

Employment

Training

Panel

Strategic Plan 2002-03



THE EMPLOYMENT TRAINING PANEL

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A. ETP Organization Chart

A. Mission Statement

The mission of ETP is to provide financial assistance to California businesses to promote customized worker training through partnerships with government, business, and labor for the purpose of:

- ◆ *Attracting and retaining businesses that promote a healthy California economy;*
- ◆ *Providing workers with good jobs that pay good wages;*
- ◆ *Successfully competing in the global economy; and*
- ◆ *Promoting the value of employee training.*

B. Vision Statement

ETP will maximize leveraging of ETP funding by partnering with other Workforce Development programs to strengthen the skills of California workers and maintain a healthy state economy.

C. ETP's Guiding Principles

The Employment Training Panel operates under the following core principles:

- Only the Panel is vested with the authority to approve training contracts, or to delegate such approval, as a duly constituted body.
- The Panel's policy decisions will continue to be based upon rigorous research and verifiable data.
- ETP shall target training funds to ensure secure, well-paying jobs for California workers.
- ETP forms public-private partnerships with business and labor, and with other agencies, departments, and entities, to enhance and encourage economic development and workforce preparation in California.
- ETP shall leverage its funds with business and industry to ensure its resources are maximized and supplemented by California businesses.
- ETP shall target training funds to businesses and industries that have a positive impact on the State's economy and workforce.
- ETP shall continually improve its programs and processes, based on the monitoring, oversight, and performance results of the training it funds.
- The Executive Director is vested with authority for directing ETP and is accountable to the Governor, the Legislature, and the Panel for ETP's operation.
- ETP shall be administered with the highest degree of professionalism, by the Executive Director and the staff, to ensure all appropriate requirements are met and the public is provided excellent service, with the greatest return on investment.
- ETP shall approve training contracts and administer the program in accordance with applicable laws, regulations, and policies.

D. Program Description

How ETP Fulfills Its Mission

States can have a significant impact on their economies by promoting and developing the factors critical to business success. California has adopted an economic development strategy that recognizes long-term success requires sustaining a healthy environment, maintaining a high quality of life and developing smart industries that use advanced technologies and production methodologies to increase profitability and keep costs lower than global competitors’.

California’s economic success is measured by the extent it creates and retains good jobs, enables business to generate and deliver goods and services, and creates public wealth needed to sustain and support a high quality of life. Workforce studies show that to ensure continued economic growth, California needs a workforce empowered with skills that unleash the full potential of modern technologies to help companies operate efficiently and provide the best goods and services. Not all industries meet this standard but the ones that do should be encouraged to flourish and grow.

The Governor and State lawmakers have focused increased attention on California’s education institutions in recent years to ensure they produce the workers and managers California’s economy needs. But the vast majority of workers needed to produce the goods and services that fuel California’s economy are already in the workplace. Continually up-grading the skills of these workers in order to capture the benefits of emerging new technologies and manufacturing techniques is a major challenge. Yet most of California’s workforce development programs are not industry based or driven.

California’s policy-makers wisely recognized this weakness in the State’s economic strategy and uniquely designed the Employment Training Panel (ETP) to help fill the void of public supported industry-driven worker training. Now in its 20th year, ETP has developed a solid history of helping California companies become more successful and expand the number of secure good jobs in California’s economy:

- Since it began operating, ETP has funded the training of almost 500,000 workers in more than 43,000 businesses. Approximately 70 percent of the businesses served have been companies with 100 or fewer workers.
- Business data shows companies that partner in ETP training on average expand payrolls by 16 percent over similar businesses that do not participate.
- In 2001, ETP training initiatives put over 1,300 previously unemployed individuals to work in new private sector jobs, paying on average almost \$10 per hour.
- Wage increases for workers completing ETP programs are approximately 20 percent higher than workers in similar companies.
- ETP helps reduce unemployment and increase job security. Measurements of continued employment show that 97 percent of the workers completing training funded by ETP are still working at least one year later. The number of employees in these companies increased by 14 percent over similar companies that did not participate in ETP training programs.

- Recent independent research found there is a return on investment of over \$5 for every \$1 in ETP funds spent on training, as measured in benefits to companies, workers, and California's economy.

Responding to Business' Needs for Trained Workers

The Employment Training Panel (ETP) is a statewide program supporting California's economy by ensuring employers have the trained workers necessary to compete successfully in the global economy. The Panel was created in 1982 with the initial mandate of addressing the displacement of workers resulting from plant closures.

The program has evolved to embrace an increased economic development focus, targeting the retraining of incumbent workers in basic industries challenged by out-of-state competition -- primarily in the manufacturing and high technology sectors. As such, ETP is California's only industry-based training program for incumbent workers. The Panel also funds the training of unemployed workers for high-skill, high-wage, secure jobs. The program has always been one of collaboration between government, business, labor and other public entities. This collaboration is the key to ETP's success.

ETP strives to target its resources to meet the needs of business and workers. In so doing, the Panel approves training projects that best meet the following goals of its enabling legislation:

- Training displaced workers or workers at risk of being displaced;
- Training employees of businesses locating into or expanding in the State;
- Promoting the State's manufacturing workforce;
- Projects jointly developed by management and workers;
- Developing career ladders for workers;
- Supporting businesses moving to a high-performance workplace; and,
- Stimulating exports.

The Panel also emphasizes other statutory criteria – i.e., to fund training that is responsive to significant employer demand, customized to employers' needs, supplemental to training regularly provided by employers, and supported by employer contributions. In addition, the Panel responds to priorities set by the Governor and Legislature, by targeting training to high unemployment areas of the State, prioritizing training for small businesses, and working to reduce training fund disencumbrances (i.e., funds that are approved for training, but subsequently not earned and thus disencumbered).

