

WORKFORCE DEVELOPMENT BACKGROUND

Workforce Skills Need Improvement

Businesses need employees with skills - whether learned in the K-12 education system, postsecondary or through work experience - that they are not seeing in the emerging workforce. Work ethic (i.e. attitude, attire, soft skills), math, science and reading are important qualities for today's worker. Yet, graduates of our educational system all too often don't have these basic skills so employers end up fronting the cost to teach them.

Minnesota's labor force growth is expected to slow substantially during the next 25 years. At the same time, the population will become more diverse and the number of older workers is projected to grow considerably.¹ The level of education and skill of the emerging workforce is more important to the vitality of our business community than ever before, especially to our smaller companies, which employ the majority of our workforce and have fewer resources to attract quality workers from other states or countries.

According to the Minnesota Chamber of Commerce 2006 member survey, math and science skills and work ethic are the top workforce concerns industrywide.² Creative thinking, looking presentable, communicating well with customers and other social skills have reached the same level of importance as math, science and communication for many employers. These skills are important to the business community, but are not being met by our current state or national workforce system.

The K-12, postsecondary and workforce development programs in Minnesota cost the state \$12 billion in FY 2006. Why does Minnesota invest so heavily in our education and workforce system if the participants and graduates often lack basic skills?

System Funding

Federal funding. The Federal Workforce Investment Act (WIA) of 1998 set new requirements for states' workforce development systems. WIA initiated federal funding for programs to run in each state. The WIA programs are adult training programs, dislocated worker, rapid response and youth programs. In federal FY 2006/state PY 2007, Minnesota received \$29.8 million from the federal government for WIA programs. An additional \$73.3 million from the federal government will be used for 21 other workforce development programs including Career One Stop and rehabilitation services. The total federal funding for federal PY 2006 and State FY 2007 is \$103.1 million.³

State funding. The state's workforce development services receive state dollars from the general fund and the workforce development fund. The workforce development fund is revenue collected from the workforce development tax paid by Minnesota employers. Revenue from the workforce development tax totaled \$42.6 million in FY 2006 and is projected to reach \$42.9 million by FY 2007. The Legislature and governor have increasingly expanded the programs funded by the workforce development fund. From the general fund, nearly \$90.8 million was allocated to the Minnesota Department of Employment and Economic Development (DEED) in FY 2006-2007 for workforce development services.

State revenue is divided among 22 programs. The programs that have the biggest impact on Minnesota businesses are:

¹ MN State Demographic Center
² MN Chamber of Commerce 2006 Member Survey
³ DEED

State dislocated worker program. The history behind state financing of the dislocated worker program and the workforce development fund began in 1988 when Governor Rudy Perpich established a commission to study worker dislocation. The commission recommended that the Legislature appropriate \$1 million per year to supplement the federal dislocated worker program. One year later, Minnesota established its state-funded plant closing and dislocated worker program. The dislocated worker program did not have ongoing state financing until a "temporary" 0.1-percent payroll tax was inserted in a conference committee report on the health and human services appropriations bill during the closing days of the 1990 legislative session. The tax went into effect Jan. 1, 1991, and was scheduled to sunset June 30, 1992. The sunset of the payroll tax was repealed during the 1991 legislative session.

Between FY 1991 and FY 1999, the governor and the Legislature recommended and enacted transfers from the dislocated worker fund to the general fund. The table on the right shows the transfers. The continued transfers demonstrated that the need for services and the revenue raised by the tax did not match.

Year Ending	Amount Transferred
6/30/1991	\$1,700,000
6/30/1992	\$5,000,000
6/30/1993	\$5,000,000
6/30/1994	\$3,054,000
6/30/1995	\$2,303,000
6/30/1996	\$3,000,000
6/30/1997	\$3,000,000
6/30/1998	\$4,275,000
6/30/1999	\$4,275,000

The 1999 Legislature reduced the payroll tax from 0.1 percent to 0.07 percent, effective July 1, 2000, and created the workforce development fund (WDF). The new fund continues to be financed by the payroll tax but is responsible for funding additional programs. For example, the jobs skills partnership program, the dislocated worker program, the Department of Labor's apprenticeship program, the pathways welfare-to-work program, St. Paul rehabilitation center, Advocating Change Together and the displaced homemakers program all have received funding through the new WDF for at least one year. In 2001, the Legislature financed grants to the Duluth Technology Village, the Neighborhood Development Center, Women Venture and several other programs with WDF dollars. The use of payroll tax dollars to finance these programs will make it more difficult to eliminate the tax because more agencies and constituencies will depend on payroll tax dollars for financing.

