

## Workforce Investment in Times of Need and Fiscal Constraint

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The Great Recession profoundly impacted the Fifth District's labor markets. From the peak in the region's employment in February 2008 to its low point two years later, almost 850,000 jobs in the district were lost, and nearly a quarter of those jobs have yet to be recovered. In addition to the safety net of the unemployment insurance program, laid-off workers and those struggling to enter the job market were able to use federally funded workforce programs to receive job searching assistance, job training, and even help with other social services to support their participation in the labor market. Although most dislocated workers re-enter employment without the support of government assistance, the federal government has long been in the business of helping to train workers to meet the needs of employers, with the added benefit of simultaneously reducing affected workers' reliance on government aid.

Current concerns over federal government spending, however, will inevitably affect workforce programs, whose funding has already declined on balance over the past 15 years. The Workforce Investment Act (WIA), the primary source of funding for workforce training, is intended to bring control and accountability for workforce programs to the state and local level and improve coordination with various social programs that benefit job seekers. With the exception of additional short-term funding through the 2009 American Recovery and Reinvestment Act (ARRA), allocations of WIA funds have been declining fairly steadily since program year 2002. Furthermore, the peculiarities of the formulas for allocating WIA funds among the states led to changes in funding levels during the recession and its aftermath that perhaps seem counterintuitive given the high levels of unemployment. Using the Fifth District to illustrate, one of the hardest-hit states, South Carolina, lost WIA dollars while Virginia gained, due to relative changes in unemployment and the formula-driven allocation scheme for WIA funding.

Analysis of the net impact of WIA for several states has shown a positive return on the investment over the lifetime of program participants. Despite evidence of the program's benefits, funding for the WIA has remained a challenge since its inception. Demand for participation in the nation's workforce development programs remains high, even as continued budget constraints make future funding even more uncertain.

**Federally Funded Workforce Efforts**

The three main components of workforce development services in the United States are the job search assistance

and job matching program, adult workforce training program, and dislocated worker program. The job matching program provides a structure by which workers can find employers who may be looking for someone with their particular skill sets, and vice versa; this structure benefits the economy more generally in that it reduces frictions in labor markets. The workforce training programs are designed to build up the knowledge and skills of participants by providing resources to help them attain the skills that are in demand by employers in their areas, helping to close the skills mismatch and get those workers into (or back into) suitable employment. Workforce training programs primarily serve economically disadvantaged adults over the age of 21 who face barriers to employment, and dislocated workers who have lost jobs due to changes in technology or industry trends. In addition, some programs focus specifically on at-risk youth between the ages of 14 and 21, and provide job readiness assessment in addition to training.

The WIA is the latest federal initiative designed to prepare workers for employment or re-employment. There are several key aspects of WIA that differ from its predecessor program (the Job Partnership Training Act of 1982). One key difference lies in the way services are provided to workers and employers. According to the Department of Labor, the agency that oversees the WIA on the federal level, the programs work through a nationwide network of "One Stop Career Centers" where job seekers are offered "training referrals, career counseling, job listings, and similar employment-related services" in a single location.

Another key difference is a higher level of state and local control over the program, as well as more private sector representation on local workforce investment boards, which are composed of local elected officials, private industry representatives, and workforce training providers. WIA funds are allocated to the states and, in turn, distributed to the local investment boards that are in the best position to recognize the skill shortages within their areas and to foster relationships with the workers and employers.

A third important difference is the way that training is delivered to workers. WIA introduced Individual Training Accounts (ITAs), which is a training voucher program for eligible participants, and required states to vet training providers and compile Eligible Training Provider (ETP) lists. The ITAs provided states and beneficiaries more flexibility in their training options, while the ETP lists added an element of accountability for states and training services providers by requiring documented success in offering training that leads to unsubsidized employment and meets local employer needs.

One may think of WIA outlays as investments in human capital, investments that ultimately pay returns to program participants, employers, and society more generally. The goal of workforce development efforts is to make workers more employable and productive. Individual workers then earn returns from jobs and higher compensation. Employers benefit from better trained and presumably more productive employees. And society profits from increased availability of goods and services, reductions in income supports (such as unemployment insurance payments, food stamps, Medicaid, etc.), and greater tax revenues over the long run.

Attempts to measure the return on investment (ROI) from these outlays have been limited by the availability of data and the uncertainty in quantifying the benefits derived by society, among other factors. One analysis that provides a compelling framework has been set out by Kevin Hollenbeck of the Upjohn Institute for Employment Research. In a 2012 working paper, Hollenbeck weighed the costs of postsecondary job preparation training in Washington state against the benefits derived by program participants and the public (taxpayers), together constituting the benefit to society as a whole. Hollenbeck's efforts suggested that after absorbing a slightly negative return over the first 10 quarters of the investment (-0.11 percent), the ROI over the worker's lifetime was between 4.8 percent and 6.7 percent. Earlier work by Hollenbeck reached similar conclusions with regard to programs in Indiana and Virginia.