The Panel contracts with California employers, groups of employers, training agencies, and Workforce Investment Boards (WIB), under two major funding categories that enable ETP to address the areas of greatest need for training: Economic Development and Special Employment Training (SET).

➤ **Economic Development (Training Unemployment Insurance (UI) Linked Workers in Businesses Primarily Facing Out-of-State Competition)**

This category provides funding for training and employment retention for incumbent (primarily frontline) workers in basic industries facing out-of-state competition. These funds also support training to facilitate employment of unemployed workers.

➤ **Special Employment Training (SET)**

The SET category funds projects in businesses where out-of-state competition is not necessarily present and for workers not necessarily linked to the Unemployment Insurance system. SET projects target frontline workers (i.e., those workers directly producing goods or services) earning at least the State average wage. SET funding also allows training of frontline workers who do not earn the State average hourly wage, if they are in high unemployment areas, have multiple barriers to employment, or are small business owners.

ETP funds training by way of performance-based contracting. A contractor only earns funds if a trainee completes all of the training and a subsequent employment retention period (normally 90 days) in a job using the skills learned in training.

Succeeding BY Working Directly With Business

A major factor in ETP's success is that it works directly with businesses to stimulate the effective use of training to increase business success and strengthen workforce development. Its contract system is predicated on simple yet highly effective protocols:

- Businesses must examine the obstacles and opportunities to lower their costs and expand their markets and determine where customized worker training is critical to their success. Because a commitment to training is critical to success, ETP requires companies to pay a share of the training funded by ETP.
- Since training investments help companies become more profitable, companies should share that profitability with workers involved in training. ETP contracts promote wage increases, and require employers to retain trained workers for specific periods to earn ETP funds.
- Employers are encouraged to minimize training costs and assume greater risk and responsibility for more expensive training. Most ETP contracts are based on flat rates, with specific trainer to trainee ratios. Companies must pay the difference between ETP rates and actual training costs. As training costs increase, companies must evaluate the value of the training and pay a larger percentage of the training costs. While ETP allows companies and training entities to propose training at higher levels of ETP participation, it requires proof that special circumstances exist to justify a higher level of ETP investment and that businesses are sharing in the higher costs appropriately.

ETP's success results in large measure from this unique strategy of paying only for training that results in successful outcomes. Performance requirements specified in each training contract ensure that each stakeholder – company, worker and ETP – share responsibility for expanding the amount of high-wage, high-skill employment in

California. ETP awards over 90 percent of its training dollars to projects that retain and expand higher-wage employment, paying on average \$20 per hour.

How ETP Works

ETP remains a vital partner in California's economic development by continuously reassessing its programs and evolving its efforts to respond quickly and responsively to changing economic conditions. ETP has approved projects to cushion the impacts of 9/11, has reinforced the efforts of local Workforce Investment Boards and State agencies to expand regional economic opportunities, and has partnered in special efforts such as the Governor's initiative to increase the number of nurses in the workforce.

ETP accomplishes this without being a drain on the State's General Fund. ETP's programs are funded by a special employment training tax California companies pay to promote the development of an improved State workforce. Only those employers who pay this tax can directly benefit from ETP funded training.

Like the companies that benefit from ETP funding, the success of ETP is a function of its organization and its workforce. Organizationally, ETP has a number of important components that influence how well it carries out its mission.

➤ The Panel's Function

ETP is governed by an eight-member Panel. Seven members are appointed by the Governor and legislative leaders. The eighth member is the designee of the Secretary of the Technology, Trade and Commerce Agency (who is appointed by the Governor).

The purpose of the Panel is to approve or disapprove proposed training contracts, to adopt appropriate policies and regulations for ETP, and to make final determinations regarding appeals from decisions of the Executive Director.

The Governor appoints a Chair to lead the Panel's deliberations. The Panel selects a Vice Chair to assume the Chair's role when needed. All actions require a quorum of the Panel members and a majority vote of the quorum. The Panel normally meets each month in metropolitan areas throughout the State.

➤ ETP Staff's Function

ETP has a professional staff of approximately 120 full time positions. Approximately half of the staff are located in Sacramento, with the remaining staff located in San Diego, San Mateo, and North Hollywood.

The staff is led by the Executive Director who is appointed directly by the Governor. The Executive Director has the overall authority for administering the program. Reporting directly to the Director are two Assistant Directors, appointed by the Governor; the Special Projects Manager; and the Marketing Director.

The Assistant Director of Review, Special Projects, and Outreach assists the Director in the review and authorization of training agreements approved by the

Panel; oversees and directs special projects and initiatives; coordinates strategic marketing of the ETP program; and is a liaison to small business.

The Assistant Director of Project Oversight, Collaboration, Control and Public Relations assists the Director in overseeing complex ETP projects and the contract negotiation and appeal process; acts as liaison for ETP to other agencies and organizations; represents ETP in discussions with oversight and control agencies; and coordinates education and public relations activities.

The General Counsel, reporting directly to the Executive Director, is in charge of the Legal Unit, the Application Review Unit, and the Contract Review Unit.

The Manager III, acts as a Chief of Staff reporting directly to the Executive Director, and is in charge of: Field Operations (i.e., the four regional offices); the Information Technology Unit; Planning and Research Unit; the Fiscal, Certification and Enrollment Unit; the Administrative Services Unit; and the Audit Unit.

The responsibilities of the various ETP units are:

- Planning and Research staff conduct internal research and evaluations, and monitor external research studies and program evaluations; recommend legislation, policies, and procedures; prepare legislatively required reports and other research and statistical reports; provide Legislative and Budget Hearing support; participate in statewide efforts to examine workforce preparation and economic development issues; and, develop the agency-wide Strategic Plan, Annual Report, and ad-hoc statistical reports.

Planning and Research staff also work with external research organizations (e.g., California State University, Northridge and the University of California, Los Angeles) for independent evaluations of the program. Planning and Research staff facilitate and monitor contracts for this independent research, and use the resulting findings to recommend improvements to the program and processes.

