

## HB4141 REPORT

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Governor



It is our pleasure to submit the Executive Summary and Report required by House Bill 4141 as specified in ORS 192.245.

We appreciate the legislature's interest in a workforce system that effectively meets the needs of Oregon's businesses and citizens. Over the last nine months, the Oregon Workforce Investment Board and the Governor's Office have implemented a number of measures that address the issues raised in House Bill 4141. We have also identified a number of actions still to be taken. The attached report contains recommendations that we believe will lead to a more highly aligned and integrated workforce system that maximizes outcomes for the state's citizens and businesses.

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## HB4141 REPORT EXECUTIVE SUMMARY

In February 2012, the Oregon Legislature passed House Bill 4141 (HB4141). It calls on the Governor's Office and the Oregon Workforce Investment Board (OWIB) to form an advisory committee to consider initiatives to improve the ability of Oregon's workforce system to serve the state's businesses, job seekers and workers. The OWIB acted as the advisory committee for HB4141. OWIB's extensive evaluation and strategic planning process addressed many of the issues identified in HB4141. The recommendations in OWIB's strategic plan were integrated with the state's Ten-Year Strategic Planning process. The recommendations in this report will be integrated into OWIB's and the Governor's efforts to better align the workforce system to achieve results for Oregon's citizens and businesses in light of a changing economy and reduced state and federal resources.

Fragmentation is inherent in the federally funded workforce system, which is made up of a variety of programs across several agencies with similar missions but different program and outcome requirements. Oregon's workforce system includes 14 programs/funding streams that help people become and stay employed. These programs are housed in three state agencies. Education and economic development are strongly linked to the success of the workforce system. The OWIB provides policy guidance through its strategic plan which establishes the expectations, outcomes and key strategies to align Oregon's decentralized workforce system. Local Workforce Investment Boards (LWIBs) provide coordination and oversight at the local level. The Workforce Policy Cabinet - the state leads for workforce programs - meets to align state agencies in support of the OWIB's plan. However, implementation of past OWIB plans was uneven. Not all workforce agencies and programs placed equal weight on the plan and implementation was hampered by lack of a work plan, budget, and accountability structure.

The new strategic plan, *Oregon at Work*, focuses more directly on increasing system alignment and accountability for outcomes. The plan was accepted by Governor Kitzhaber in July 2012 as the framework for a revitalized workforce system. The plan addresses many of the issues identified in HB4141. It identifies three strategies to improve alignment within the workforce system and to align workforce initiatives with education and economic development. The plan includes a common set of system outcomes and a revised "governance structure" that creates compacts for outcomes and a state/local decision making structure for the workforce system.

Strategic planning is only the first step. Feedback from the local planning process has identified challenges to plan implementation. Ongoing evaluation has identified additional recommendations for system improvements. In order to create a highly integrated and transparent workforce system that meets the needs of Oregon's businesses and job seekers regardless of federal fragmentation, there is still much to be done. Reduced state and federal resources and increased demand on the system require greater system integration to create efficiencies and invest in services that result in the best outcomes.

### RECOMMENDATIONS

- **Fully integrate and align the workforce system.**
  - **Clarify the roles of OWIB and the LWIBs** as "talent investment boards" convening partnerships, driving innovation, purchasing services to advance citizens and support business growth, and being responsible for results.
  - **Re-align state administrative functions** to support the locally delivered workforce system envisioned in the OWIB plan and increase administrative efficiencies to assure that all possible resources reach system customers.
  - **Better focus WorkSource Oregon** to support Oregon's citizens and businesses by integrating more programs, providing more opportunities to help Oregonians to develop skills and market-relevant credentials leading to good jobs, and using industry input to constantly align programs with the needs of the economy.
- **Budget for workforce innovation.** The Governor's Recommended Budget includes a \$10 million workforce system innovation investment. This investment funds a number of initiatives that better align the services of the workforce system with the needs of industry, while supporting greater alignment and integration of the workforce system.

