

**Employment
Training
Panel**

**Strategic
Plan**

2003-04

THE EMPLOYMENT TRAINING PANEL

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Contents

A. Mission Statement	1
B. Vision Statement.....	1
C. ETP’s Guiding Principles	3
D. Program Description	5
E. Assessment Summary	13
1) Progress Toward Meeting Goals and Objectives.....	13
a) Implementation of FY 2002-03 Plan.....	13
b) Legislative Mandates/Priorities	13
c) Results of Program Evaluations.....	15
d) Recent Process Improvements	16
2) Environmental Factors Affecting ETP	17
a) New Workforce Initiatives and Training Needs	17
b) Customers and Stakeholders.....	18
c) Coordination with Other Entities	18
d) Anticipated Revenues and Expenditures	19
3) Snapshot of the California Economy	21
4) Challenges and Opportunities	23
F. Goals and Objectives	29

APPENDIX

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 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 upgrading 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. After 20 years as a leading economic development program, 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 550,000 workers in more than 50,000 businesses. Approximately 70 percent of the businesses served have been companies with 100 or fewer workers.¹
- Business data shows companies that partner in ETP training, on average, expand payrolls by 16 percent over similar businesses that do not participate.²
- In 2002, ETP training initiatives put over 2,700 previously unemployed individuals to work in new private sector jobs, paying, on average, almost \$11 per hour.³
- Wage increases for workers completing ETP programs are approximately 20 percent higher than workers in similar companies.⁴

¹ ETP 2001-02 Annual Report.

² CSUN: “Training That Makes A Difference”, 2000.

³ ETP 2001-02 Annual Report.

⁴ CSUN: “Training That Makes A Difference”, 2000.

- 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.⁵
- The number of employees in companies participating in ETP projects increased by 14 percent over similar companies that did not participate in ETP training programs.⁶
- 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.⁷

Responding to Business' Needs for Trained Workers

The Employment Training Panel (ETP) is a statewide program that ensures 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

⁵ PBA Fourth Year Report, 2003.

⁶ CSUN: "Training That Makes A Difference", 2000.

⁷ CSUN: "Training That Makes A Difference", 2000.

(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 93 full time positions plus 5 Permanent Intermittent employees. 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 Executive Directors appointed by the Governor, the General Counsel, the Chief of Staff, the Special Projects Manager, and the Marketing Director.

The Assistant Executive 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 Executive 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 the Legislature and 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, the Contract Review Unit and the Audit Unit.

The Chief of Staff reports 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; and the Administrative Services 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 current marketing partners include:

- 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.
- 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 review of ETP's progress in carrying out strategies, goals and objectives identified in the Strategic Plan for fiscal year 2002-03 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 California economy and economic trends, and 4) an assessment of future challenges and opportunities.

1) Progress Toward Meeting Goals and Objectives

ETP, as part of its ongoing planning and self-assessment, reviewed its progress in meeting the goals and objectives in the 2002-03 Strategic Plan, and in achieving its overall mission. This review shows that despite ETP cutbacks on staff resources in 2002-03, the Panel made progress in addressing its goals and objectives to meet the needs of California's employers and workers.

The following summarizes a) the Panel's implementation of the 2002-03 goals and objectives, in light of staff reductions; b) progress with respect to addressing ETP's legislative mandates and priorities; c) results of program evaluations; and d) recent process improvements.

a) Implementation of the 2002-03 Strategic Plan

Last year, staff implemented action plans to carry out the 10 goals and 41 objectives of the 2002-03 Strategic Plan. However, with cutbacks in staff resources of 10 percent during the year, it became apparent that last year's Strategic Plan was too ambitious. As a result, given budget constraints and limited staff resources, nine objectives were formally deferred by the Panel for reconsideration in the 2003-04 Strategic Plan. At the same time, many key objectives in the 2002-03 Strategic Plan have been achieved, or are on track, as described in sections b), c), and d) below.

The goals and objectives for 2003-04 are framed within the context of staff's assessment of progress toward achieving last year's goals and objectives – i.e., some goals and objectives that were completed, or are no longer appropriate, have been eliminated. Several goals and objectives were refined or combined, where appropriate. Six new objectives were added, to address new challenges and opportunities facing the California economy.

b) Legislative Mandates/Priorities

The Panel's progress in meeting its mandates and priorities in 2002-03 included:

- Approved training projects totaling \$119.4 million, resulting in fiscal year encumbrances of all available training funds for fiscal year 2002-03.