Studies (either internal or external) may include:

- Studies undertaken to measure the effectiveness of ETP and workforce training.
 - Studies to measure the need for workforce training in relation to the State economy, regional economies, industries, and special workforce issues.
 - Studies and research regarding training strategies, methods and ETP requirements.
- Marketing staff work in conjunction with ETP's partners in the economic development and workforce development community to increase the public's familiarity with ETP and to increase the number of contracts from specific industries and regional targets.

ETP also contracts with a number of marketing partners who target the program to their constituencies. These marketing contracts include specific

performance outcomes which are based on the number of applications submitted in specific target industries. ETP marketing staff work closely with these marketing partners to assure they are up-to date and conversant, with respect to the program and contracting criteria.

ETP's marketing partners have included, but are not restricted to:

- The *California Chamber of Commerce* targets small businesses and local chambers to assist local businesses applying for ETP training contracts.
 - The Workforce and Economic Development Program of the *California Labor Federation* works with the labor community to develop training contracts.
 - The *Technology, Trade, and Commerce Agency* promotes training to small and rural businesses.
 - The *California Manufacturers Technology Association* markets statewide to manufacturers.
 - The *Latin Business Association* works to forge relations between ETP and Latino-owned small businesses.
 - *California Association for Local Economic Development* promotes the program in relation to economic development activities.
 - The *Employment Development Department (EDD)* markets ETP/EDD workforce initiatives to WIBs.
-
- Application Review staff determine the contracting eligibility of primary contract holders; assign applications to the appropriate field office for development; and are responsible for processing applications for training funds.
 - Field Operations -- Development and Monitoring staff in ETP's four regional offices negotiate training contracts and amendments; develop and write agreements; review and analyze projects for compliance with ETP policy, regulations, agreement terms, and cost effectiveness; monitor projects and provide technical assistance to contractors and other participating organizations to facilitate successful performance of ETP training contracts; and prepare reports on the status of training contracts.
 - Contract Review staff review amendments, agreements and other contract related documents, for compliance with ETP legislation, policy, regulations, department and state procedures; ensure the timely processing of these documents in a manner consistent with Panel schedules; and ensure contract funds are encumbered according to the established State requirements.
 - Fiscal, Certification and Enrollment staff certify trainee eligibility for enrollment in training; process invoices; provide technical assistance to staff and

contractors throughout the contracting process; track administrative and training expenditures; and handle accounts receivable.

- Audits staff conduct performance audits of training contracts to ensure ETP funds are spent in accordance with applicable laws, regulations, and policies; and provide technical assistance to program management, internal staff, contractors, and other participating organizations to ensure that ETP's procedures and instructions are followed.
- Information Technology Unit (ITU) staff maintain ETP's data communications, programming, and networking; provide statewide technical support to staff and customers; ensure quick communication and exchange of information with the contracting community, Legislature, Department of Finance, the Employment Development Department, ETP Field Offices, and other customers and stakeholders; and, employ advanced technologies to automate processes and procedures, improving service to customers.
- Administrative Services staff provide support services to staff including, but not limited to: personnel services; planning and coordinating staff training; facilitating telecommunications services; responding to public requests for information; ordering equipment and furniture; maintaining an inventory of supplies; and other administrative functions.
- Legal staff provide legal counsel and guidance, as well as oversee the appeal and regulatory process; prepare and maintain ETP regulations; negotiate and enforce contracts; represent ETP in legal disputes; and ensure ETP operates in conformance with all legal requirements.

(Note: the ETP Organization Chart is provided in Appendix A.)

E. Assessment Summary

Following is: 1) a description of ETP's progress in carrying out strategies, goals and objectives identified in the Strategic Plan for 2001-02 to support the needs of businesses and workers, 2) a description of internal and external environmental factors affecting ETP, 3) a summary of the current state of the California economy, and 4) an assessment of future challenges and opportunities.

1) Progress Toward Meeting Goals and Objectives

Staff reviewed ETP's progress in meeting the goals and objectives in the 2001-02 Strategic Plan, and in achieving its overall mission. This review showed that ETP has made significant progress in addressing its goals and objectives to ensure the program meets the needs of California's employers and workers. The following summarizes: a) progress with respect to addressing the Panel's legislative mandates and priorities; b) results of program evaluations; c) and recent process improvements.

a) Legislative Mandates/Priorities

The Panel's progress in meeting its mandates and priorities in 2001-02 included:

- Encumbered all available training funds for fiscal year 2001-02 by April 2002.
- Approximately 92 percent of the year's available training funds went to businesses facing out-of-state competition, with another 8 percent for Special Employment Training (SET) projects.
- Approved more than \$22 million for training in high unemployment areas (HUA), with a focus on the working poor. A total of \$6.2 million was provided for training to upgrade the skills of 5,286 working poor trainees (i.e., employed workers who have full-time jobs but are in dead-end, low wage jobs and need training to move to higher-wage secure employment).
- Emphasized service to small business, including approving development of a pilot project to test a streamlined process for businesses employing 100 or fewer workers to contract directly with ETP.
- Reviewed training-related policies and requirements, including: updated ETP's high unemployment area policy; conducted a hearing on economic multipliers; strengthened criteria for SET projects; and initiated studies of fixed-fee reimbursement rates and the effectiveness of Structured On-Site Training.