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### **OVERVIEW**

In February 2012, the Oregon Legislature passed House Bill 4141. In a time of economic crisis and reduced resources, HB4141 calls upon the Governor's Office and the Oregon Workforce Investment Board (OWIB) to form an advisory committee to consider the development of initiatives, potentially including proposed legislation and federal waivers, which could:

- Promote the creation of a highly skilled, high-wage workforce;
- Increase the alignment of federal, state and local workforce resources to support job creation, industry competitiveness, individual skill development and movement along career pathways;
- Increase accountability for achievement of common goals;
- Increase coordination and enhance relations between institutions of higher education, community colleges and labor and apprenticeship programs;
- Increase alignment between workforce development and economic development;
- Identify metrics to measure progress toward goals and track progress;
- Increase transparency of budgeting at the state and local levels; and
- Increase the flexibility and responsiveness of local workforce investment boards.

The bill specifically asks the advisory committee to consider the value of establishing a work-ready community certification program and to identify potential barriers to job creation and expansion in Oregon besides the lack of a skilled Workforce. The bill requires the submission of a report by January 15, 2013.

The Governor's Office and the OWIB submit this report detailing their work to address the issues identified in HB4141, providing recommendations related to establishing work ready communities, and identifying barriers to job creation other than the lack of a skilled workforce.

### **BACKGROUND**

In late 2010, the OWIB and the Governor's Office began to ask questions similar to those raised in HB4141. While Oregon's workforce system had implemented a series of innovations to better serve the state's job seekers and businesses, it had been more than four years since the adoption of the last strategic plan for workforce development. Much had changed in that time. On the up side, Oregon had become nationally recognized for its implementation of several workforce related programs. Oregon's career pathways program became a national model. Oregon became one of five states leading the nation in the development of a "service integration" model that allowed WorkSource, the state's publicly funded workforce system, to expand the number of job seekers receiving enhanced job search, skill building and training services from 6,000 to over 200,000 without significant additional resources. The state implemented a current worker training program, and Local Workforce Investment Boards (LWIBs) expanded ties with economic development. The Oregon Legislature put the National Career Readiness Certificate (NCRC) program into statute. The certification was made available at WorkSource Centers across the state and Oregon was one of four states engaged to develop national criteria to use the NCRC to certify Work Ready Communities. A highly effective on-the-

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meetings among Governor's staff to align and leverage potential recommendations with initiatives in other policy areas, the analysis of strategic plans from the nine states widely recognized as workforce leaders, the creation of a report card (see appendix B) to evaluate OWIB's 2006 strategic plan, a gap analysis (see appendix C), and a series of statewide input sessions that engaged more than 300 businesses, economic developers, labor representatives, community based organizations, local elected officials, and education and workforce service providers. This planning effort included all of the stakeholders identified in HB4141. Two additional efforts have since been undertaken to further inform OWIB's and the Governor's recommendations:

- Public Works LLC developed a report - Building Momentum: Recommendations on increasing system innovation and talent development for Oregon's economy (see appendix D) – that identified promising practices for workforce programs.
- The Oregon Department of Human Services convened an interagency, state/local "Closing the Employment Gap" workgroup to recommend strategies to achieve better employment outcomes for job seekers with significant barriers to employment (see appendix E).

Through this evaluation and gap analysis work, OWIB and the Governor's office learned that while OWIB's past efforts at planning had resulted in a greater focus on business demand driving workforce programs and increased partnership and understanding among state and local programs, a number of factors affected implementation of the plan:

- There was no system-wide management plan for strategic activities, metrics, or outcomes, and therefore no way to adjust course.
- Workforce system investments were not aligned in order to meet plan goals and activities.
- Engagement and collaboration with Oregon's education and economic development systems in achieving workforce development goals and objectives was limited.
- Too many outcomes were identified in the plan.
- The lack of a clearly articulated leadership and management structure to carry out the vision and produce outcomes resulted in diffuse accountability for outcomes.

It was clear that not all workforce programs placed equal weight on the plan, and therefore not all of them used the plan to guide decision-making and investment. Although individual organizations and agencies used the plan for guidance, overall implementation was uneven and accountability was limited.

OWIB used these findings to develop a new strategic plan (Appendix F) that focuses more directly on increasing system alignment and accountability for outcomes. The plan, *Oregon at Work*, was accepted by Governor Kitzhaber in July 2012 as the framework for a revitalized workforce system. The plan focuses on three strategies to improve alignment within the workforce system and to align workforce initiatives with education and economic development initiatives. All three strategies are also integrated into the state's Ten Year Economy and Jobs plan and Education plan in order to align the strategy with the budgeting process. The plan includes a common set of system outcomes and a revised "governance structure" that creates compacts for outcomes and a state/local decision making structure for the workforce system. These steps begin to address many of the issues identified in HB4141.