### Allocating Funds Among the States

The WIA program has been continuing more or less unchanged since its inception in 1998, although it has been awaiting reauthorization since 2003. There have been several attempts at reauthorizing the Act, but none has succeeded. Congress continues to appropriate funds annually to support it, however. In program year 2001 (the program year starts on July 1 and ends on June 30 of the following year), \$3.3 billion was appropriated for the WIA, but by program year 2007, the funding level had fallen to \$2.9 billion — a decline of 11.4 percent.

The funds Congress provides through WIA flow into three major programs — youth activities, adult activities, and the dislocated workers program. Funds for these programs are allocated to the states using formulas based on need. The first two of these funding streams are geared toward helping economically disadvantaged individuals. Thus, when determining a state's allotment for youth and adult programs, the Department of Labor takes into consideration such factors as areas of substantial unemployment (contiguous areas with an average unemployment rate of 6.5 percent) and the state's share of economically disadvantaged youth and adults using decennial Census data and standard poverty

thresholds. One must keep in mind that when the WIA was enacted and these rules were written, sustained unemployment rates of greater than 6.5 percent were far rarer than they became in the wake of the Great Recession, so the threshold may seem low by today's standards.

The dislocated worker program is geared more toward putting idled workers back to work. Its funding formula therefore uses more cyclical measures of labor market conditions to determine the level of duress in the state's labor market and, consequently, how much of the appropriated funds the state will receive. The first formula input is the state's share of total nationwide unemployment. The second criterion is the state's share of excess unemployment, that is, its share of unemployed workers in excess of 4.5 percent of the labor force. (Again, one must keep in mind the unemployment rates that prevailed at the time the rules were written.) The third determinant is the state's share of total long-term unemployment, which the WIA defines as 15 weeks of unemployment or longer.

### WIA Spending Since the Recession

Congress responded to the sharp run-up in the ranks of the unemployed in the early stages of the Great Recession by allocating additional funding to WIA programs through ARRA. This funding included a supplemental \$2.9 billion in combined funding for WIA's youth, adult, and dislocated worker programs for program year 2008, even though the program year was nearly 75 percent over. Congress tucked the additional funding into the 2008 program year in order to keep with the spirit of ARRA spending more generally, which was to get the funds working in the economy as quickly as possible. Since states have the flexibility to spread their program year allotment over the subsequent two program years (if conditions warrant), the placement of the ARRA funds in the nearly finished 2008 program year meant that states had just two years and three months to spend the funds rather than the standard three years. Most of those funds were used by the time program year 2010 rolled around. Fifth District jurisdictions received about \$220.4 million in supplemental WIA funding through allocations from the ARRA in program year 2008. That nearly doubled the roughly \$238.7 million regular allotment.

Long after the ARRA moneys had been spent, the need for labor matching and training services remained high in the district and in the rest of the nation, but the funds available to provide those services did not keep pace. The number of unemployed workers in the United States increased by roughly 110 percent between 2007 and 2010 — yet the funds dedicated to all WIA programs in the 50 states and the District of Columbia were 10.4 percent lower in program year 2011 than in program year 2008 in nominal dollars (outside of the emergency funding in the ARRA).

#### QUICK FACT

The need for labor matching and training services remained high in the Fifth District and in the rest of the nation, but the funds available to provide those services did not keep pace.

In the Fifth District, unemployment increased much more than in the United States as a whole during the same timeframe (125 percent), which resulted in a relatively smaller decline in WIA funds. In program year 2011, nominal WIA funding to the jurisdictions covered by the Richmond Fed was 4.7 percent lower than in program year 2008 (see chart below).

Of the Fifth District's jurisdictions, Virginia, Maryland, and North Carolina showed the most significant increases in the number of unemployed workers during this period, with the growth rate in each far exceeding the nationwide average. In contrast, the rise in the ranks of the unemployed fell below the nationwide average in the District of Columbia, South Carolina, and West Virginia (see adjacent table). Given their particularly sharp rise in unemployment, it is not surprising that Virginia, Maryland, and North Carolina saw WIA funding climb through the Great Recession, although the gains in funds did not keep pace with the increases in unemployment.

While funding in these three states did not keep pace with the surge in unemployment, consider the plight of workforce development programs in the other three Fifth District jurisdictions. WIA funding actually fell in nominal terms in the District of Columbia, South Carolina, and West Virginia. So despite the fact that these three jurisdictions saw a combined net increase of 101 percent in their unemployment levels, WIA funding fell by a total of 37 percent in nominal dollars — far more than the overall decline in WIA funding at the national level.