- Conducted quarterly forums with marketing partners to assess progress toward the Panel's marketing goals, and strengthened efforts with marketing partners to target growth industry sectors.
- Collaborated with the Workforce Investment Boards and initiated the Techforce initiative to provide opportunities for WIB participation.
- Strengthened requirements to ensure ETP funds are used to supplement employer-provided training.
- Strengthened ETP's employer contribution policy to require employers to provide a contribution toward training-related costs in projects for the training of unemployed workers.
- Continued to improve project performance rates and reduce disencumbrances. Last year, disencumbrances fell to 25 percent, from a historical rate of approximately 44 percent, continuing a downward trend over the past three years. It is anticipated the disencumbrance rate for 2001-02 and in future years will remain at 25 percent.

b) Results of Program Evaluations

Independent evaluations of the program over the years have attested to the significant value of ETP-funded training for workers, business, and the economy. In January 2000, researchers at California State University, Northridge (CSUN) completed a major two-year study that found ETP-funded training increased workers' earnings, reduced unemployment, helped increase the growth of California companies, and boosted economic expansion in the State.

These researchers also found that 45 states have some type of publicly funded worker training program. ETP is the largest and most successful such program in the United States. ETP's biggest contribution may be that after employers experience the value gained from training, utilizing ETP funds, they are more willing to increase their own investment in these workers' training.

ETP also participates in the SB 645 "Report Card", which is a statewide system to evaluate the effectiveness of California's workforce preparation programs. This statewide system was initiated in 1996 through SB 645 (Johnston) and provides annual reports on participating agencies' performance with respect to measures for employment retention, earnings, unemployment insurance savings, and public assistance savings. The recently issued Third-Year PBA "report card" shows significant results for ETP in the applicable measures. These included:

- ETP trainees' employment rate one year after program participation was over 97 percent for both new hires and retrainees;
- Both retrainees and new hires continued to be employed at high rates two and three years after training, with retention rates of 94 percent and 91.1 percent, respectively;

- ETP retrainees typically showed earnings gains of more than \$3,000 in the year after training, with average annual earnings of \$35,800; most new hires showed earnings gains of more than \$2,000 a year after training, with average annual wages of approximately \$23,000.
- Use of Unemployment Insurance benefits fell significantly for new hire trainee completers from 82 percent before training to 22 percent a year after completing training.

ETP continues to conduct program-related research. Most recently, the Panel contracted with CSUN for a study on the effectiveness of Structured-On-Site-Training delivery and reimbursement methods. CSUN has provided ETP their research findings and recommendations for possible changes to structured-on-site training (SOST) delivery and reimbursement.

c) Internal Process Improvements

ETP continued making improvements to its processes to increase program effectiveness, specifically:

- ETP focused on improving its on-line processes, enhancing its enrollment, invoicing, and training tracking systems to simplify work processes and provide better service to customers. ETP worked to automate its orientation and eligibility processes on-line, and began studying the feasibility of using electronic signatures to further simplify the application and eligibility processes. To better meet the needs of its customers, the Panel continued to enhance its public web site, making information more accessible and implementing on-line customer surveys.
- The Department of Information Technology approved the Panel's Operational Recovery Plan (ORP). The Panel will conduct periodic testing of the ORP. ETP is in compliance with Tier 1 and is working towards completion of Tier 2. ETP will also implement new procedures for tracking software licenses as required by the State Administration Manual.
- The Panel ensures customer input through public comment at monthly Panel meetings, and via its Internet Home Page. In FY 2001-02, the Panel enhanced the public's ability to provide comments and suggestions through the ETP home page, and surveyed contractors whose agreements were terminated.
- ETP developers and monitors provide ongoing assistance to contractors throughout development and implementation of their agreements. A pilot project was conducted last year in the San Diego field office in which development and monitoring were combined to provide seamless service to contractors. This model was subsequently implemented in the North Hollywood office. It will be implemented in all regional offices in the upcoming year, based upon the experience gained in the San Diego and North Hollywood offices.

- ETP conducted a study of direct contracting with small business and, based on the results of that study, the Panel authorized the development of a small business pilot project.

2) Environmental Factors Affecting ETP

Staff reviewed ETP's external environment to identify factors, trends and issues with a potential impact on ETP. These included: identifying new workforce initiatives and training needs; reviewing how ETP responds to the needs of its customers and stakeholders; assessing how ETP coordinates its activities with other entities; and identifying next year's anticipated revenues and expenditures.

a) New Workforce Initiatives And Training Needs

Despite the events surrounding the September 11 terrorist attacks and the recent economic downturn, demand for ETP training funds has exceeded the Panel's available resources for fiscal year (FY) 2001-02 – i.e., by April 2002, the Panel had encumbered all \$83.2 million in available program funds. At the end of 2001-02, there were approximately \$25.5 million in funding requests beyond the amount available for this fiscal year. This demand will be further affected by several major workforce initiatives that include:

- ETP's authorizing statute requires putting a priority on career ladder initiatives. The California Career Ladders to the 21st Century Initiative, in collaboration with the Employment Development Department, promotes projects to provide training to workers in low wage jobs to help them advance into higher paying positions in jobs with career advancement opportunities.
- The high tech sector has a high need for incumbent worker training. The Techforce Initiative was established to help train information technology workers, in partnership with local workforce investment boards, and support the Governor's Information Technology Initiative.
- Worker training projects are needed to address the needs of industries affected by the September 11 terrorist attacks, including airlines, tourism, manufacturing, and hospitality.
- Additionally, the Governor has established a partnership of state workforce development agencies to address California's shortage of trained nurses. This is a three-year, \$60 million project, with potential funding from various agencies to help build the nursing workforce in California. The Governor has proposed that ETP be used to complement Workforce Investment Act funding, where appropriate. The Panel has targeted \$5 million to address health worker/nurse training projects.

b) Customers and Stakeholders

ETP makes it a priority to respond to the needs of its large constituency of customers and stakeholders. Outreach is provided to business, labor, government agencies, and contractor and consultant associations to ensure broad participation and support for ETP training initiatives. Ongoing feedback is solicited from customers and stakeholders through public forums, surveys, and written comments, to assure their participation in program improvements.