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citizens have the foundational and problem solving skills to succeed in work and further education/training. The implementation of Sector Strategies requires partnership with educational institutions to assure that education and training options within a community meet the demands of key industries and to assure a good match between the supply and demand of industry required credentials. The implementation of Certified Work Ready Communities and Sector Strategies also promotes the continued development and refinement of career pathways by assuring that individuals have the foundational and advanced skills to succeed in their careers. These strategies use industry input to adjust and refine career pathways programming and related training as industry evolves.

### ***Aligns workforce development with economic development***

Over the last several years, core beliefs about economic development have shifted to place a higher value on the quality and characteristics of the workforce rather than traditional strategies and tactics like financial incentives and cheap labor. Past economic development efforts were largely government led and focused on keeping the cost of doing business low (sometimes even at the expense of a high-quality environment), attracting new companies, and exploiting fixed competitive advantage. Today, economic development is often led by partnerships among business, government and non-profits and is focused on creating places that are rich in ideas and talent to attract knowledge workers and those who can learn and adapt.

In this new environment, Sector Strategies and Certified Work Ready Communities are as much economic development strategies as they are workforce development strategies. Certified Work Ready Communities provide businesses the assurance that they have the skilled talent pool needed to help grow companies. By aggregating the skills of a community, economic developers can work with businesses to site new companies and expand existing ones. Established sector partnerships help new and expanding businesses tap into the community's efforts to create a pipeline of skilled workers and re-skill current workers over time.

### ***Clarifies governance, roles and responsibilities***

*Oregon at Work* builds on the model that Oregon is utilizing for Regional Solutions and education reform. The model puts greater decision making into the hands of local communities and aligns resources to support those decisions, while increasing accountability for outcome.

Oregon's past workforce strategic plans did not include clear lines of authority or accountability for system-wide outcomes. *Oregon at Work* establishes compacts for workforce programs and services in order to increase accountability at the state and local level and clarify the roles and responsibilities of the members of the workforce system. Compacts will be negotiated between the OWIB and LWIBs. Those managing, overseeing and delivering the following programs and funding streams will become parties to the compact and will direct resources to achieve state and local plan objectives:

- WIA Title I-B/DOL (Youth, Adult, Dislocated Workers)
- WIA Title II/DOE (Adult Education & Literacy)
- Youth Conservation Corps/State

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|----------------------------------|--|
| Certified Work Ready Communities | <ul style="list-style-type: none"> <li>• Increase the alignment of federal, state and local workforce resources to support job creation, industry competitiveness, individual skill development and movement along career pathways</li> <li>• Increase alignment between workforce development and economic development</li> </ul> |
| Systems Innovation               | <ul style="list-style-type: none"> <li>• Promote the creation of a highly skilled, high-wage workforce;</li> <li>• Increase the alignment of federal, state and local workforce resources to support job creation, industry competitiveness, individual skill development and movement along career pathways</li> </ul>            |
| Common Performance Measures      | <ul style="list-style-type: none"> <li>• Increase accountability for achievement of common goals</li> </ul>  |
| Workforce Compacts               | <ul style="list-style-type: none"> <li>• Increase accountability for achievement of common goals</li> <li>• Increase the flexibility and responsiveness of local workforce investment boards</li> </ul>  |
| System Budget                    | <ul style="list-style-type: none"> <li>• Increase transparency of budgeting at the state and local levels</li> </ul>   |

### **BARRIERS TO JOB CREATION AND EXPANSION OTHER THAN A SKILLED WORKFORCE**

HB4141 requested that the OWIB and the Governor’s Office report on factors other than a skilled workforce that affect the growth of Oregon companies. A number of state and local surveys asked questions related to this issue in a variety of ways. Most surveys used the terms “growth” or “expansion” rather than “job creation”. Interestingly, many of these surveys included questions related to workforce and found that the lack of a skilled workforce ranked highly among the challenges to business expansion listed below.