- Of the projects approved, approximately 92 percent were for employers faced with out-of-state competition.
- Encumbered 79 percent of all available Economic Development category funds for businesses in the high technology and manufacturing sectors, exceeding the goal of 71.5 percent.
- Updated key policies and regulations, taking action to improve ETP program performance by:
 - placing a moratorium on funding of structured on-site training (SOST), after extensive public hearings and review;
 - updating its policy on apprenticeship training;
 - updating its High Unemployment Area (HUA) policy to clarify which areas are eligible as HUAs, and to limit working poor wage waivers;
 - refining its out-of-state competition regulation;
 - defining the use of service charges and banquet tips as wages;
 - clarifying limits on training for managers; and
 - defining emancipated foster youth as an eligible trainee population for SET Projects.
- Monitored disencumbrances closely to assure that a 25 percent limit was not exceeded.
- Initiated a new independent evaluation of the ETP program to assess ETP's impact on workers, businesses, and the economy.
- Implemented a Small Business Pilot Project (SBPP) to facilitate direct contracting with businesses employing 100 or fewer workers; and contracted with an independent evaluator to assess SBPP for possible integration into the regular contracting process.
- Approved \$17 million for training in high unemployment areas, exceeding the \$15 million objective.
- Weekly, ETP Executive Staff participated in the new Labor and Workforce Development Agency (LWDA) meetings to coordinate on workforce and enforcement activities. Additionally, ETP staff actively participated in several workgroups and special committees, established to make improvements in LWDA programs in areas such as: data collection and reporting, public outreach, reforming one-stop operations, and career ladder development.

c) 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 2002-03, the following research activities were undertaken:

- New ETP Effectiveness Study: In FY 2002-03, the Panel contracted with researchers at California State University, Northridge (CSUN) for a new independent study of ETP's impact on workers, businesses and the State's economy. This follows CSUN's most recent two-year study, completed in 2000, which found that ETP-funded training increased workers' earnings, reduced unemployment, helped increase the growth of California companies, and boosted economic expansion in the State. That study also found that, while 45 states have some type of publicly funded worker training program, ETP is the largest and most successful such program in the United States, and that 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.

The new CSUN evaluation will examine more recent results of the program, by assessing: 1) the impacts of ETP-funded training on trainees, participating employers, and the State's economy; and 2) the level of employer-supported training in California's economy. The study will answer two important questions:

- 1) What quantifiable benefits have participating businesses received from ETP-funded training, and how do these benefits relate to effects on the California economy?
- 2) To what extent did ETP-funded training improve earnings and job security for the workers who were trained?

The final report from CSUN on ETP program impacts is due December 31, 2003.

- Structured on-site training (SOST) Study: Last year, CSUN researchers also conducted a study of SOST, and presented their findings to the Panel in August, 2002. Major findings included:
 1. SOST often reimburses existing training.
 2. Unstructured training practices are often used instead of SOST.
 3. The system motivates contract administrators to focus on billing trainer hours, rather than on achieving trainee competence.
 4. Reliable monitoring of SOST is difficult, lacking the structure defined by CSUN as quality SOST.
 5. Reimbursement is often unrelated to actual costs.

Following the release of these findings, the Panel held public hearings in both Northern and Southern California to help determine if SOST should be continued, and, if so, under what conditions. After careful consideration, the Panel determined that no potential solution adequately resolved liabilities associated with ETP funding of SOST. The Panel, therefore, placed a moratorium on funding SOST. However, the Panel also decided, based on information collected through this review, to adopt a lower threshold: 24 hours for training; and to allow incidental review of production products in a lab setting.

- Statewide Report Card: 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 Fourth-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 about 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 retrainee retention rates of over 94 percent and almost 92 percent, respectively;
 - ETP retrainees typically showed earnings gains of about \$4,000 in the year after training, with average annual earnings of \$41,500; most new hires showed earnings gains well over \$3,000 a year after training, with average annual wages of approximately \$23,300; and
 - Use of Unemployment Insurance benefits fell significantly for new hire trainee completers from 81 percent before training to 21 percent a year after completing training.
- In addition, two new studies were initiated: an evaluation of the Small Business Pilot Project, and a Career Ladder study.

d) Recent Process Improvements

ETP continued to emphasize process improvements to better serve its customers:

- Increased automation for better customer service has resulted in on-line orientations and eligibility determination, and more flexibility for contractors in their training plans.
- A Small Business Pilot Project was initiated to make it easier for firms with 100 or fewer employees to contract directly with ETP.

