



Employment Training Panel

Memorandum

To: ETP Policy Committee
Gretchen Newsom, Chairperson
Janice Roberts, Member
Rick Smiles: Member

Date: December 17,
2020

CC: Executive Staff
Reg Javier, Executive Director
Peter Cooper, Assistant Director

From: Lis Testa, Policy Manager

Subject: ETP Policy Committee Meeting Agenda Item 5.a.
Proposal to Policy Committee Re: Support Costs

I. Brief Issue Statement:

Support costs are used, in the larger workforce system, to provide assistance to program participants and contractors which helps them to be more successful in their projects. For example, if a participant in a work placement program has difficulty affording transportation to and from work, support costs can be used to purchase a bus pass or taxi fare for the participant. In other words, the support costs are used for things that are not normally eligible program costs.

In many workforce programs, contractors must invoice for reimbursement of their support costs. Or, if not invoicing, must demonstrate sufficient need for the additional support costs by providing strong justifications for their requests.

ETP currently allows, for MECs only, support costs to be paid to the MEC contractor in addition to the 13% maximum currently allowed for administrative costs. We do not have an invoicing or billing system for awarding and tracking support costs. Potential contractors are also not currently required to provide any justification for their request for support costs.

Regulations 4411(e-g): Fixed-Fee Contracts, set ETP support cost percentages to no more than 8% for retrainees and 12% for New Hires. These Regulations also lists the types of things that support costs can be used for. The Regulations also state that the 8% and 12% are the highest amounts allowable for support costs (meaning that we can award less than 8% or 12% if desired). Additionally, the Regulations, while not requiring that support costs be invoiced, do require the potential contractor to provide additional

justifications in order to receive anything above 8% in support costs for their efforts to serve new hire populations.

ETP currently allows the same percentages for support costs as outlined in the Regulations, with the exception of Veterans, who can receive up to 20% support costs, per the Veterans Guidelines.

Support costs are applied on a per Job Number basis – rather than at the contract level – since a contract can have both retrainees and new hires and veterans participating.

In the past 5.5 years, ETP has paid just short of \$15M in support costs (to 422 contracts). The average amount spent on support costs per fiscal year is approximately \$2.6M. For this current fiscal year to date, we have over \$1.5M in support costs going to 58 contracts.

Most of the support costs in the past 5 years have gone to the 8% support cost category for retrainees (\$13.5M). \$0.8M has gone to the 12% level for new hires, and \$0.5M to the 20% level for veterans.

The Panel and Policy Committee have expressed interest in reviewing the ways we award support costs, especially given the current economic situation of extremely high demand with limited funds. We are currently experiencing a large reduction in the collections to the Employment Training Fund (ETF), which will continue for the next few years. As such, we are trying to identify and increase the value of each dollar we spend on training contracts. As we review this practice, staff is interested in hearing what Committee and Panel view as the value of support costs.

II. Potential Options:

- a. We could do nothing, and still allow MECs to receive support costs at 8% for Retrainees, 12% for New Hires, and 20% for Veterans.
- b. We could limit all support costs to the lowest percentage of 8%. This would save \$250K per FY, approximately, and approximately \$125K for the remainder of this fiscal year. This option does not provide a large impact in fund savings.
- c. We rarely see new (non-repeat) MECs. They do happen, but are rather rare. Therefore, eliminating support costs for the remainder of the FY for only new MECs would result in negligible cost savings.
- d. We could require contractors to invoice for their support costs, while still enforcing the 8%/12%/20% caps. This option, which is used in some other state's workforce development programs, would require ETP to develop a system to collect justifications and validations for support cost expenditures. This may be an invoicing system, or stronger justifications being required when support costs are requested, or a scaled percentage of support costs allowable (rather than awarding the full 8%/12%/20% automatically), or a combination of these approaches. It is unclear how much cost savings this method would provide, however, it could provide

interesting information on the nature of the support costs used by MECs. This option will require some time for ETP to implement.

- e. We could not allow support costs at all for the remainder of this FY, with potential savings for the rest of the FY of \$1M - \$2M. Re-instituting support costs can then be considered along with the other Funding Priorities (ie: project caps, allocations, etc) on a yearly basis.

III. Recommendation:

Staff would like to know if Committee or stakeholders have any feedback or desire for more discussion on these items. We would also like to know which of these approaches you would like to be brought before full Panel for approval.