To ensure it addresses the needs of its constituencies, ETP has enlisted key partners to provide marketing outreach to target industries. These partners include: the California Association for Local Economic Development; the California Manufacturing and Technology Association; California Chamber of Commerce, the California Labor Federation; the Employment Development Department (EDD); the Latin Business Association; and the Technology, Trade and Commerce Agency. ETP has achieved focused targeting to specific industries through marketing contracts with these partners, which include specific performance standards. ETP also works with local WIBs, training consultants, and other interested stakeholders to market ETP to potential businesses. Many of ETP's marketing partners have far exceeded their performance targets, demonstrating an increasing demand for ETP supported training in the economy.

c) Coordination with Other Workforce Preparation and Economic Development Entities.

As the State's only employer-driven program supporting industry specific retraining for incumbent workers, ETP differs from the many other workforce development organizations such as the Employment Development Department, the Department of Social Services, and local Workforce Investment Boards. Through a collaborative effort, workforce development organizations must work to become more streamlined in achieving common goals and objectives, and therefore more effective.

To improve workforce development efforts, the Governor has created the Labor and Workforce Development Agency. The labor agency is led by a cabinet-level secretary and will encompass ETP, the Department of Industrial Relations (DIR), the Employment Development Department, the Agricultural Labor Relations Board (ALRB) and the Workforce Investment Board. ETP retains its independence under this reorganization, and will continue to have the ability to act directly on training proposals and policy.

The new agency offers new opportunities to collaborate and expand workforce training, particularly in regard to incumbent worker training.

d) Anticipated Revenues and Expenditures

The estimated funding available to ETP for fiscal year 2002-03 is \$98.4 million, which consists of the Panel's Budget Act appropriation of \$76 million, and unearned training contract funds from past contracts, available to be reinvested

for use. These funds are allocated for expenditure into the following three budget categories:

- (1) Training: \$86.4 million to fund training and employment retention for incumbent workers and unemployed workers;
- (2) Marketing and Research: \$1.5 million for strategic program marketing, research and evaluations conducted by external consultants under contract to the Panel (including interagency agreements with the Technology, Trade and Commerce Agency, and other organizations who market the program to targeted customers, and agreements for expenditure of research funds provided by EDD's Labor Market Information Division, and for external research studies); and
- (3) Program Administration: \$10.5 million for operational costs to administer the program (this amount is determined through the budgetary process, and is reviewed annually by the Department of Finance and the Legislature).

The following table illustrates anticipated revenues and expenditures in FY 2002-03.

FY 2002- 03 Revenue & Expenditures	
<u>Revenue (Estimated)</u>	
Appropriation.....	\$76,033,000¹
Funds Reinvested	<u>22,400,000²</u>
Total.....	<u>\$98,433,000</u>
<u>Expenditures (Planned)</u>	
Training	\$86,433,000
- <i>Economic Development</i>	77,789,700
- <i>Special Employment Training</i>	8,643,300
Marketing and Research	1,500,000
Program Administration	<u>10,500,000</u>
Total.....	<u>\$98,433,000</u>

¹ Funds appropriated for the operation of the ETP Program in State Budget Act. This assumes ETP is funded at the proposed level in the 2002 Budget Act. Administration costs may be reduced by Department of Finance action to eliminate positions that have remained vacant as a result of State hiring freeze orders. It should also be noted that while approximately \$117 million in Employment Training Tax funds are projected to be collected in fiscal year 2002-03, ETP is only appropriated \$76 million of that amount.

² Training funds approved in prior projects that were unearned and subsequently disencumbered for use in FY 2002-03.

3) Snapshot of the California Economy

In assessing ETP's external environment, staff also reviewed data on the California economy and economic trends. This research found that a number of economic experts indicate that a current downturn in the State's economy, which began in 2001, is temporary, and they predict an upswing, led by certain industry sectors, specific to various regions of the State.

California and the nation experienced a record period of expansion, economic growth, and rising living standards from 1994 to 2000. California's high technology, foreign trade, professional services and entertainment/tourism industries flourished with gains in output, jobs and wages. An increase in construction growth and worldwide economic gains also led to a rebound of the manufacturing sector.

However, 2001-2002 demonstrated an economic slowdown in both the State and nation. California's previous years' strong economic performance was largely dependent on the high tech sector, which was especially hard hit by the downturn. A dramatic decline in foreign trade, the State's energy crisis, and the terrorist attacks of September 11 further impacted the State's industries, especially tourism and hospitality.

Thus far, the downturn has been recognized primarily in terms of income loss as opposed to employment. While employment is expected to recoup its losses by the end of 2002, the decline in income is expected to be longer lasting.³ However, the overall prospects for a healthier California economy are good, as evidenced by:

- The decline in California's economy has largely been due to high tech and foreign trade downturns; however, this appears to be temporary, and normal for cyclical industries.
- The residential real estate market has generally remained strong throughout the downturn, with sales volumes continuing to rise.
- Construction is booming, in response to a shortage of new housing. It is anticipated this will spur the economy but place further pressure on the existing infrastructure.

Industry Outlook

According to the Center for the Continuing Study of the California Economy⁴, the same growth sectors that drove California's economic upturn from 1994 to 2000 will lead its recovery. These are:

³ Legislative Analyst's Office, *The 2002-03 Budget Bill: Perspectives and Issues*

⁴ Center for Continuing Study of the California Economy, *California Economic Growth, 2002 Edition*.

- **High Technology**

High tech manufacturing is projected to grow six times as fast as other manufacturing industries in the United States during the next ten years. Most recent data shows California's share of new patents and venture has increased, and California firms have recovered all the share losses of the early 1990s and captured a record high 22.3 percent of U.S. high tech manufacturing jobs in 2001. The 2000 Annual Survey of manufacturers' reported that California accounted for 28.3 percent of the nation's high tech production.