- Seamless monitoring and development was established in all field offices.

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

High demand for ETP training support continued in FY 2002-03, although at a somewhat diminished level than in FY 2001-02. The Panel encumbered all \$82.7 million of its available training funds. Most economists agree that unsettled economic conditions, resulting from disclosure of fraud in a number of the biggest national companies, the threat of terrorism, the wars in Afghanistan and Iraq, as well as rising unemployment have discouraged businesses from aggressive retooling and workforce training initiatives. Nonetheless, in a number of business sectors such as aerospace, defense, mortgage lending and life science companies, there is increasing interest and demand for new workforce training efforts. This continuing demand will be further affected by several major workforce initiatives that include:

- 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 thus far approved \$5 million to address health worker/nurse training projects.
- Worker training projects are still needed to address the needs of industries especially affected by the September 11th terrorist attacks and the general economic downturn, including airlines, tourism, and hospitality.
- Continuing training support is needed by new and emerging industries, such as bio-technology, telecommunications, and advanced transportation; as well as by firms in basic industries, including manufacturing and high technology services, to assist in their economic recovery. The Governor has set a priority on expanding California's life science industry.
- ETP, through its SET category, may also have an increasing role in providing training support in the rebuilding of California's infrastructure (construction, transportation), as well as support for initiatives that address the vocational training needs of workers with barrier to employment, such as immigrants, foster youth, hard-to-serve populations, current and former welfare recipients, and parolees.

- The Governor also has taken steps to help California's aerospace and defense companies increase their share of federal homeland and national defense contracts.

b) Customers and Stakeholders

ETP makes it a priority to respond to the needs of its many 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. Current partners include: the California Manufacturing and Technology Association; the California Labor Federation; and the Technology, Trade and Commerce Agency. ETP has targeted specific industries through marketing contracts with these partners, which include specific performance requirements. ETP also works with local WIBs, training consultants, and other interested stakeholders to market ETP to potential businesses. Some of ETP's marketing partners have 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 labor/employer-driven program supporting industry specific retraining for incumbent workers, ETP differs from 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, state workforce development organizations are working to become more effective in achieving the State's workforce goals and objectives.

To improve workforce development efforts last year, the Governor created the Labor and Workforce Development Agency. The Labor Agency is led by a cabinet-level secretary and encompasses 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 autonomy under this reorganization, and continues to independently act directly on ETP training proposals and in setting program policy. The new agency offers new opportunities to collaborate and expand workforce training, particularly in regard to incumbent worker training.

ETP has taken an active role in the LWDA strategic planning process. This includes participation in Labor Agency planning initiatives to: 1) Consolidate and integrate more worker and employer services into One-Stop Career Centers; 2) Expand and enhance communications and outreach, especially to special

populations in need of service from Labor Agency programs; and 3) Develop a better and more accessible common data base to enhance research.

d) Anticipated Revenues and Expenditures

The estimated funding available to ETP for fiscal year 2003-04 is \$53.8 million, which consists of the Panel's Budget Act appropriation of \$35.5 million, and unearned training contract funds from past contracts, available to be reinvested for use. These funds are allocated for expenditure into the following budget categories:

- 1) Training: \$42.1 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);
- 3) Program Administration: \$8.1 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); and
- 4) Manufacturing Technology Project: \$2.1 million for an interagency agreement with the California Technology, Trade and Commerce Agency to fund the Manufacturing Technology Project.

The following table illustrates anticipated revenues and expenditures in FY 2003-04.

FY 2003- 04 Revenue & Expenditures	
<u>Revenue (Estimated)</u>	
Appropriation.....	\$35,498,000⁸
Budget adjustment for 12% salary reductions.....	(\$472,217)
Funds Reinvested	<u>18,800,000⁹</u>
Total.....	<u>\$53,825,783</u>
<u>Expenditures (Planned)</u>	
Training	\$42,099,783
- <i>Economic Development</i>	37,889,805
- <i>Special Employment Training</i>	4,209,978
Marketing and Research	1,500,000
Program Administration	8,100,000
TT&CA interagency Agreement	<u>2,126,000</u>
Total.....	<u>\$53,825,783</u>

⁸ Funds appropriated for the operation of the ETP Program in State Budget Act. This assumes ETP is funded at the proposed level in the 2003-04 Budget Act. It should also be noted that while approximately \$99.8 million in Employment Training Tax funds are projected to be collected in fiscal year 2003-04, ETP is only appropriated \$35.5 million of that amount.

