Report of the

WORKFORCE DEVELOPMENT SUSTAINABLE FUNDING COMMITTEE

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A. Next Generation Fund Appropriations

B. Adult Job Training Funding - 2006

The Workforce Development Sustainable Funding Committee's Charge

The Legislature established the Workforce Development Sustainable Funding Committee in Act 46 of 2007. Sec. 6a of Act 46 reads:

Sec. 6a. WORKFORCE DEVELOPMENT SUSTAINABLE FUNDING COMMITTEE; CREATION; DURATION

(a) The workforce development sustainable funding committee is created consisting of eight members to include three business members from the workforce development council appointed by the council executive committee, one business representative appointed by the senate president pro tempore, one business representative appointed by the speaker of the house, and three business members who represent business organizations appointed by the governor. The committee shall identify sources of sustainable long term funding to adequately support ongoing workforce development efforts. The governor, speaker, and president pro tempore jointly shall select the chair from the members of the committee.

(b) The committee shall perform a comprehensive review of workforce development funding strategies that have been used successfully in other states and countries and identify which, if any, are suitable and workable for Vermont.

(c) The committee shall report its findings to the senate committee on economic development, housing and general affairs, the house committee on commerce, and the governor on or before December 1, 2007.

(d) The joint fiscal office and legislative council shall provide administrative support to the committee. The committee may request administrative support from the department of taxes, the department of finance and management, or the workforce development council and other agencies as required.

The committee clarified that its charge is limited to a consideration of various funding approaches and recommending one or more financing schemes that would be appropriate and workable to provide long-term financing of Vermont's workforce development initiatives and to assume that the present Vermont workforce development plan functions appropriately.

History of Funding the Vermont Next Generation Initiative

In 2006, the Legislature passed Act 204, which established a commission to develop the Next Generation Initiatives and created the Vermont Next Generation Initiative Fund to comprise legislative appropriations, grants, donations, and contributions.

The Next Generation Commission's charge was to develop a plan to encourage Vermonters to live and work in Vermont by considering a broad range of issues and ideas. The commission developed this plan and recommended a funding level as well as a funding source through fiscal year 2012 as laid out in its report entitled "Linking Learning to Earning in Vermont."

In fiscal year 2007, the Legislature made three general fund appropriations for a total of $13 million to be used to implement the Next Generation Initiatives.

The first appropriation of $3 million (see Sec. 272(d)(3) of Act 215 of 2006) was evenly distributed among the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation to be used to ensure that Vermont's youth have access to a postsecondary education that provides them with the technical skills necessary to thrive in a dynamic global economy and to attract and retain technology-based jobs for which Vermont students are being trained.

The second appropriation of $5 million (see Sec. 3(a) of Act 204 of 2006) was again evenly distributed among the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation to be used for scholarships for Vermont students.

The third appropriation of $5 million (see Sec. 3(b) of Act 204) was deposited in the Vermont Next Generation Initiative Fund and distributed as directed by the Next Generation Commission in its report "Linking Learning to Earning in Vermont."

In fiscal year 2008, an additional $7 million were appropriated to the Vermont Next Generation Initiative Fund. This $7 million and the $5 million appropriated in fiscal year 2007 were allocated for use during fiscal year 2008 (see Sec. 7 of Act 46 of 2007). For a summary of the specific appropriations, see attachment A.

The Workforce Development Sustainable Funding Committee Recommendations

Before beginning work, the committee established several principles and working assumptions to guide its research, deliberations, and decision-making.

