the biennium was \$2.4 million, and the program risks running out of funds before the end of the biennium, an occurrence more common than not.

It should be noted that the Arkansas WIB (AWIB), the state-level administrative entity for WIA, also can provide employers with funds for training incumbent workers. The AWIB recently announced the creation of the Arkansas Incumbent Workforce Training Program, which provides matching grant funds to employers in any industry for workforce training targeting their existing workforce. But the program's total funding, \$1.7 million, is not adequate to serve all those state employers with incumbent worker training needs, and the program has a maximum grant amount of \$175,000. Moreover, the program is not permanent, and must be reauthorized in 2004. The local WIBs, therefore, are and will continue to be the more stable and, in some ways, flexible source of WIA funding for incumbent worker training. And they likely will always be the primary source of WIA funding for pre-employment training, since WIA provides less explicit encouragement and authority to state WIBs to undertake this kind of training project with its discretionary funds.

How to Begin

The simple but critical first step in using WIA for industry training efforts, is better communication on the part of local WIBs and those entities currently coordinating the industry training being done through BITP and EWTP. Those entities are the state's 33 community colleges and technical institutes and ADED. More specifically, the schools have business and industry training coordinators, and ADED has regional workforce training coordinators, who together work to coordinate employer-specific workforce training using BITP and EWTP. Because these folks are in regular contact with local employers and their workforce training needs, more so than most local WIBs, it will be crucial that they communicate with their local WIBs. These people need to begin to establish relationships with local WIB staff and keep them informed regarding potential industry training projects for WIA assistance. But the local WIBs need to reach out too, to the schools, ADED and, especially, local employers to understand their workforce training needs.

The likely next step in using WIA for industry training efforts will be making local implementation of training contracts and ITAs easier to use and amenable to the particular demands of industry training projects, such as short deadlines. But any bottlenecks should be surmountable in time, even if they require changes in WIA rules.

Policy Option Two. The other policy option for addressing the industry and project limitations of EWTP and BITP is to legislate changes to the rules of both programs so that all or most industries are eligible. This ultimately is a better way to address these limitations than simply using WIA to fill the gaps. That is because WIA potentially has more eligibility restrictions than BITP and EWTP, some of which were alluded to above, which inevitably will restrict WIA from being able to fund as broad of a range of projects for eligible industries

as BITP and EWTP. It would be unfair, in other words, to use WIA exclusively to serve the workforce training needs of certain industries because these particular industries inevitably will be more limited in the kinds of projects they can get assistance with than those industries with access to BITP and EWTP. Thus, the more flexible approach from the perspective of serving employers is to un-restrict eligibility for BITP and EWTP, as well as WIA to the extent possible, thereby enabling the use of all three programs to serve the training needs of employers. This way employers will have a broader range of funding options and therefore a better chance of getting assistance with their training projects.

But the feasibility of opening up BITP and EWTP to more industries will be contingent upon another legislative change: additional funding for both programs. Both programs are fully using their current funding, so if more industries are made eligible for both programs, funding for both must be increased to accommodate the additional demand. Additional funding will ensure that expansion of BITP and EWTP does not come at the expense of those industries currently being served by the programs. And this is a critical point, because the industries these programs now target were and still are key industries in terms of state economic development, and to undermined their growth for the growth of other industries, would represent little or even no net gain.

Because rule changes and funding increases for BITP and EWTP will require action on behalf of the Arkansas General Assembly, the realization of this option may take years. Furthermore, even if these changes are eventually achieved, the vagaries of the state budget process will continually threaten adequate funding for both BITP and EWTP. Which is precisely why the use of WIA for industry training activities needs to be established now and continued. In the long-term WIA can help stabilize state funding for industry training efforts.

Some Final Thoughts

If funding for EWTP and BITP continues to remain unpredictable and inadequate, as it likely will in the near future, it may make sense to test or pilot the expansion of these programs by targeting only a few new industries or certain types of skills training, such as information technology skills training. Such a pilot would be a way to control the expansion to ensure a high return on investment. For example, industries with relatively high quality jobs could be targeted to ensure training funds are not spent on jobs with very low wages and little opportunity for advancement. Or targeting certain kinds of training, such as information technology skills training, could help ensure training funds are spent on highly value-added skills that can have a relatively large impact on the productivity of any industry or business.

Finally, to stabilize and increase funding for BITP and EWTP, the state should consider an alternative funding mechanism or source. Currently BITP and EWTP are funded from the General Revenue Fund, which fluctuates according to state tax collections. But other states have successfully tapped into their unemployment insurance funds in various ways, or used other funding sources, to provide more reliable and adequate funding for their industry training programs. A future *Policy Points* will explore what other states have done in this regard.

Notes

¹ SIC codes 20-39 refer to the following kinds of manufacturers: Food & Kindred Products, Textile Mill Products, Apparel & Textile Products, Paper & Allied Products, Printing & Publishing, Chemical & Allied Products, Petroleum & Coal Products, Rubber & Misc. Plastic Products, Leather Products, Lumber and Wood, Furniture & Fixtures, Stone & Clay & Glass, Primary Metals, Fabricated Metal Products, Industrial Machinery & Equipment, Electrical & Other Equipment, Transportation Equipment, Instruments & Related Products, Misc. Manufacturing.

² The Little Rock WIB, Southwest WIB and Northeast WIB have successfully used WIA for employer-specific training projects.

Prepared by Mike Leach Director
of the Public Policy Program of
Good Faith Fund
1123 S. University, Suite 1018
Little Rock, AR 72204
501.661.0322
e-mail: mleach@ehbt.com
www.arenterprise.org



Planting the Seeds for Success

2304 W. 29th Avenue
Pine Bluff, AR 71603

BULK RATE
U.S. Postage
PAID
PINE BLUFF, AR
Permit #29