⁹ Training funds approved in prior contracts that were unearned and subsequently disencumbered for use in FY 2003-04.

3) Snapshot of the California Economy

In assessing ETP's external environment, staff also reviewed data on the California economy and economic trends. The research found that while the current economic downturn is expected to be temporary, the anticipated recovery is proceeding slowly. Like the national economy, California's economy is sluggish and has remained at a relative standstill. From March 2002 to March 2003, non-farm payroll employment grew by just 0.2 percent in the State, and California's unemployment rate remained stable, never exceeding 6.9 percent, but never falling below 6.6 percent.

Factors affecting the nation have also slowed California's economic recovery. Consumers have remained cautious and businesses have continued to cut back on capital spending. War, fears of terrorism, and concerns regarding severe acute respiratory syndrome (SARs) have hurt the State's tourism industry. Employment continued to decline in manufacturing and high technology sectors; and declines were also experienced in education, local government, and health care.¹⁰

The California downturn appears to be even more of a high technology, Bay Area recession than first thought. In the past year, the total job loss in the San Jose and San Francisco metropolitan areas was more than 60 percent of the total job loss in the State. California's goods exports declined 13.6 percent in 2002, following a 10.8 percent drop in 2001.¹¹ At the same time, the decline in manufacturing continued, with California having lost more than 283,000 manufacturing jobs since January 2001, representing 16 percent of the industrial workforce.¹²

The State's budget deficit is another factor slowing economic recovery. According to the Legislative Analyst's Office, State revenue deterioration has been unprecedented. The combined receipts of personal income tax (PIT), sales and use tax, and corporation tax "dropped by a staggering \$13 billion between 2000-01 and 2001-02 -- primarily because of a 26 percent decline in personal income tax revenues. This deterioration reflects the effects of both the recession and the stock market's collapse."¹³ At the same time, the budget deficit is generally viewed as a symptom of the State's current economic difficulties, not a causal factor.¹⁴

On the up side, construction activity and the residential real estate market remain strong, and there are hopeful signs for a modest rebound in California in the next few years. The Department of Finance forecasts a near 5 percent increase in Californians' personal income in 2004, along with an increase in employment in most industrial sectors, including a 3.5 percent increase in wholesale and retail trade, and a 2.9 percent increase in manufacturing.¹⁵ The most recent UCLA Anderson School Forecast indicates that "there will be stabilization of manufacturing employment in 2003, followed by a modest growth in manufacturing jobs in 2004". The Anderson Forecast also

¹⁰ Governor's Budget May Revision: Summary of the Economy.

¹¹ UCLA Anderson Forecast, March 2003.

¹² CA Manufacturers & Technology Association

¹³ Legislative Analyst's Office, "The 2003-04 Budget Bill: Perspectives and Issues."

¹⁴ UCLA Anderson Forecast, March 2003.

¹⁵ Department of Finance Forecast data, April 2003.

indicates that “California’s exports, highly dependent on IT goods, will improve by the second half of 2003, and will support an improved outlook for wholesale trade and distribution jobs in 2003 and 2004. The state’s role as world leader in information technology will remain as a longer-term strength for the state...”¹⁶

Research also suggests that the current economy has had various impacts on California’s workforce. The California Budget Project indicated that, “The economic expansion, which ended early last year, produced mixed results for California’s workers and their families. California experienced unprecedented job growth during the expansion, adding more than 500,000 jobs in 2000 alone. However, the wages and incomes of many workers and their families barely surpassed inflation”. California Budget Project researchers indicated that: “Nearly two million Californians, including over a million children, live in families that are working, but poor (families with incomes below the federal poverty level).”¹⁷

The Californian Budget Project also indicated that public funding for effective economic development programs should be a high priority: “Employers cite workforce training as one of the most crucial areas in which the state could assist business development.”¹⁸ The Public Policy Institute of California has also suggested, “Trade infrastructure is an obvious means by which California can benefit from engagement with the international economy...At a minimum the state should consider trade infrastructure as a whole, forecast the growth of demands on it, and offer an analysis of statewide needs.”¹⁹ The need for trained workers will be an essential element in supporting the State’s trade infrastructure.

Thus, a snapshot of the California economy suggests an important role for ETP to fund training for high-skill, high wage jobs in the State’s basic industries, as they continue to rebound from the economic downturn, as well as in new and emerging industries and to support infrastructure rebuilding efforts. These efforts can be supplemented with training assistance for businesses in areas of high unemployment, and for the working poor to help them move up the economic ladder and gain self-sufficiency.