- **Foreign Trade**

Trade volumes have increased dramatically with Mexico and Canada as a result of the North American Free Trade Agreement (NAFTA). Mexico is the largest market for California exports. California's exports and total trade with Asia rose at a rate of 25 percent before a slight decline in 2001. Pacific Rim countries are projected to have a high rate of economic growth in the decade ahead.

- **Entertainment and Tourism**

As the world's leading center for development of entertainment products and a premier destination for visitors, California jobs in the industry are expected to grow in the decade ahead. Motion picture production jobs are up 70 percent since 1990, with California's share of the film industry at 50 to 60 percent. The industry is entering a new phase of digitalization where technology and the Internet will play a larger role in the creation and distribution of content. Despite 9/11, a rebound in tourism is expected to result in expansions in major amusement, sports, and entertainment facilities throughout California.

- **Professional Services**

Jobs in software, engineering, and management services are the fastest growing sector of the nation's economy and pay wages upward of 50 percent above the national average. Computer services, including software development and Internet access tools, are leading the high wage growth. California leads the way for auto design centers with facilities for most of the top automakers. Despite the economic downturn, jobs in professional services have continued to flourish.

- **Manufacturing**

Manufacturing was the largest base in California's economy in 2001; California's national share of production in diversified manufacturing has increased from 7 to 22 percent in the past two decades. Jobs were added in apparel, beverages, textiles, special Industry machinery and toys.

In addition, agriculture remains an important industry for California. While California agriculture saw a slight decline in jobs during 2001, the State's share of national agricultural production measured by dollar values has remained relatively stable in the last decade, and its share of farm wage and salary jobs has risen. On the whole, modest sales growth will result in a slight decline in industry employment in the decade ahead.

Declines in job growth are anticipated in regions of California that have historically depended on agriculture, mining, and timber, primarily in the northern areas of the State, indicating a further need to provide assistance to these areas.

4) Challenges and Opportunities

Given staff's assessment of ETP's progress in meeting its goals and objectives for 2001-02, as well as a review of other internal and external environmental factors affecting the program, the following challenges and opportunities for ETP in 2002-03 have been identified:

a) Addressing Legislative Mandates and Priorities:

While ETP has made significant strides in 2001-02 toward meeting its mandates and priorities, it should address the following in the upcoming fiscal year:

- *The Panel can play a key role in supporting growth industries' need for trained workers, while also targeting areas within the State where employment is high and the downturn still evident.*
- *Funds should be specifically targeted to businesses in the manufacturing and high tech services sectors, given their importance to the State's economy and their high return on the investment of training funds.*
- *Under SET, the Panel should target specific industries and occupations that do not have out-of-state competition, but which are on the upswing and or have a high return on investment (e.g., construction).*
- *ETP needs to determine how it may support businesses and workers in growth industries that are typically difficult to fund, given issues such as low wages and high turnover (e.g., textiles, toys, apparel), possibly through Career Ladders, SET, or HUA, with the requirement that trainee wages and employment security increase.*
- *Given the Panel's approval of the concept for a Small Business Pilot, a pilot program should be designed, implemented, and evaluated to test the concept.*
- *The Panel should strengthen the certification requirement to ensure the supplemental nature of ETP training.*
- *The fixed fee and SOST study findings should be acted on in the upcoming fiscal year.*
- *Not all funds collected from private employers for UI-linked workers are directed to support training of workers in industries paying into the Employment Training Tax fund. With a civilian workforce of approximately 17 million, California workers and businesses need all of these funds to grow the economy and promote good jobs.*

b) Evaluating the Program

Program evaluations provide significant information to the Panel which can be used to make program improvements and refinements. The following are identified as potential new research areas:

- *Given CSUN's findings on the value of employer provided training, there is a continuing need to develop a plan for promoting and implementing best practices to encourage employers to increase their own worker training, as well as enhancing the Panel's marketing and web site to promote the importance of employer-provided training.*
- *Further ETP-related evaluations would benefit the Panel, including a new study of the effectiveness of ETP training, as well as a study of ETP-funded Career Ladder projects.*
- *The CSUN study suggests that expanding ETP-funded training could reduce UI fund expenditures by a factor of \$4 saved for every \$1 spent.*

c) Ensuring Continuous Process Improvements

ETP should continue to focus on improving its processes, based upon ongoing staff analysis and customer and stakeholder feedback. In the upcoming fiscal year, the following areas should be addressed:

- *The Information Technology Unit should ensure that ETP's data needs are met.*
- *ETP should ensure agency-wide feedback on all proposed changes to processes and procedures, particularly those impacting the management information system (MIS) and on-line systems.*
- *ETP should expand customer input to obtain better and more timely feedback from contractors with active contracts, contractors who have completed contracts, and contractors who have terminated contracts, or withdrawn their training requests.*
- *ETP should continue enhancing customers' ability to provide direct feedback via ETP's web page.*
- *ETP should Implement seamless development and monitoring in ETP offices, statewide.*
- *ETP could face significant business process challenges, if vacant staffing is eliminated in the 2002-03 Budget and/or hiring freeze restrictions are continued.*

d) Addressing the Needs of Customers and Stakeholders

Related to the above need for continuous improvement is the need to assure ongoing input and support from all of ETP customers and stakeholders. As such, the following need to be continually emphasized:

- *ETP should continue meeting with legislators, executive agencies and legislative staff on a regular basis to inform them about the program and to seek their continued support.*
- *ETP should enhance and strengthen its marketing partnerships, to ensure cost-effective marketing to targeted industries by region.*
- *ETP should continue working with customers and stakeholder groups to obtain ongoing feedback.*

e) Coordinating with Workforce Partners/ Ensuring Resources

In order to address the increasing need for its limited funds, the Panel will need to collaborate with its workforce preparation and economic partners, while working to increase the amount of funds available for training. Specifically:

