



## UNLOCKING PATHWAYS TO THE MIDDLE CLASS:

*The importance of adequately funding Workforce Development in North Carolina*

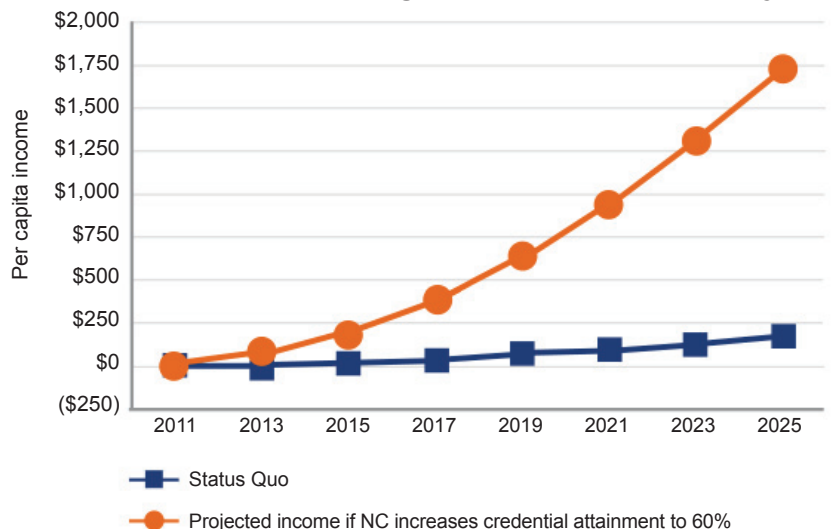
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North Carolina's investment in job training and other workforce development efforts has dwindled since the end of the Great Recession, despite the huge economic challenges facing the state's workers and the need to prepare them for the higher-skill jobs that are the key to prosperity. By 2020, 61 percent of jobs in North Carolina will require some kind of postsecondary training or education.<sup>1</sup> Unless the state puts more resources into creating a skilled, well-educated workforce, it will continue to fall behind the rest of the nation in career opportunities and family income.

As North Carolina continues to shift from an economy based on manufacturing to one based on providing services, too many of the state's workers are faced with the reality that full-time work no longer guarantees a pathway to the middle class. Jobs in manufacturing industries that once provided families with enough income to make ends meet are being replaced by jobs in service industries that all too often end up locking workers into a lifetime of low-wage work.

One key to unlocking more opportunity is strategically investing in skills training and education for adult workers. There is clear evidence that employers put a premium on workers with training-related credentials, associates degrees, and

**FIGURE 1: Return on Investment in Income Growth from Increased Credentialing of Workforce Translates to Stronger Middle Class, Economy**



SOURCE: CLASP, Return on Investment Dashboard, North Carolina.

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college degrees. These credentials often boost their earnings while also strengthening the economy as a whole.

A strong workforce development system is thus essential for unlocking opportunities for increasing earnings and providing pathways to greater economic security. It does so both by providing skill-oriented pathways to higher earnings *within* otherwise low-wage industries, and perhaps more importantly, opportunities for climbing *out of* low-wage work and into higher-skills, higher-wage industries.

While aligning the various providers of job training services within the state's workforce system and creating concrete ways of measuring its success are both important, providing adequate funding for delivering training services remains essential for meeting the challenges raised by a changing economy. Unfortunately, the state's investments in workforce development programs have declined, while recent changes in how the programs are run have failed to extend their ability to reach the communities and demographics that need them most. Specific problems include:

- ▶ **Overall state funding for North Carolina's workforce development programs have declined by 10 percent in the five years since the end of the recent recession.**
- ▶ **Federal funding has declined by 6 percent over the same period.**
- ▶ **State funding for community colleges—the primary provider of job training services in the state—remains one percent below pre-recession levels.**
- ▶ **In terms of targeting problems, federal Workforce Investment Act dollars reach less than one percent of adults without a high school diploma, leaving those most in need of training without the resources needed for building job skills.**
- ▶ **The state spends less than 1 percent of its Temporary Assistance for Needy Families (TANF) on workforce education and training.**

A highly-skilled workforce is a critical building block for improving North Carolina's competitiveness in the global economy and ensuring robust economic growth over the long-term. To meet this challenge in the midst of a changing economy, the state must adequately fund its workforce development system. While aligning that system with industry needs and developing concrete measures for assessing progress are important, these policies cannot substitute for adequate investment. For programs to be effective and to reach those low-wage, low-skill workers most in need of training and career development, more funding will be needed. This is because many workers need additional supports to connect to and complete training programs and because these programs often become more expensive as they seek to provide hands-on experience in simulated work environments.