¹⁶ UCLA Anderson Forecast, March 2003.

¹⁷ California Budget Project: “The State of Working California”, September 2002.

¹⁸ California Budget Project: “Maximizing Returns: A Proposal for Improving the Accountability of California’s Investments in Economic Development”, January 2002.

¹⁹ Public Policy Institute, “Rethinking California’s Policy Options in a Global Economy”, February 2002.

4) Challenges and Opportunities

Given ETP's progress in meeting goals and objectives for 2002-03, as well as a review of other internal and external environmental factors affecting the program, the following challenges and opportunities for ETP in 2003-04 have been identified:

a) Addressing Legislative Mandates and Priorities

While ETP has made progress in 2002-03 toward meeting its mandates and priorities, it should address the following in the coming year:

- *The Panel can continue to play a key role in supporting growth industries' need for trained workers, such as in telecommunications, multi-media, biotechnology, and construction.*
- *Funds should be specifically targeted to businesses in the manufacturing and high technology services sectors, given their importance to the State's economy, and their high return on the investment of training funds. Helping aerospace and defense businesses succeed in capturing and retaining production contracts should be a high priority.*
- *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). This can also address training related to rebuilding/improving the State's infrastructure.*
- *The Panel can play a heightened role in supporting companies that need to increase their investment in worker training to keep pace with new and enhanced technology and equipment.*
- *Increased emphasis on public relations in specific sectors and regions would help target funds where they could have maximum impact.*
- *The Panel should review and determine how to address seasonal workforce development needs.*
- *The Panel should seek additional resources from the Employment Training Fund, and leverage additional employer contributions, to address the unmet need for ETP training funds. It is anticipated that fiscal difficulties facing state government will necessitate vigilance and continuous outreach to state policy makers concerning the important role and value of ETP as an economic and workforce development tool.*
- *The Panel should also pursue autonomy from EDD in the Budget to heighten ETP's visibility and increase the importance of workforce training within the LWDA.*

- *A project should be explored to assess training needs within various industry sectors and identify how ETP training rate adjustments could be used to maximize public value outcomes (i.e., increase worker wages and employment security, develop a better trained state workforce more closely tailored to the skill needs of “high road” industries, and reduce state social costs, such as unemployment and public assistance).*

b) Evaluating the Program

Program evaluations provide significant information to the Panel that can be used to make program improvements and refinements. The following are identified as potential research areas in 2003-04:

- *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 completion of the new study of the effectiveness of ETP training, as well as a study of ETP-funded Career Ladder projects designed to identify best policies and practices, and clarify the appropriate role for ETP in LWDA Career Ladder initiatives and strategies.*
- *Implementation of the Small Business Pilot Project has given rise to the need for an evaluation of the project, to determine its failures and successes. Where appropriate, application of the small business contracting process and method may be adapted to larger business’ training projects.*

c) Process Improvements

ETP should undertake the following to improve the contract development, approval and implementation processes:

- *Identify and mitigate policy and process obstacles that prevent customers from obtaining and performing training contracts.*
- *Continue and refine the implementation of on-line processes, and seek additional methods of improving automation of processes, forms, and procedures.*
- *Form a workgroup to identify and help address data needs.*

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 program 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 undertake activities to raise business, labor and public awareness of the importance and value of incumbent worker training and the role of ETP in meeting part of that need.*
- *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 continuing 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 value, in achieving workforce and economic development goals.*
- *Given ETP's estimated appropriation for 2003-04, the Panel's resources for the funding of training next year will be less than anticipated demand. The estimate of demand is based on the following:*
 - *The Panel encumbered all of its 2002-03 training funds.*
 - *This demand will be further increased by ETP's involvement in workforce initiatives such as 9/11 response efforts, the Governor's Nurse Workforce Initiative and others.*
 - *In addition, carrying forward prior year obligations will mean that a portion of FY 2003-04 available training funds will have already been obligated prior to the start of the fiscal year.*
- *Increasing demand for ETP funding and shrinking ETF allocations to ETP support the need for changes in the 2003-04 Budget Act, to direct a larger proportion of Employment Training Tax funding to ETP workforce training.*
- *Proposed FY 2003-04 budget language directs ETP and the Department of Social Services to assess and report to the legislature on the feasibility of reducing diversions of Employment Training Tax funds to the Calworks program, and on how ETP can be used to help transition Calworks recipients to high wage, secure employment.*

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. These projected trends²⁰ 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 1.2 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)**

The Bay Area is suffering from major job losses in high technology, but is expected to slowly recover. The region is projected to recover with gains in technology-related services, exports, and business start-ups.