In 2002, the Legislature increased funding for the dislocated worker program with general fund and federal revenues. In 2003, the Legislature increased the payroll tax from 0.07 percent to 0.10 percent for calendar years 2004 and 2005 only. The Legislature also gave the commissioner of employment and economic development the authority to increase the payroll tax to 0.12 percent if there is a demonstrated need for additional revenue. In 2005, the Legislature kept the tax at 0.10 percent for calendar years 2006 and 2007 and set the tax at 0.085 percent for calendar year 2008 and beyond.

Between 1991 and 2003, the payroll tax raised about \$320 million. Of that amount, \$85 million was transferred to the general fund or used for other programs. Employers have paid more than \$295 million since the payroll tax was scheduled to sunset.

Revenue from the workforce development tax totaled \$42.6 million in FY 2006 and is projected to reach \$42.9 million by FY 2007.⁴ DEED's expenditures for the Dislocated Worker Program funded by the Workforce Development Fund for FY 2006 were \$23.2 million.⁵

Minnesota State Colleges and Universities (MnSCU). The Minnesota Legislature appropriated approximately \$14.1 million to the MnSCU Board of Trustees to operate workforce partnerships, \$40.3 million for workforce services and \$29.7 million for business and community development in FY 2006-2007. An additional \$3.1 million was awarded to MnSCU from MJSP in July 2006 for job training partnerships. In FY 2001, colleges and universities wrote contracts to provide instruction and related services to more than 6,900 Minnesota employers. More than 165,000 employees of these firms and organizations enrolled in courses. More than 76,000 additional individuals registered for a variety of noncredit classes open to the public.⁶

⁴ DEED
⁵ DEED at the closing of the state FY-Aug 30th
⁶ MnSCU

Minnesota Job Skills Partnership (MJSP). The MJSP is funded by federal (65 percent), special revenue (20 percent) and the state general fund (15 percent). The state allocated \$13.6 million from the general fund to MJSP for FY 2006-2007. Up to \$400,000 can be awarded to match a business contribution.⁷

State Workforce Development Programs and Services

The Minnesota Workforce Development system is intended to provide services to help job-seekers find employment and assist employers in filling open positions. A “one-stop delivery system” was created through DEED in response to the Federal Workforce Investment Act of 1998. Workforce development services are offered at 50 WorkForce Centers, divided into 16 workforce service areas in Minnesota. The services offered at WorkForce Centers include referrals to adult training programs, youth services and veterans’ employment services. There are also specific services for Minnesotans with physical or mental disabilities, services for the blind, and rehabilitation services for people to achieve employment and independent living goals.

Minnesota Job Skills Partnership (MJSP). This program is intended to help Minnesota businesses and schools partner to train the workforce. Grants are awarded by the MJSP board to educational institutions that partner with businesses to develop new-job training or retraining for existing employees. All training projects pair at least one public/private accredited Minnesota educational institution and one business. Funds may be used for training-related costs or educational infrastructure improvements necessary to support businesses located or intending to locate in Minnesota. A cash or in-kind contribution from the contributing business must match program funds on at least a one-to-one ratio.⁸

On-line services. Minnesota’s Job Bank offers an on-line route for job seekers to find employers. The Job Bank is the most popular and visible service among the WorkForce Center services. Yet, very few employers use WorkForce Center services. In 2003, only one in 14 employers that were actively hiring posted job openings on the Job Bank site. Employers that used the Job Bank between November 2005 and March 2006 reported an average satisfaction rate of 75 on a scale of 100. The Job Bank is run by DEED and is funded federally.