Specific recommendations include:

- ▶ **Focusing state investments towards improving the skills of low-income workers and targeting resources at industries that can deliver the greatest return to the state.**
- ▶ **Maximizing federal dollars, including utilizing employment and training funds for the lowest income workers through the Supplemental Nutrition Assistance Program.**
- ▶ **Targeting state funding and service delivery to high-need communities and populations, including rural areas and communities of color.**

- ▶ **Prioritizing investment in industry-recognized credentials to train the workforce of the future.**
- ▶ **Monitoring return on investment using the new performance measures developed by the Division of Workforce Development.**

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### **The Changing Nature of Work and the Need for a Strong Government Role in Workforce Development**

**T**oday, many businesses either leave training up to workers themselves, or simply pass along the costs and delivery of training services to the public sector—especially the federal and state governments. With the retreat of the private sector from workforce development, the government has come to play an essential role in helping develop and upgrade the skills of workers to make them more competitive for prospective employers and more economically secure.<sup>2</sup>

North Carolina policymakers must also grapple with the long-term transformation in the state’s economy and the short-term effects of the unprecedented job losses during the Great Recession. While North Carolina is adding low- and high-wage jobs, those in the middle are disappearing, creating significant barriers for workers to achieve higher earnings over a career. As a result, many North Carolina workers face a Catch-22. High-wage jobs often require costly investment in formal education and training, a reality that often locks workers into fast-growing low-wage jobs that don’t provide meaningful pathways to higher earnings. At the same time, they are becoming locked out of the industries that pay a decent wage and provide upward mobility, but require significant education and training.

Workforce development must play a critical role in meeting this challenge by allowing workers to get training throughout their careers, so that their skills keep up with the needs of the state’s employers. This involves building out career pathways that connect workers to higher-wage jobs within an occupation through successive training opportunities and “bridges” that allow the lowest skilled workers to move into better paying occupations.

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### **Meeting the Challenge Through Workforce Development**

**I**f North Carolina wants to avoid locking in this low-wage future, policymakers must invest in post-secondary education and job training programs that provide pathways to higher earnings within the traditionally lower-wage service industries and also offer opportunities to move out of low-wage industries into industries that require more skills and offer higher wages.

Although it may appear counter-intuitive to focus on job training and career development ladders within low-wage industries, the largest share of the state’s job growth since 2007 has occurred in these low-wage industries,<sup>3</sup> a trend that is unlikely to change significantly in the near future. As a result, it is critical to invest in the types of training programs that will create opportunities for progressively greater skill development and earnings for the large portion of the workforce that will almost certainly be employed in these industries, especially since many of them will require some level of post-secondary education. This would involve providing training supports like child-care subsidies, building career ladders, and removing barriers—like limits on financial aid—to help workers gain the appropriate skills to move from lower-wage jobs to higher-wage jobs within typically low-wage industries. One example is the Health Care Career Ladder in Chicago, which attempts to put workers on a path to progressively higher skills and wages, from health care aide at the bottom of the scale on up to certified nursing assistant, licensed practical

nurse, and, at the top of the scale, registered nurse or an allied health profession (such as respiratory therapist).<sup>4</sup>

Perhaps most importantly, workforce development is essential for creating pathways *out* of low-wage industries and into high-wage industries. Under this approach, workers learn the skills necessary to move from less skill-intensive, lower-wage industries to industries that demand greater skills and pay higher wages. North Carolina is already home to one of the nation's top training programs, BioNetwork, which takes workers with no previous experience in biotechnology and drug manufacturing and prepares them for jobs in that industry. The program provides additional training opportunities throughout a worker's career, so he or she can develop new skills that will allow them to climb the industry ladder. This kind of training program can "re-tool" a region's workforce, giving it the skills necessary to attract particular industries or encourage existing ones to expand. In fact, integrating workforce development and economic development in this way is often considered a key strategy in improving the economic competitiveness of a state or region.<sup>5</sup> It is unlikely that the state could have built one of the leading biotechnology and life sciences industries in the world without making a significant state investment in BioNetwork. North Carolina invested millions of dollars in this 30-year effort to build a pipeline of trained and educated workers capable of attracting the top biotech firms in the world. But despite its success, state funding for BioNetwork has been cut nearly in half since the Great Recession.