Sustainable Funding Principles and Working Assumptions

1. Every effort should be made to retain or increase federal funding levels for workforce development, particularly urging Vermont's Congressional delegation to work hard to maintain and increase funding for workforce development initiatives, including the Workforce Investment Act, Youth Build, and Green Jobs Amendment to Energy Bill.
2. Any funding mechanism must be administratively simple and user friendly.
3. Any financing approach must be a long-term solution that provides a sustainable and predictable revenue source of funding over time.
4. It is essential that there be a workforce development strategy based on a fully integrated collaboration among employers, government, and education, and that the funding mechanism reinforce this cooperation.
5. Funding allocations must be driven by return on investment.
6. Workforce development and training programs must be employer-demand driven, not grant driven.
7. It is useful to analyze funding approaches used successfully in other states to expand and fund employer-based workforce development that might work here in Vermont.
8. Any funding mechanism must positively reinforce the goals of workforce development and training and enhance the Vermont business climate.
9. Workforce development and training should be directed toward (1) employers with training needs in order to create new jobs and increase the capabilities of incumbent workers, and (2) training low income and disadvantaged individuals so they can be gainfully employed and contributing members of the workforce.

Initial Recommendations

From the beginning of deliberations, the committee felt strongly that their work was out of sequence and they could have been far more efficient and thorough in carrying out their charge had some important preliminary steps been taken. Completion of this preliminary work would have provided the committee with critical information that would have greatly facilitated their efforts. Despite this limitation, the committee proceeded to carry out its charge. The committee strongly recommends that the following be completed as soon as possible:

1. Implement the first recommendation of the Next Generation Commission. This recommendation is that Vermont should: "Integrate and coordinate the state's economic development, workforce development and education systems, and appoint a "Champion" with the authority and accountability to ensure implementation." Sec. 6 of Act 46 (2007) essentially addresses this recommendation and designates the Commissioner of Labor as the Leader or champion; creates a Leadership Committee to support the Leader, and charges the Leader with issuing an annual report in December, beginning in 2007, on many of the issues outlined in the Next Generation's first recommendation. Unfortunately, only recently has the Leadership Committee been appointed and begun work (Workforce Development Council), making it highly unlikely that the report will be issued anytime soon. The information in this report would help to indicate how much money will be needed down the road and address some of the issues of how to measure success.
2. Perform an audit of the present workforce development program to determine how the $53 million investment is being spent, what components are showing the greatest return on investment in terms of job creation, increased earnings, and benefit reductions and to identify program inefficiencies or duplications.
3. Implement a well-designed, responsive, and efficient workforce development strategy for Vermont. The strategy should require integrated collaboration among employers, government, and education; include mechanisms for measuring successes, discovering and eliminating programs that are deficient, duplicative, or working at cross purposes; and assuring ongoing integration of economic development, workforce development, and education.

Completion of these three recommendations would help to formulate a clearer image of how well the system is working; how well the existing financing is being spent; future financing needs; and how much additional financing is actually needed. Access to this information would have greatly facilitated the committee's work and may have helped it to offer more specific financing recommendations.

Despite the lack of useful preliminary information, the Workforce Development Sustainable Funding Committee pursued its charge and considered workforce development funding strategies used successfully in other states and countries and analyzed them to determine viable approaches for Vermont. Although many states have funding mechanisms, because of the foreshortened time frame to complete their work, the committee narrowed the field to four approaches: Iowa, North Dakota, Maine, and Ireland. A more complete and detailed list of other funding approaches not discussed by the committee can be found in Attachment I of the Linking Learning to Earning report.

Recommendations for Sustained Financing

The committee considered the approaches taken by the four jurisdictions and recommends the following three simple and effective financing mechanisms be considered for Vermont:

1. Finance workforce development by diverting a percentage of increased income tax revenues generated by successes in workforce development to finance the program. This approach is similar to financing economic development through tax incentive financing. When additional training generates increased income (thus taxes) through employment in a new job or employment in a higher paying job, the state reaps more income tax revenue from that success, and reinvesting a percentage of that increase in income tax revenue in workforce development would both benefit the state and provide ongoing financing for workforce development. This approach is a component of the system used in Iowa. Another component of the Iowa approach is bonding (see description of Iowa, page 9). The committee determined that it could not take a position regarding whether loans or bonding was appropriate, but does recommend the tax diversion component. This approach directly links funding to return on investment.
2. Create a student loan repayment program similar to the Opportunity Maine program. This program, established in 2006, is designed to make postsecondary education affordable, raise completion rates, and entice graduates to remain in Maine by offering an income tax credit sufficient to cover payment of student loans for those graduates who live and work in Maine after receiving an associate's or bachelor's degree. The program also focuses on adults who move to Maine. (See description of Opportunity Maine on page 9.)
3. Limit financing to employers and programs that provide the highest return on investment. While this is not a direct financing mechanism, this approach should limit the need for financing and help to assure that money directed at workforce development is well spent. Financing should be targeted to the following employers:

    a) Innovative and entrepreneurial companies
    b) Companies that help and nurture the environment and create a Vermont economy that is attractive to today's emerging youth (20s)
    c) Companies that provide internships that create a bridge from college to jobs and help youth learn directly about job opportunities in Vermont
    d) Companies that develop appropriate and useful leadership skills
    e) Companies that add new jobs or increase wages of employees as a result of the training
    f) Programs that focus on skill training to improve the employment opportunities for low income, disadvantaged, or underemployed individuals

Other Financing Recommendations

Although the committee recommends only the three approaches listed in the previous section, the members note that there are other schemes and financing details that are worthy of further consideration and recommend the following:

1. The State Treasurer, the Vermont Tax Department, the Vermont Economic Development Authority (VEDA), and the Legislative Joint Fiscal Office review and analyze how to implement the tax diversion mechanism that is a critical component of the Iowa approach. The review would result in recommendations for implementing this approach and consider implications of implementing that mechanism in Vermont. The recommendations and conclusions would be published in a report issued sometime in the fall of 2008. The timing of the report would serve to avoid campaign involvement, provide sufficient time for the review, avoid the chaos of the legislative session, and improve the chance that the report will be considered as the FY 2010 budget is being formulated and before the 2009 legislative session begins.
2. Consider funding through a tax on employers collected and administered by the Department of Labor. Since federal law effectively does not permit unemployment taxes or the unemployment fund to be used for anything other than unemployment benefits, this employer tax would have to be collected and managed separately from the unemployment fund.
3. Develop specifics for any program that is supported through an income tax diversion mechanism such as graduating the amount of tax diverted when higher revenue employers pay a higher percent of match and provide a higher percentage match to specific desirable industries.
4. Vermont could mandate, as some European countries have, that a minimum percentage of revenue or profit be spent by businesses on workforce development or penalties could be assessed and these penalties used to fund training programs to get the unemployed into livable wage jobs.

Vermont technical centers should receive variable reimbursement for high school students based upon the field of study that they pursue. This would encourage technical centers to counsel students regarding the careers that are most in demand in the Vermont economy and that would result in the highest earning potential. This approach would have the potential of providing an appropriate match between employer needs and workforce skills.

Other Recommendations

While the committee understood that its charge was limited to recommending long-term sustainable funding sources, the members also felt that they should offer suggestions for improving the workforce development program in order to streamline it and improve the effectiveness of money spent. These recommendations follow:

1. Since Vermont has a relatively generous unemployment insurance benefit, if permitted, a graduated lowering of benefits over time might work as an incentive to return to work. While any money saved by such an approach could not be used to fund workforce development, this change could reduce the unemployment insurance taxes paid by employers. The unemployment insurance tax reduction could be replaced by a new tax to fund workforce development, resulting in a neutral cost to the employer.
2. Vermont technical centers should be integrated with the Vermont State Colleges to improve administering funding and to streamline and unify the disjointed public educational sector of the workforce training system.

Workforce Development Funding Initiatives Considered

According to a recent report issued by the United States Department of Labor, Employment and Training Administration, in 2006, 47 states provide state-financed, customized training programs totaling $571 million which provides training to approximately one million people. The average annual amount of money spent by states was $415 million in early 1990, growing to $619 million in the late 1990s, and dropping to $614 million in early 2000. The states with the highest spending on workforce training were Iowa, California, Louisiana, Missouri, and Pennsylvania. The primary sources of funding for all the state's programs were general fund appropriations (42%), unemployment insurance off-set tax (39%), bonds (15%), tax credits (2%), and lottery proceeds (1%).