- *There is a need to develop collaborative approaches in support of economic development and workforce preparation. Improvements in the coordination of workforce development efforts must be made to more clearly define ETP's workforce development role and avoid duplication with other agencies.*
- *Given ETP's estimated appropriation for 2002-03, the Panel's resources for the funding of training next year will be far less than anticipated demand. The estimate of demand is based on the following:*
 - *There were \$25.5 million in ETP funding requests beyond the amount available for training in 2001- 02 fiscal year. This extra demand is expected to continue and increase in future years.*
 - *This demand will be further increased by ETP's involvement in workforce initiatives such as California Career Ladders to the 21st Century; Techforce; 9/11 response efforts; and the Governor's Nurse Workforce Initiative.*
 - *In addition, prior year obligations, resulting from incremental encumbrances will mean that a portion of FY 2002-03 available training funds will have already been obligated prior to the start of the fiscal year.*

Therefore, given this increasing demand for ETP funding, changes in the 2002-03 Budget Act are needed to allow full use of Employment Training Tax funding for workforce training.

f) Addressing the State's Training Needs:

Economies within California vary by region. Accordingly, each ETP field office responds to the needs of the region it serves, based on the economic trends in that area. Economic trends include:

▪ **North Hollywood Office (Los Angeles Basin; Southern California)**

The recession of 1990-1994 was felt most strongly in this region due to declines in aerospace and construction. By 2000, the area had recovered, with more jobs than in 1990. Strong growth in foreign trade, motion pictures, tourism, manufacturing, and multi-media/software will benefit the area and is projected to add more than 1.5 million jobs by 2010. Additionally, anticipated increases in the defense and aircraft industries will yield new job gains.

▪ **San Mateo Office (Silicon Valley; Bay Area)**

Foreign trade, computer services, and jobs relating to high tech manufacturing remain strong and are projected to add nearly one million, or one in four new California jobs, by 2010.

▪ **San Diego Office (San Diego Area)**

With a projected job increase of 33.7 percent, this region is expected to be the job growth leader. The region's proximity to the Mexican border will enhance its foreign trade growth. Additionally, growth is anticipated in the biotech and telecommunication industries.

▪ **Sacramento Office (Central Valley; Sacramento, Northern State)**

This region is anticipated to grow by 28.9 percent by 2010. Regional growth will be driven by relocation of firms from urban areas with higher costs of doing business. Sacramento has become a competitive alternative to high tech companies looking to reduce costs. Several companies have announced plans to establish distribution centers in the area. State government is also expected to add more jobs, resulting in additional growth for both the consulting and legal fields.

Economic growth and industry retooling will trigger the need for training targeted to regions of the State according to their industries. It is expected that ETP will continue to see expanding regional need for training in industries with the following criteria: (1) pay good wages, (2) provide secure employment, (3) face out-of-state competition, (4) have training programs supplemented in some manner by business, (5) support other industries in the area, and (6) show good performance under ETP contracts.

At the same time, there will be a continuing need to target training to areas of high unemployment to assist businesses and workers in areas where the current

downturn is more pronounced, or where economic development assistance is needed to respond to regional economic needs.

It must also be noted that California's civilian workforce amounts to almost 17 million workers. Given current resource constraints, ETP is able to train between 40,000 and 50,000 workers annually. Even if all funds currently collected through the Employment Training Tax were directed to ETP programs, the amount of training that could be funded would still fall far short of the amount needed. ETP will need to expand its partnerships with other workforce initiatives, as well as find ways to encourage self-funded workforce training by employers, in order to meet California's need for industry-based workforce training.

F. Goals and Objectives (FY 2002-03)

The following goals and objectives provide the framework for ETP's efforts in the next fiscal year.

Goal #1:

Increase the impact of the training provided through ETP funds on California's economy.

Objectives:

- *Though collaboration with ETP marketing partners, target basic industries by region, i.e., the manufacturing and high technology services sectors (e.g., computer programming and network design; software development; and multimedia/entertainment).*
- *Increase Economic Development category funds approved by 10 percent, for businesses in basic industries, i.e., the manufacturing and high technology services sectors (e.g., computer programming and network design; software development; and multimedia/entertainment).*
- *Target up to 10 percent of available Economic Development funds for training and employment of unemployed workers in occupations where employer demand exists, for secure employment, and upward job mobility.*
- *Target up to 10 percent of available training funds for Special Employment Training (SET) projects to support growth industries that do not have out-of-state competition – i.e., construction, health care, and research and development.*
- *Initiate separate independent studies to determine: a) the impact of ETP-funded training on businesses' viability and to assess the level of employer supported training; and b) the effectiveness of ETP-funded Career Ladder training.*
- *Support industry based workforce development needs, through funding support for Techforce, and Career Ladder initiatives.*
- *Target up to \$5 million to support the Governor's Nurse Workforce Initiative.*
- *Ensure ETP funds act as a catalyst for workforce training investments by businesses.*
- *Increase the number of persons trained under projects that support joint labor union-employer training ventures.*

Goal #2:

Increase participation in ETP and workforce training in target industries.

Objectives:

- *Increase participation in employment training through marketing, public relations and outreach in coordination with marketing partners and other stakeholders with access to target industries.*
- *Develop performance based marketing contracts that reward improved achievement of marketing goals while creating a seamless interaction with ETP's operation.*
- *Market special projects as part of Labor and Workforce Development Agency and other workforce partner initiatives.*
- *Convene meetings with contractors and consultants who market ETP programs, to share information and targeting strategies.*

Goal #3:

Assist contractors to increase the success rate among projects selected for funding.

Objectives:

- *Maintain a disencumbrance rate of 25 percent or less.*
- *Evaluate the incremental system of encumbering funds to determine if its objective is being met and to determine opportunities to further minimize training fund disencumbrances.*
- *Complete implementation of seamless development and monitoring in all ETP regional offices.*
- *Explore new methods of assessing the value added by ETP training programs.*

Goal #4:

Increase the amount of Employment Training Tax funds available for qualified ETP proposals.