Meeting the challenges will require significant investment in workforce development programs and aligning these programs to ensure more effective outcomes. Nearly 61 percent of jobs in North Carolina will require some form of post-secondary education as early as 2020, according to Georgetown University's Center on Education and the Workforce. Unfortunately, new research from the Working Poor Families Project demonstrates just how far North Carolina has to go to meet achieve this goal. Just 26 percent of the state's working-age population (ages 18 to 64) has some post-secondary education, and little more than a third have actually completed an associate's degree.<sup>6</sup> Gaining a post-secondary credential is even more challenging for individuals who have never completed high school or obtained their GED. Almost 14 percent of the state's working age population lacks a high school diploma or its equivalent, placing North Carolina in the bottom third of states in high school completion. This picture is even bleaker for people of color—22 percent of minorities have not completed high school or earned a General Equivalency Diploma.<sup>7</sup> Without obtaining this critical credential, too many workers will be locked out of decent-paying jobs that require more education. Even worse, it makes completing further education even more difficult by removing the first rung from the ladder of educational attainment and career mobility. In turn, this weakens the state's ability to improve the overall skills of the workforce and make it more competitive for attracting high-growth industries that demand specialized training.

But workforce development doesn't just involve the attainment of an Associate's degree, it also involves the completion of industry-specific training programs that confer specialized credentials valued by employers in that specific industry. Examples include "work-keys" credential programs in automotive manufacturing, welding, and biotechnology. These kinds of certificate programs provide workers with a measurable set of skills that are accepted and understood by employers and ultimately provide opportunities for higher educational attainment and higher wages over the course of a career. Unfortunately, just 20 out of every 10,000 workers in North Carolina have some type of industry-specific certificate or credential.<sup>8</sup>

Research shows that this sort of investment pays off—nationally, workers with even

some post-secondary education earn \$3,600 more than workers with just a high-school diploma; those with a bachelor's degree earn \$22,000 more than those with a high-school diploma, on average.<sup>9</sup> Similarly, participants in training programs supported by the federal Workforce Investment Act nationally saw large annual income gains in the years after completing the programs. Men saw an average \$1,700 increase in income every year, while women saw an even larger \$2,400 annual increase.<sup>10</sup>

## Funding and Outcomes for Low-Wage, Low-Skill Workers

Adequately funding workforce development is essential to ensuring that workers receive the training they need to be competitive in the global economy and, in so doing, improve the skill level of the state's overall labor force. While the state can certainly improve workforce development efforts by better aligning the various pieces of the system—high schools, community colleges, universities—with each other and with the needs of businesses, by itself, realigning the existing system cannot fully meet the challenge of a changing economy without adequate funding. To meet the credentialing demands of jobs created over the next decade, the state needs to grow the number of workers that can access and complete some level of post-secondary education, and not rely solely on high school graduates to fill these jobs.<sup>11</sup> Aligning the states workforce system can strengthen the pipeline between high schools and community colleges, but cannot provide the services so desperately needed to the make the system successful. Adequate funding is essential for identifying prospective and existing workers who are in need of training, bringing them into the system, and providing them with the workforce development services they need. In other words, North Carolina's workforce system needs to be both properly aligned and appropriately funded.

Researchers have long understood the importance of adequate funding for achieving desired outcomes. Increased funding for workforce development raises participants' incomes in just a few years, as these workers gain the skills they need to secure higher-paying jobs.<sup>12</sup> Adequate funding has also seen a corresponding 10 percent increase in employment levels for previously jobless worker who now have the skills they need to find work.<sup>13</sup> Without funding, delivering these training programs to the workers who need them would be impossible. Certainly cutting funding has never been found to improve worker skill levels or earnings, since fewer dollars spent means fewer students enrolled, lower-quality instruction, and lack of access to relevant technology and machinery. Boosting funding to ensure greater program participation boosts employment by 10 percent among participants. Additionally, a significant body of research recommends increasing funding for workforce training as a critical tool for improving their effectiveness—especially when tied to robust evaluation of these programs to ensure that public dollars are being spent effectively.<sup>14</sup>

States often provide a range of services to workers through the workforce development system, including job search support, placement in training programs and help affording the costs of skill development. North Carolina falls far short of ensuring that training opportunities are available to those workers with the greatest need. Federal Workforce Investment Act dollars, for instance, reach very few North Carolina adults without a high school diploma—less than one percent, ranking the state 42nd in the country for its investment in training these workers. North Carolina spends less than 1 percent of its Temporary Assistance for Needy Families (TANF) and needed state match to these funds on workforce education and training (0.35 percent). Instead, it puts a significant portion of TANF dollars in child care subsidies, very little of which is available to parents who are pursuing post-secondary education instead of or in addition to working due to limitations recently passed.