Because the amount of WIA funding a state receives is not a function of the absolute deterioration in the area's labor market, but rather a function of how it performs relative to nationwide averages, jurisdictions where labor market deterioration exceeded the nationwide average saw an increase in their WIA allotment. In contrast, those jurisdictions "fortunate" enough to experience less (but still significant) deterioration in labor market conditions saw their funding decline.

A look at the funding formula for the dislocated workers

### Number of Unemployed Workers (Thous.)

	2007	2010	Percent Change
United States	7,077.7	14,824.8	109.5
Fifth District	611.8	1,379.7	125.5
District of Columbia	17.8	34.7	95.1
Maryland	103.0	240.7	133.7
North Carolina	214.6	501.0	133.4
South Carolina	119.1	241.5	102.8
Virginia	123.1	293.8	138.7
West Virginia	34.3	68.0	98.3

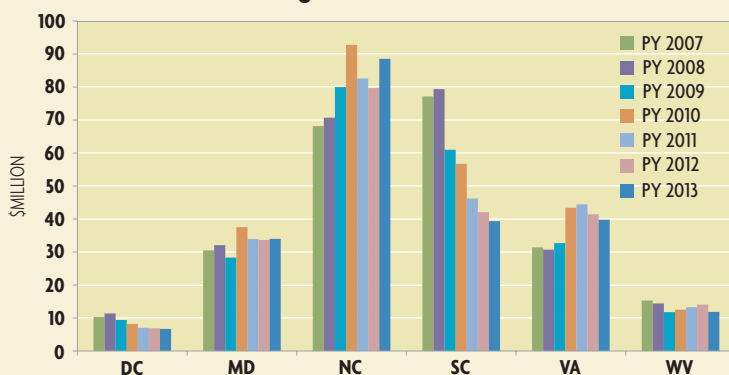
SOURCE: Bureau of Labor Statistics/Haver Analytics

program illustrates the math. A state's allocation for this program is based on its share of total unemployment, its share of excess unemployment, and its share of long-term unemployment. Each variable is assigned equal weighting in the dislocated worker formula (one-third). Comparing the two extreme cases of funding changes in the district (South Carolina and Virginia) before and after the recession shows why some states saw increased funding while others experienced declines.

In the 12-month period used to calculate dislocated worker allotments for program year 2008, unemployment in the United States was very low by historical standards, averaging 4.5 percent, which coincides with the "excess unemployment" standard. Rates varied considerably by state, however. South Carolina was one of many in which the unemployment rate exceeded the BLS's excess unemployment threshold, while Virginia was one of many where the unemployment rate fell below it (see chart on next page). In fact, despite having a workforce that was only one-half the size of Virginia's, South Carolina had more unemployed workers for program year 2008 (see table on next page). Revisiting the first two funding formula factors — share of total unemployment and share of excess unemployment — it is readily evident that South Carolina was receiving disproportionately large multiples for both. (The other component of the funding formula, long-term unemployment, did not affect the relative comparison between South Carolina and Virginia that year.)

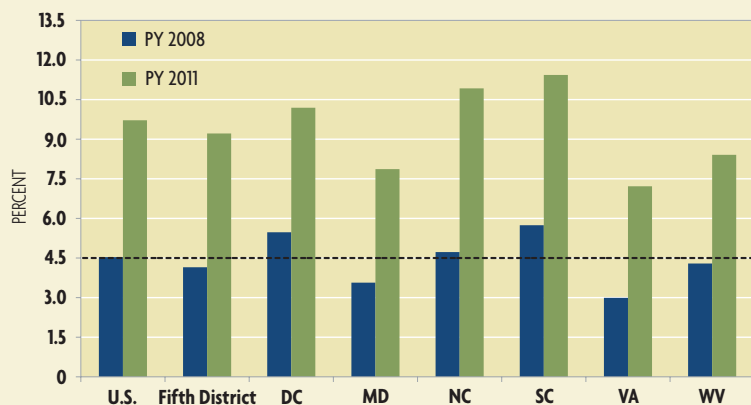
The Great Recession altered the landscape as unemployment rose dramatically across the nation, with significant implications for states' WIA funding formulas. No longer were unemployment rates higher than the excess threshold in some states while lower in others; in the 12-month period used to calculate WIA allotments for program year 2011, every state except North Dakota saw its unemployment rate surge beyond 4.5 percent. For South Carolina, a state with higher-than-average unemployment prior to the recession, this resulted in a reduction in its share of the nation's total unemployment. But for states like Virginia with lower-than-average unemployment before the downturn, it meant a higher share. Similar trends played out with the

### Allocation of WIA Funding



NOTE: PY=Program Year  
 SOURCE: U.S. Department of Labor, Employment and Training Administration, State Statutory Formula Funding, <http://www.doleta.gov/budget/statfund.cfm>

## Unemployment Rates



NOTE: PY=Program Year  
 PY 2008: avg 12 months ending 9/30/07; PY 2011: avg 12 months ending 9/30/10  
 SOURCE: Bureau of Labor Statistics/Haver Analytics

other two funding formula factors as well.