Iseek is a Web site service for job-seekers provided by MnSCU and the University of Minnesota. Career One Stop is another Web site aimed at serving job-seekers, but is for the entire country. Funded by a federal grant, MnSCU has been contracted to develop the career information for users through DEED. Workforce3one is a Web site for businesses in the United States. Funded by a federal grant, it is being developed by city commissioners and local elected officials directed by the Department of Labor.⁹

Minnesota State Colleges and Universities (MnSCU). MnSCU offers customized training at 34 service units located in 52 cities throughout the state. Each local service unit is staffed by program coordinators who work directly with employers, university faculty members and business/industry experts to deliver what the employer needs at the organization, team or individual level. Employers from all major industry groups are served with the majority in the manufacturing, services (primarily health care) and public administration (public safety and local government) sectors. Approximately 74 percent of these employers were served by the 23 colleges and universities located in Greater Minnesota.¹⁰ According to a recent survey of the general business community, 28 percent of businesses (of which 49 percent had 50 or more employees) reported using the technical or community college system for worker training. Of the businesses that have used these services, 91 percent (98 percent with 50 or more employees) believe the system is doing a good job of training.¹¹

⁷ DEED

⁸ DEED

⁹ DEED

¹⁰ MnSCU

¹¹ MN Business Barometer 2005

Describe the Responsibility and Accountability of the System

DEED. The Minnesota Department of Employment and Economic Development is the state's principal economic development agency with programs focused on workforce development and business recruitment, expansion and retention. The Workforce Development Division provides financial assistance for businesses seeking to upgrade the skills of their workforce. Additional services include State Services for the Blind, Rehabilitation Services, Local Labor Exchange and Disability Determination. Many of these services are provided at Minnesota WorkForce Centers located throughout the state.

Local Workforce Councils. The chief elected official(s) of the home rule charter or statutory cities or counties must appoint a local workforce council for the workforce service area. Minnesota complies with federal law, which requires that the majority of council members represent the private sector (business owners, CEO, COO or other executive with substantial management)¹². Federal law charges local councils with the duty of ensuring unified service delivery and nonduplication of services in their areas. They are accountable for the outcomes and the expenditures of federal dollars which include WIA adult, youth and Dislocated Worker program revenue. Federal law requires job counselors to link a participant's training to occupations in demand within the area. According to a report by the Office of the Legislative Auditor, training offered by the workforce development programs does not consistently relate to occupations in demand. Of all dislocated workers enrolled in training services during 2003, those with training related to occupations in demand ranged from 47 to 72 percent among the 16 workforce service areas.¹³

The Governor's Workforce Development Council (GWDC). GWDC functions as Minnesota's state workforce board. The federal (WIA) legislation passed in 1998 required every state's GWDC to have 51 percent private-sector representation. Minnesota, however, created a GWDC in anticipation of federal regulation. This caused Minnesota to be "grandfathered" in, allowing immunity to federal regulations and self-governance. Instead of being consistent with federal law, Minnesota reduced private-sector representation to six out of 31 members. With less than 20 percent business representation, there is insufficient business influence on the councils.¹⁴

While the WorkForce Center System does not have the resources to serve all businesses in the state, there are clearly opportunities to expand the system's market penetration by better understanding of why businesses are not currently using the system. The Center for Workforce Preparation, an arm of the U.S. Chamber of Commerce, conducted a business survey in 2003 which found that 37 percent of its respondents were aware of the WorkForce Centers but only 17 percent were using the WorkForce Centers. Sixty-one percent of businesses that reported not using the WorkForce Centers identified their top reason as not knowing about them. Ninety percent of businesses in the state do not use WorkForce Center services although roughly one-third of businesses with 250 or more employees do use the WorkForce Center System (*The calculation of the percentage of actively-hiring businesses that use WorkForce Center System services is under construction).¹⁵

¹² WIA and Minnesota statute 116L (2005)

¹³ DEED

¹⁴ Workforce Investment Act of 1998 Sec. 111 (C-3)

¹⁵ DEED "Workforce Center System Strategic Action Plan"