While most occupational and industry training in North Carolina is done at the state's community colleges, their funding remains 1 percent below pre-recession levels meaning that many of the institutional support for innovation and high-growth industry trainings are limited. Despite the state's failure to invest enough in community colleges overall, it has made a few noteworthy and positive improvements in funding to support career pathways and bridge programs at the colleges and increasing the availability of training for high-growth industries. The establishment of the Back to Work program, which provides important preparation for taking an industry credential for jobless workers and those seeking to upgrade their skills, is one example. The Basic Skills Plus program funds the development of bridge programs that help adults prepare to pass the GED test and also provide industry training in specific areas of regional importance.

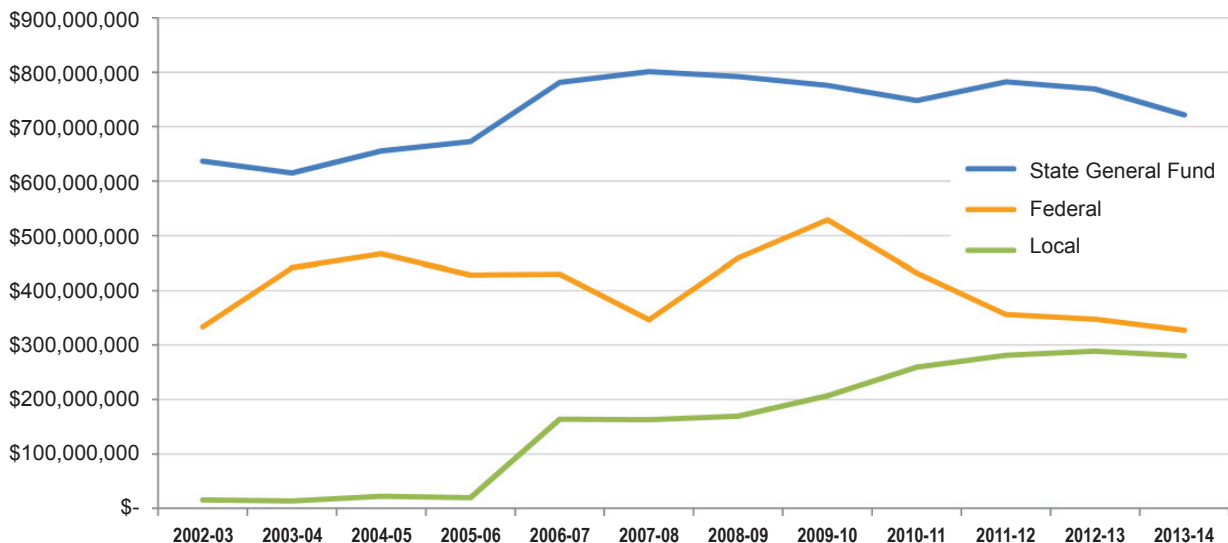
Finally, lawmakers have made an effort to change funding formulas to ensure that community colleges can fund instruction in occupations like welding, automotive repair, and laboratory management that require higher-cost facilities. It is still too early to tell whether these more recent efforts will produce results but based on the history of targeted investments in high-tech, high-cost training like in the bio-tech industry there is great potential.

### Trends in Funding for Workforce Development in North Carolina

North Carolina's workforce development system is funded by state, federal and local dollars. The money is often targeted at particular populations (like veterans, women or those affected by job loss associated with global trade) or specific activities (like on-the-job training, job search support, or training for industry credentials). Numerous agencies administer these services (see Figure 3).