- **San Diego Office (San Diego Area)**

With a projected job increase of 24.6 percent in the decade ahead, this region is expected to be the job growth leader. The region's proximity to the Mexican border will enhance its foreign trade growth. Cross border manufacturing facilities in TV, toys, and electronics are boosting jobs in the region. Additionally, growth is anticipated in the biotech and telecommunication industries.

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

The Sacramento region is anticipated to grow by 29.3 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. The region is growing as a distribution center for intrastate goods movement. In addition, the San Joaquin Valley is projected to grow 26.2 percent by 2010. While its older resource base of agriculture, mining, and timber will see job declines, the region's growth will be driven by relocation of firms and workers from big urban areas of California.

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.

²⁰ Center for Continuing Study of the California Economy, "California Economic Growth, 2003 Edition".

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.

Proposed reductions in federal Workforce Investment Act (WIA) funding will likely result in less public funding being available for state workforce development and cause increased demand for ETP funds as WIA funds availability diminishes.

F. Goals and Objectives (FY 2003-04)

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:

- *Target 80 percent of funds approved under the Economic Development category for businesses in the manufacturing, life science, and high technology sectors.*
- *Target 10 percent of available Economic Development funds for training and employment of unemployed and under-employed workers in occupations where employer demand exists, for secure employment, and upward job mobility.*
- *Target 10 percent of available funds for Special Employment Training (SET) projects to support growth industries without out-of-state competition – i.e., construction, health care, and research and development.*
- *Complete 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.*
- *Target up to \$5 Million to support the Governor's Nurse Workforce Initiative efforts.*
- *Increase the number of persons trained under projects that support joint labor/ employer training ventures.*
- *Ensure ETP funds act as a catalyst for continuing workforce training investments by business.*

Goal #2:

Increase the participation of target industries in ETP and workforce training.

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.*
- *Convene meetings with ETP's workforce development partners, to share information and targeting strategies.*

- *Develop “cluster industry” initiatives involving trainees from multiple industries within an industry sector, or cluster, including all suppliers and handler businesses that support a leading industry with an end product or service. The Life Science (Bio-technology), Aerospace and Defense industries will be targeted for “cluster industry” initiatives.*

Goal #3:

Reduce barriers to participation in the ETP Program and assist contractors to increase the success rate among projects selected for funding.

Objectives:

- *Complete the SBPP and evaluate its success in cost-effectively facilitating the ability of small businesses with 100 or fewer workers to contract directly with the Panel. Using the lessons learned from the SBPP, integrate a new direct contracting small business strategy into ETP’s operation.*

Goal #4:

Maximize the amount of ETF funds available to support ETP-funded training proposals.

Objectives:

- *Increase the budget act appropriation to the ETP program in the 2004-05 budget year by ensuring that ETF funding is used to fund Unemployment Insurance-linked worker training programs that address, among other things:*
 - *Critical workforce needs identified by the Labor and Workforce Development Agency and the Panel;*
 - *Increase employer-labor training initiatives; and*
 - *Expand the number of companies with effective and sustainable workforce development programs.*

Goal #5:

Ensure that ETP funds continue to be invested in projects that target high-wage frontline worker jobs, produce salary increases, and higher 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; and 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.*

Goal #6:

Continuously increase the efficiency and effectiveness of the ETP program.

Objectives:

- *Continue implementation of on-line processes, and seek additional methods of improving automation of processes, forms, and procedures.*
- *Assess data needs pertinent to each critical function, and ensure that automation processes yield necessary data.*
- *Ensure that training funded by ETP is supplemental to training provided by a company during the normal course of business, or funding available through other sources.*

Goal #7:

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

Objectives:

- *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 #8:

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 ETP's leadership role in the Labor and Workforce Development Agency, assess EDD's administrative support of ETP program, and provide recommendations for solutions, and 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.*
- *In conjunction with the Secretary of the Labor and Workforce Development Agency and the Secretary of the Health and Human Services Agency, develop a plan for the termination of the allocation of Employment Training Tax monies to DSS for CalWorks, and for the allocation of such funds to ETP, per proposed FY 2003-04 Budget Act language.*