The Iowa New Jobs Training Program

Steve Ovel, Program Director at Kirkwood Community College in Iowa, testified about the Iowa New Jobs Training Program (NJTP), which was legislatively established in 1983 as part of the New Jobs Training Act. This program was designed to require no additional state appropriation or creation of new state agencies and to be free to participating businesses and workers with initial decisions being made at the local level.[1]

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[1] Building Skills, Increasing Economic Vitality; A Handbook of Innovative State Policies. Jobs for the Future, January 2005, page 25.

The Iowa NJTP was the nation's first job training program customized to the employer, and funded through the sale of bonds. Ten-year bonds based on the prevailing interest rate are sold by the state's 15 community colleges, which serve as intermediaries for the program. The amount of the bond issue is determined by the number of approved training courses included in employer agreements. Bond sales are made once a year, and proceeds are deposited into a "repayment fund" that is used to reimburse programs for training costs incurred. The bonds must be repaid over a maximum of ten years through the diversion of between 1.5 percent and 3 percent of the new employee's salary, depending upon the job status of the employee. The amount of training funds available to a business through the NJTP is directly related to the salaries of the new employees and income taxes generated. There is a $4 million annual cap on the number of bonds sold each year. All new jobs must meet wage requirements. The Iowa Department of Economic Development oversees the program, but agreements are between employers and the community colleges' boards of trustees.[2]

Since 1983, the community colleges in Iowa have issued $560 million in bonds which have helped to create 138,000 jobs. Federal law requires that all interest on bond sales must be used to repay the bonds, so the bonds are generally paid in 7.5 to 8 years. The failure rate of contracts is about 3 percent. The original contract makes the employers responsible for the bond payment.

The State of North Dakota New Jobs Training Program

North Dakota's New Jobs Training Program provides training for both new and expanding companies that are introducing new technologies or production methods. The jobs must pay at least $7.50 per hour and include benefits. The training is financed in several ways. Some companies take out a commercial loan that is paid back by a portion of the income tax payments paid to the state treasury from the new jobs. Others finance the training themselves, and some arrange refundable grants from local communities or economic development groups.[3]

Opportunity Maine

Maine's "Opportunity Maine" program was established in 2006 with the objective of making college affordable, raising completion rates, and enticing graduates to stay in Maine with a focus on adults who move to Maine. Under this program, Maine graduates with an associate's or bachelor's degree from a Maine institution who live and work in Maine are eligible for an income tax credit sufficient to cover their student loan payments.

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[2] Building Skills, Increasing Economic Vitality; A Handbook of Innovative State Policies. Jobs for the Future, January 2005, page 26.

[3] The Employer as the Client; State Financed Customized Training 2006. Steve Duscha and Wanda Lee Graves, page 103.

The "Irish Miracle"

In the late 1980s, Ireland was considered the poorest country in Europe and had a 15 percent unemployment rate in 1993. By 2000, the unemployment rate was 4 percent, and Ireland had become the second wealthiest country in the European Union after Luxembourg and the fourth wealthiest in the Organization for Economic Cooperation and Development.[4]

Ireland took a multipronged approach to success. First, two new agencies were created, the Industrial Development Authority to promote external business and job creation, and Enterprise Ireland to work with high-tech Irish businesses to foster entrepreneurship and venture capital. Ireland worked aggressively to recruit leading high-tech companies by "inviting" them to locate in Ireland. The first influx of business was spurred by financial and tax incentives. Today, Ireland is one of the largest exporters of packaged software in the world.

Ireland also created a tax haven by dramatically reducing the corporate tax rate. It also invested heavily in higher education by establishing regional technical colleges, strategically located near clusters of export-aimed companies. The colleges quickly fine-tuned their curricula to meet business needs and demands. By 2002, 60 percent of Ireland's university students majored in engineering, science, or business. Far fewer people were leaving Ireland, thanks to expanded job opportunities and a vastly improved quality of life.

[4] The Irish Miracle. Karl Sigfrid. The Freeman; Ideas on Liberty, April 2004, page 37.