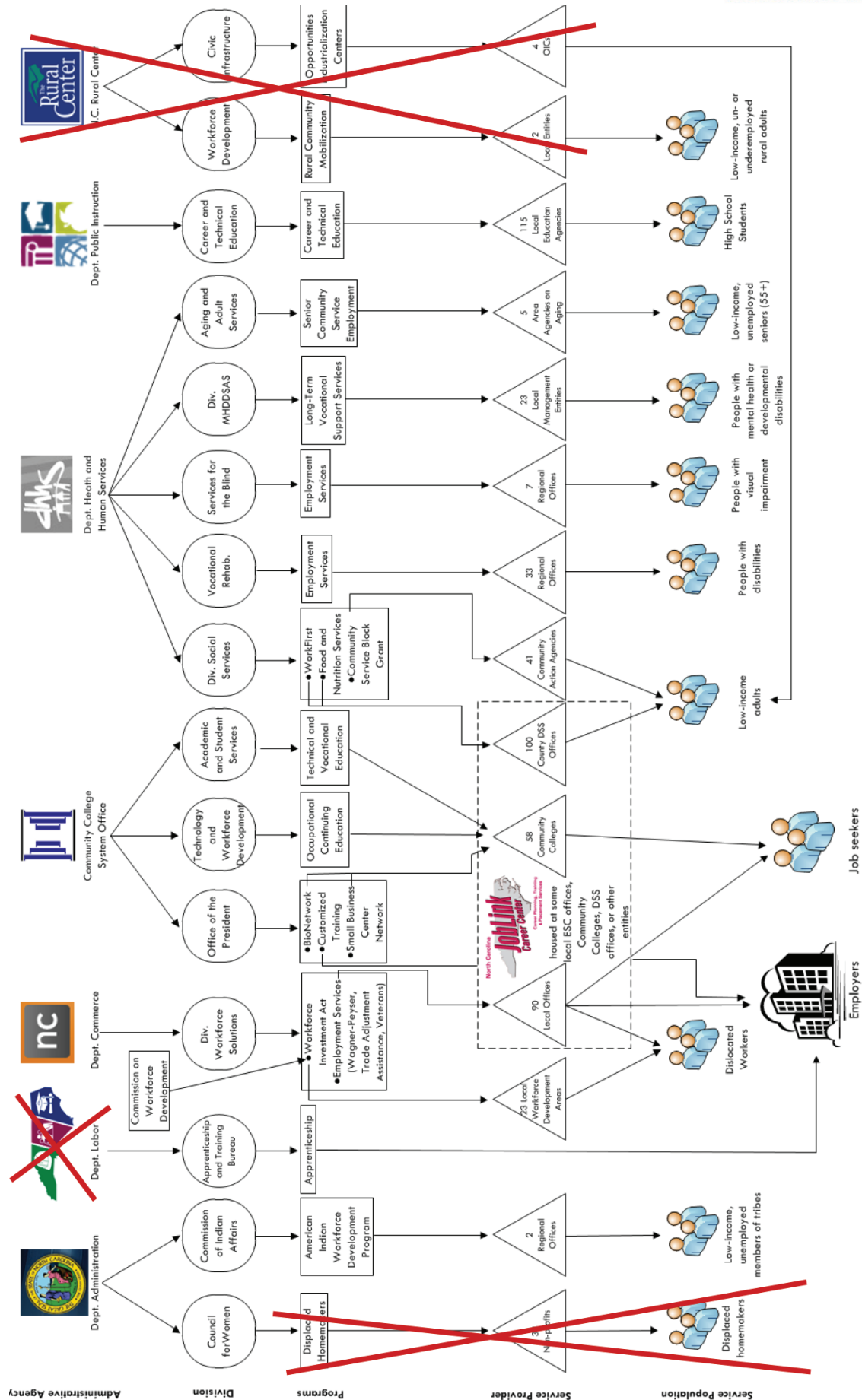
For much of the past decade, the state's share of overall funding for workforce development has remained steady, but it began declining in 2010-11. Federal funding has also declined, largely due to the erosion of Workforce Investment Act funding resulting

**FIGURE 2: Workforce Development Funding by Source**



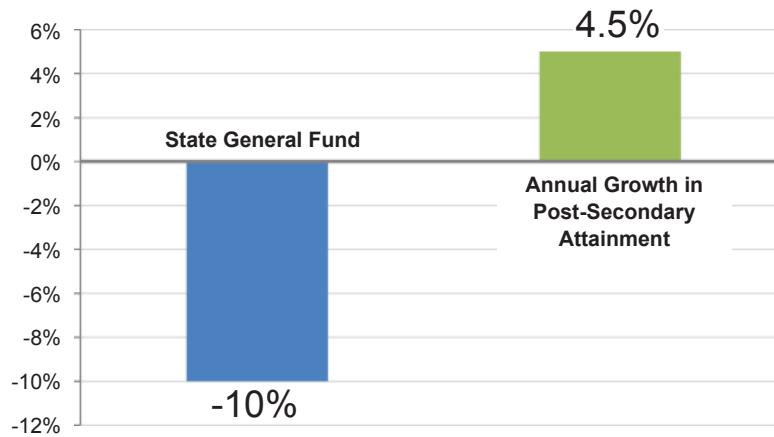
SOURCE: Analysis of Fiscal Research Division, NC General Assembly, Workforce Development Inventories, 2008-2012.

