

## Executive Summary



# Strategies for Financing Workforce Intermediaries: Working Papers

Edited by Heath Prince

Between October 2005 and October 2006, Jobs for the Future, along with partners at the Council for Adult and Experiential Learning, FutureWorks, the Lyndon B. Johnson School of Public Affairs, and Social Ventures, undertook research into the question of how workforce intermediaries—third-party organizations that work to bridge the divide between employers and low-income workers—might use existing or new funding sources to finance their core functions. Unlike funding that pays for direct services, funding for core intermediary activities—planning, convening employers, brokering services, and gathering up-to-date labor market information—is typically difficult to obtain and has proven to be a significant constraint on the expansion of these important organizations.

JFF prepared these working 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 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. In 2007, and with additional support from the Hitachi Foundation, the lessons and accomplishments of this pilot effort formed the basis for a large-scale, national initiative: *The National Fund for Workforce Solutions*.

### Contributors:

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Research, funded by the Ford Foundation, focused on several potential financing sources for workforce intermediaries:

- General obligation bonds;
- Unemployment Insurance funds or employer taxes;
- Food Stamp Employment and Training 50 percent match funds;
- Program-related investments; and
- Tuition-based strategies, including Lifelong Learning Accounts.

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 greatly contributes to a level of underinvestment in human capital development that hinders local, state, and national economic growth and competitiveness.

### Overview of Findings

#### *Strategies for Financing Workforce Intermediaries:*

- Reviews the research findings, highlighting the potential for each 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 strategies to be considered as complementary approaches to financing intermediary core functions and activities.

#### *Bond Financing*

At least three states have funded job training through the sale of general obligation bonds. The proceeds from the 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.

Heath Prince notes obstacles to creating and implementing bond-financed training programs, but he underscores 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.

### ***Unemployment Insurance***

Twenty-three states fund job training through some form of Unemployment Insurance offset, reserve tax, assessment, or fee. 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, and 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 community and technical colleges.

### ***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 non-federal 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. Match funding received by intermediaries that provide FSE&T can serve as a highly flexible source of funding for core functions.

Jeff Jablow suggests that expanding the use of FSE&T by intermediaries will require influencing USDA decision-making. He also underscores the need for greater transparency at the federal, regional, and state levels in order to disseminate best practices across regions.

### ***Program Related Investments***

Program-related investments are recoverable loans or grants that enable private foundations to invest in projects offering the potential of a return of capital and interest. 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 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 viewing PRIs as a source of "bridge financing" during an intermediary's formative or transition period. PRIs might provide upfront funding for operational capital, expansion, and other organizational needs, which intermediaries could repay through another source of funding.

### ***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 community colleges and other tuition-charging entities to strengthen their workforce intermediary functions.

While none of the tuition-based strategies Choitz reviews could fully fund a workforce intermediary's activities, tuition payments could provide some unencumbered and flexible funding for its 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.



Jobs for the Future prepared *Strategies for Financing Workforce Intermediaries: Working Papers* for the National Fund for Workforce Solutions, for which Jobs for the Future is the implementation partner. To download *Strategies for Financing Workforce Intermediaries*, go to:

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