In an environment where the budget pie isn't expanding and the measures of distress are relative, a state with high unemployment levels to begin with can see funding levels decline, even though labor markets have worsened everywhere. In the Fifth District, that means states like Maryland, North Carolina, and Virginia received more WIA dollars during the recession at the expense of states like South Carolina and West Virginia, even though labor market conditions deteriorated there, too.

### What Happens Next?

Economists and analysts who follow government finances long ago recognized that the wide gap between revenue collections and public expenditures that came out of the Great Recession would ultimately lead to hard decisions regarding spending priorities. A primary concern was whether governments would choose, or be forced, to cut spending in programs that have the potential to enhance society in the long term. To be sure, WIA costs money in the form of program administration and tuition. But for all the costs associated with preparing disadvantaged and dislocated workers to enter or re-enter the labor force, there are benefits to the individuals who receive training and services through WIA and benefits that accrue beyond those individuals.

For the individuals, studies have suggested that the benefits come in the form of reduced spells of unemployment, increases in lifetime earnings, and better fringe benefits associated with better jobs. For society, shorter spells of unemployment translate into less expenditure on unemployment insurance benefits. Higher earnings bring in more tax

revenues for the government and a reduced reliance on taxpayer-funded programs like Medicaid, Temporary Assistance for Needy Families, and food stamps. The cost-benefit analysis of state WIA programs assessed by Upjohn Institute researchers found that the benefits to society appeared to outweigh the costs. In other words, the return on taxpayers' investment in workforce development programs appeared to be a good one.

Despite that, the environment facing workforce development entities is an increasingly challenging one in which the need for skills matching remains high even as federal funding for workforce training is dwindling. (Despite elevated levels of unemployment, employers frequently cite a dearth of workers with the skills needed to fill open positions.) In addition to the longer-term trend toward fewer budget dollars, sequestration has reduced total WIA funding for program year 2013 by 5.2 percent in the United States. In the Fifth District, only Maryland and North Carolina have received an increase in their WIA allocations for program year 2013, while Virginia, Maryland, West Virginia, and Washington, D.C., face a reduction in funding. In addition, the U.S. Department of Labor applied the full sequester to the base allocation (composed of half of the adult and dislocated worker allotments) that is paid on July 1, resulting in a severe reduction in funds available for the first quarter of the program year (starting July 1, 2013). Meanwhile, participation in WIA programs grew by 53.7 percent in the Fifth District from program years 2008 to 2011 and remains high. Local workforce investment boards must meet the challenge of reduced funding by careful cost management, more strategic investment in training options, and, where possible, additional sources of funding for outside grants and corporate support. **EF**

### Data Factors for PY 2008 and PY 2011 State Formula Allotments (Thous.)

	Regular Unemployment		Excess Unemployment		Long Term Unemployment	
	PY 2008	PY 2011	PY 2008	PY 2011	PY 2008	PY 2011
United States	7,084.8	15,155.3	579.3	8,178.1	2,290.0	8,865.8
District of Columbia	18.4	36.0	4.0	21.0	7.0	21.0
Maryland	114.3	219.6	0.0	86.4	36.0	135.6
North Carolina	216.4	474.5	12.7	270.7	76.0	306.7
South Carolina	129.2	251.7	32.4	154.3	50.0	165.3
Virginia	120.2	291.5	0.0	104.0	35.0	179.0
West Virginia	37.7	70.8	1.0	35.5	14.0	34.1

NOTE: Formula for state allotments is:  
 1/3: State relative share of total (regular) unemployed (PY 2008: avg 12 months ending 9/30/07; PY 2011: avg 12 months ending 9/30/10)  
 1/3: State relative share of excess unemployed (PY 2008: avg 12 months ending 9/30/07; PY 2011: avg 12 months ending 9/30/10)  
 1/3: State relative share of long-term unemployed (PY 2008: Calendar year 2006; PY 2011: average 12 months ending 9/30/10)  
 SOURCE: U.S. Department of Labor, Employment and Training Administration, State Statutory Formula Funding.  
<http://www.doleta.gov/budget/statfund.cfm>