FIGURE 3: Map of North Carolina's Workforce Development System



SOURCE: Program Evaluation Division, NC General Assembly, March 2012, State and Local Improvements Needed for Workforce Development System Integration and Accountability

**FIGURE 4: Decline in Funding Occurs Even as Need for Training Grows**



SOURCE: Analysis of Fiscal Research Division, NC General Assembly, Workforce Development Inventories, 2008-2012 and CLASP. (2012). Credential Improvement Rate Required to Meet Goal: State Rankings. Center for Post-Secondary and Economic Success. April 2012.

from Congress' failure to reauthorize the law for more than a decade and across-the-board spending cuts that were implemented as a result of the Budget Control Act of 2011. As state and federal sources have declined, local funding has increased from 1.3 percent of the total in Fiscal Year 2003-04 to 21 percent in Fiscal Year 2013-14.

Since the start of the Great Recession, state contributions to workforce development have declined by 10 percent, federal funding

has declined by 6 percent and local contributions skyrocketed by 72 percent. The decline in funding for workforce development exists just as the need for additional post-secondary training for the state to meet future demands grows. (See Figure 4.) North Carolina's post-secondary attainment would need to increase by 5 percent annually to meet the projected demand for credentialed workers by 2020.

The large decline in state funding for workforce development is partly due to the elimination of programs and consolidation services. The decline in state revenue and across-the-board spending cuts during the Great Recession also played a role, as did budget shortfalls caused by tax cuts during the economic recovery. Those funding cuts came just as the need for workforce development increased.

Among the state workforce programs that have been eliminated are the Displaced Homemakers Program, the NC Rural Center and Local Employment Security Offices. Others have seen significant reductions, including BioNetwork (46 percent decline) Some have seen expansions Customized Industry Training (65 percent increase), which provides employers with curricula to train workers in specific skills. (See Figure 3.)

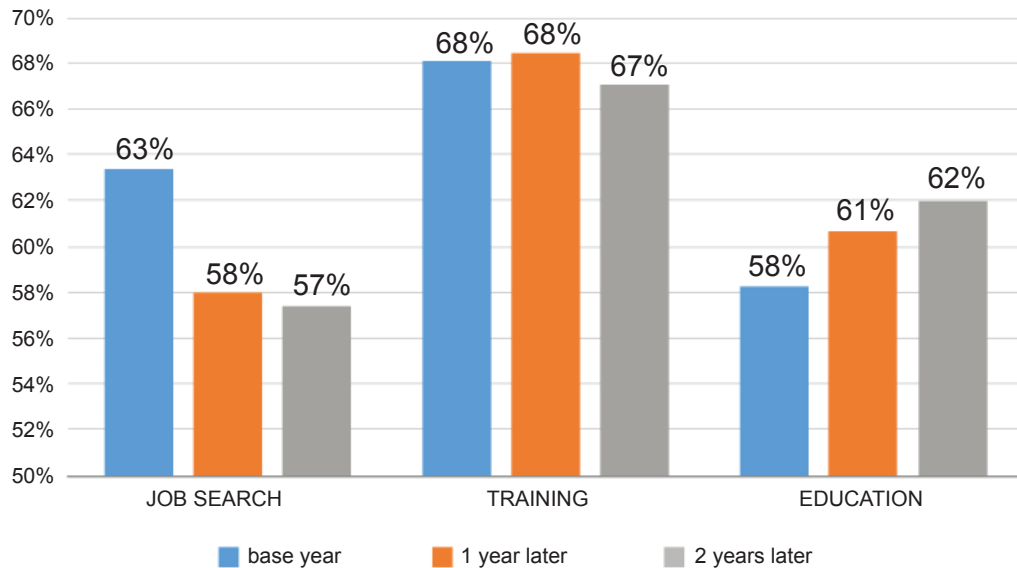
### Performance Measures Key To Assessing the Return on Investments

**B**yond providing enough funding for a robust workforce development system, the state needs a way to reliably assess whether its investment is paying off. In addition to determining whether the system is meeting the demand for qualified workers by high-growth industries, the state should measure whether the earnings and job security of workers are improving over time as well. This will require ongoing data collection and monitoring.

