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# Assessing the Governor's Employment Training Initiative

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LEGISLATIVE ANALYST'S OFFICE

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Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, Chair





## Overview of the Governor's Employment Training Program Initiative

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- ☑ **Training Grants.** The administration proposes to provide \$232 million in training grants to employers. This funding is available for both incumbent workers and the unemployed.
- ☑ **Incentive Grants.** The administration proposes to provide \$268 million for a \$3,000 incentive grant payable to employers for each new, previously unemployed individual they train and employ for at least nine months.
- ☑ **Employment Training Panel (ETP) Administration.** Under the Governor's proposal, employers would apply to the ETP for both training grants and incentive payments. The ETP proposes eight new positions to administer this initiative.
- ☑ **Time Frame.** This proposal would begin in the current year and end in 2012-13. The Governor has estimated the new program would train up to 140,000 workers and help create 100,000 jobs, assuming each grant represents a new job that would not have been created on the natural.



## Proposed Funding Structure

- Disability Fund.** The Disability Fund (DI) provides weekly benefit payments to employees unable to work due to pregnancy, caring for a family member, or a non-work-related illness or injury.
- Proposed Loan to Fund the Initiative.** The Governor has proposed to borrow a total of \$500 million from the Unemployment Compensation DI. The DI has sufficient reserves to accommodate this loan.
- Proposed Repayment Plan.** The Governor has proposed to apply the current Employment Training Tax (ETT), used to support ETP, to certain employers who are currently not subject to this tax. This new tax obligation of about \$7 per employee would primarily fall on employers that have used the Unemployment Insurance (UI) program heavily. This revenue stream would generate about \$54 million in new funds, of which \$50 million would be devoted each year to loan repayment.

<b>Figure 1</b>			
<b>Governor's Employment Training Package Expenditure and Repayment Plan</b>			
<i>(In Millions)</i>			
	<b>Job Training</b>	<b>Incentive Payments</b>	<b>Loan Repayment (Ongoing for Ten Years)</b>
2009-10	\$32	—	—
2010-11	140	\$90	\$50
2011-12	60	150	50
2012-13	—	28	50
2013-14 through 2019-20	—	—	350
<b>Totals</b>	<b>\$232</b>	<b>\$268</b>	<b>\$500</b>



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- Proposal Would Have Limited Impact on Aggregate Employment.*** Job creation programs tend to have substantial “leakage” in that many credits or incentive payments go to businesses that would have expanded anyway. Economic research suggests one new job is created for every six credits provided. In any event, most of the incentive funds will be a windfall to businesses that are expanding their workforce on the natural.
- Training Funds Do Not Create Jobs.*** The proposal includes training funds and incentive payments to spur job creation. While the training funds would increase the supply of skilled workers, it would not necessarily increase aggregate employment.
- Proposal Is Not Well-Designed.*** This proposal would require a significant change in what ETP does. The ETP generally targets firms that train incumbent workers, not unemployed individuals. Additionally, the proposed program design would allow a business to obtain the incentive payment for a new hire, while potentially decreasing its total employment.
- Imposition of New Taxes on Some Employers Is Problematic.*** As described in our previous report, *The 2009-10 Budget Analysis Series: General Government*, the UI system is insolvent. A substantial increase in employer taxes, possibly in combination with benefit decreases, would be necessary to restore the solvency of the UI system. Subjecting some employers to two separate tax increases (ETT and UI) makes no sense.
- Timing.*** It seems unlikely that this proposal could be rolled out as quickly as the administration assumes. The long process for job training could dampen the likelihood that this kind of program could have the intended rapid impact on the current high unemployment levels.



## Significant Workforce Training Funds Are Already Available

- The American Recovery and Reinvestment Act in combination with the existing base allocation will provide an estimated \$1 billion in 2010-11 for state and local workforce development programs to offer job training for unemployed individuals, dislocated workers, and many others who have lost their jobs in the recession.

<b>Figure 2</b>			
<b>Federal Workforce Development Funding Available in 2010-11</b>			
<i>(In Millions)</i>			
<b>Category</b>	<b>Base Allocation</b>	<b>ARRA Allocation</b>	<b>Total Base And ARRA</b>
Workforce Investment Act	\$496	\$470	\$966
Wagner-Peyser Act	83	47	130
<b>Totals</b>	<b>\$579</b>	<b>\$517</b>	<b>\$1,096</b>

ARRA = American Recovery and Reinvestment Act.



## LAO Bottom Line: Reject Proposal

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- Most of the funding will result in a windfall to businesses that are planning to expand on the natural.
- Over \$1 billion in funds for training are already available in the workforce development system.
- Proposal creates additional borrowing that must be repaid by businesses.