Objectives:

- *Increase the budget act appropriation to the ETP program in the 2003-04 budget year by eliminating diversions from the Employment Training Fund to non-Labor and Workforce Development Agency programs.*
- *Use increased funding to address:*
 - *Critical workforce needs identified by the Labor and Workforce Development Agency and the Panel;*

- *Increase employer-labor training initiatives;*
- *Expand the number of companies with effective and sustainable workforce development programs.*

Goal #5:

Leverage funds from the private sector in support of employer provided training.

Objectives:

- *Strengthen agreement requirements to ensure that ETP funding will be used to supplement training provided by a company during the normal course of business.*
- *Increase employer contributions to the cost of training after completion of ETP-funded training.*

Goal #6:

Ensure that ETP funds continue to be invested in projects that target high-wage jobs, produce above average salary increases, and above average job retention rates.

Objectives:

- *Seek to have at least 95 percent of ETP trainees remain employed in the same occupation or industry for which they were trained, one year after completing training and employment retention.*
- *Strive to have at least 90 percent of ETP trainees remain employed in the same occupation or industry for which they were trained, three years after completing training and employment retention.*
- *Target training funds to employers that endeavor to increase trainees wages, on average, by at least 10 percent one year after completing training and employment retention.*
- *Use ETP training assistance to leverage reduced workforce turnover, with the objective of an overall turnover rate under 20 percent.*
- *Explore a limit for waivers to wage requirements for working poor and career ladder trainees at a maximum of 25 percent below the required ETP minimum wage.*
- *Increase the number of high-wage jobs filled by trainees benefiting from the ETP program.*

Goal #7:

Reduce barriers to successful participation in the ETP program.

Objectives:

- *Implement a pilot project to facilitate the ability of small businesses with 100 or fewer workers to contract directly with the Panel.*
- *Work to expand industry-based workforce training by studying and replicating exemplary models.*

Goal #8:

Continuously increase the efficiency and effectiveness of the ETP program.

Objectives:

- *Undertake a study to identify better training project evaluation tools.*
- *Improve on-line access for ETP customers.*
- *Automate processes, forms, and procedures – streamlining and expediting the contracting process for ETP customers.*
- *Assess data needs pertinent to each of the Panel's critical functions; ensure that automation processes yield necessary data.*
- *Automate administrative processes to better track program administration, marketing and research expenditures.*
- *Continue an ongoing review of training-related regulations and policies, including: a) refining criteria for basic industries/out-of state competition; b) addressing issues relevant to apprenticeship training; c) reevaluating appropriate types and levels of employer contributions; and d) determining when employment retention requirements should be modified.*
- *Explore creating a customer advisory committee to help guide IT initiatives.*

Goal #9:

Increase the skills and employability of the workforce in areas of high unemployment.

Objective:

- *Target at least \$15 million of available training funds for workers in high unemployment areas, with a focus on helping the working poor move to higher-wage jobs.*
- *Increase the number of high wage jobs for working poor trainees.*

Goal #10:

Take a leadership role in developing job training programs and in conducting related research in the new Labor and Workforce Development Agency.

Objectives:

- *In order to improve the legislative and budget processes and strengthen its leadership role in the Labor and Workforce Development Agency, submit a Budget Change Proposal to establish ETP's own departmental funding code.*
- *Partner with California Workforce Investment Board to develop collaborative approaches in support of economic development and workforce preparation.*
- *Conduct a forum with other stakeholders in the economic development and workforce preparation arenas to exchange ideas and strategies for eliminating duplicative services and coordinating services to better serve customers.*

APPENDIX A

Effective Date: 08/01/02
 Permanent: 109
 Temporary Help: 10.0

Employment Training Panel
 PANEL MEMBERS (8)

Executive Director

Executive Secretary II

Assistant Director
 Review, Special Projects &
 Outreach

Assistant Director
 Project Oversight,
 Collaboration, Control, and
 Public Relations

Secretary

(SSM III) Section Chief
 Research, Technology &
 Review

General Counsel
 Chief Counsel I (CEA)
 Legal Office
 5.0 (FT)

(SSM I) Manager
 Contract Review Unit
 7.0 (FT) 1.0 (PI)

Application Review
 1.0 (FT) 1.0 (PI)

(SSM II)
 Special Projects

(SSM I-SP) Manager
 (Spec)
 Marketing Unit
 4.0 (FT)

(SSM I) Manager
 Sacramento Development
 Field Office
 6.0 (FT)

(SSM I) Manager
 Northern California
 Monitoring
 9.0 (FT)

(SSM I) Manager
 San Diego Development
 Field Office
 7.0 (FT)

(SSM I) Manager
 San Mateo Development
 Field Office
 6.0 (FT)

(SSM I) Manager
 North Hollywood
 Development Field Office
 11.0 (FT)

(SSM I) Manager
 Southern California
 Monitoring
 9.0 (FT)

(SSM I) Manager
 Administrative Services
 Unit
 7.0 (FT) 4.0 (PI)

(SSM I) Manager
 Fiscal, Certification &
 Enrollment Unit
 10.0 (FT) 2.0 (PI)

(RM I) Manager
 Planning and Research Unit
 5.0 (FT) 1.0 (PI)

(SMA) Manager
 Audit Unit
 7.0 (FT)

(DPM) Manager
 Information Technology
 Unit
 8.0 (FT) 1.0 (PI)

The Strategic Plan was prepared by the Planning and Research Unit staff: Mike Rice, Ann Covington, Tish Fujimori, Shari Little, Jill McAloon, and Elizabeth Slape.

Additional copies of the Strategic Plan may be obtained by contacting the Employment Training Panel at 1100 J Street, 4th Floor, Sacramento, CA 95814, (916) 327-5409.

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