North Carolina has embarked on an important effort to establish common measures of success across the state's workforce development system. Among them are workers' skill or credential attainment, the number employed, wages, and number enrolled in

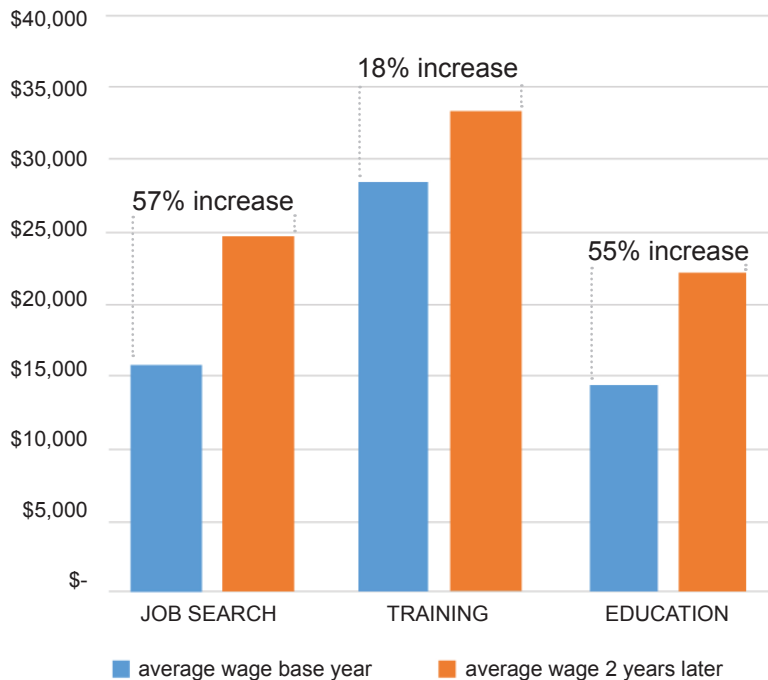


**FIGURE 5: Employment Rates of Adults by Type of Activity**



SOURCE: NC Department of Commerce, January 2014. Measuring the Performance of North Carolina's Workforce Development System: A First Look

**FIGURE 6: After participation, wages increase for all adults**



SOURCE: NC Department of Commerce, January 2014. Measuring the Performance of North Carolina's Workforce Development System: A First Look.

public higher education with measures also broken down by key demographics such as age. In addition, program-specific measures have also been identified.

Preliminary findings show that over half of the participants in the workforce development system were working to improve their skills through a job training program, rather than getting more general education or help with a job search. This is important because it indicates that state-level funding is filling a key void in Workforce Investment Act dollars and because employment rates for adults in training programs were far higher than for those who received only job search services.

Ongoing monitoring of performance measures that provide a more fine-grained understanding of how specific training and other workforce development efforts affect employment

and earnings will allow policymakers to refine where investments can be targeted to achieve the best results for workers and the economy.

## Options for Workforce Development Alignment and Funding

North Carolina needs to recommit to putting state dollars toward workforce development goals, particularly improving the skills of low-income workers and targeting resources at industries that can deliver the greatest return to the state. Among the steps it should take:

- ▶ **Maximize federal dollars:** North Carolina continues to underutilize employment and training funds available through the Supplemental Nutrition Assistance Program<sup>1</sup> to support workforce development for low-income people.
- ▶ **Monitor return on investment:** The new performance measures developed by the Division of Workforce Development are an important first step in monitoring how effectively dollars are used to improve workers' skills, income and job security.
- ▶ **Target state funding to high-need communities and populations:** It is critical that policymakers target state dollars to communities and populations hardest hit by the Great Recession, including rural areas and communities of color. This requires ensuring that hard-to-reach populations, such as the long-term unemployed, can access workforce development services and connect with job search and training opportunities.
- ▶ **Target state funding to support training for industry-recognized credentials:** Available data on return on investment suggests that workforce development will be most effective if it can train workers for the jobs of the future. Making sure that state funding is supporting institutions, like community colleges, that are primarily delivering this training is critical.

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