*The economy.* For many businesses, the perception that the market is either flat or likely to get worse led to lowered projections of future sales and limited plans for growth. Numerous national and state articles, polls and surveys identified economic uncertainty as a constraint to business growth. A November 2012 National Federation of Independent Businesses (NFIB) survey found that economic uncertainty resulted in business pessimism. NFIB stated on its website: “Nearly half of owners are now certain that things will be worse next year than they are now.” A 2012 Future Hiring Survey conducted by the Oregon Employment Department found that most of the 5,700 businesses surveyed cited issues related to the economy as the primary reason they were not expecting to grow in the next six months. Specific reasons included the recession (60%), uncertainty about the future (7%), the tight credit market (4%), and the slow housing market (3%). A 2011 Business Retention and Expansion (BRE) survey of 72 businesses in Josephine County found that one-third of those surveyed reported sales down more than 20% over the past three years; over 10% expect similar results over the next three years. Nearly 80% of the 83 respondents to a 2012 Albany Chamber of Commerce BRE survey found the status of the state and local economy negatively impacted their business’s ability to thrive. Informal discussion with economic development professionals and businesses in Oregon confirm that uncertainty and even pessimism about the economy may be limiting business plans for growth.

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### RECOMMENDATIONS

While the Governor's Office and the OWIB have begun to address a large number of the issues raised in HB4141, strategic planning is only the first step. Feedback from the local planning process has identified challenges to the implementation process. The recently completed *Closing the Employment Gap* report (Appendix E) has identified strategies to help those with significant barriers to employment better access and benefit from workforce services. If the Governor, OWIB, and the legislature are to meet their ultimate goals for a highly integrated and transparent workforce system that meets the needs of Oregon's businesses and job seekers regardless of federal fragmentation, there is still much to be done. Reduced federal resources and increased demand on the system requires greater system integration to create efficiencies, invest in those services that result in the best outcomes and to design services for all job seekers and businesses regardless of the federal programs for which they are eligible.

The following recommendations are not in any specific order. Many will need to be carried out concurrently. All are necessary to achieve the goal.

#### 1. Fully integrate and align the workforce system

The OWIB plan creates the expectation for an integrated and aligned workforce system that strives to provide resources and flexibility to local communities in return for greater responsibility for outcomes. As work to implement the plan is being identified, several key steps are required to succeed in this effort:

- **Clarify the roles of OWIB and the LWIBs** as "talent boards" investing in outcomes, convening partnerships, driving innovation, purchasing services to advance citizens and support business growth, and being responsible for results. With the pending implementation of workforce performance compacts, LWIBs have already begun to identify how implementation of the strategic plan will change their roles. The next step is to codify these roles at both the state and local levels and align policies and systems to support them.
- **Re-align state administrative functions** to support the locally delivered workforce system that serves all Oregonians as envisioned by the Governor and the OWIB. This is a challenging task in light of federal mandates and reductions in federal funding, but necessary to support the ability of the system to serve Oregonians across programs and manage administrative activities associated with program management more efficiently.
- **Better focus WorkSource Oregon's** career navigation capacity to support a common customer, building on current strengths, creating new/additional skill development services, finding lower cost ways to do business, and integrating more programs to develop middle and high skill workers with market-relevant credentials leading to good jobs. This will:
  - Expand talent development services that result in good jobs.
  - Improve businesses' ability to find the employees with the skills they need.

#### 2. Budget for workforce innovation

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are earned at a WorkSource center or other non-traditional setting or manner, to assist in meeting the educational attainment goals of 40/40/20.

### 5. Pursue waivers, pay for performance and flexible federalism

Governor's staff has been exploring opportunities for federal waivers within and among the workforce programs that pertain to this report. Oregon already has a number of federally approved waivers, but there may be additional opportunities for flexibility that have been utilized by other states or that may not yet have been considered. In addition, new opportunities created by the Obama administration and the federal Office for Management and Budget, such as "pay for performance partnerships," offer mechanisms for increasing flexibility and reducing federal barriers to greater workforce system integration. Additional work needs to be completed to determine the potential benefit of waivers, pay for performance and other mechanisms that create greater federal flexibility in the workforce system and how to best pursue them.

### 6. Increase coordination and enhance relations between institutions of higher education, community colleges and labor and apprenticeship programs.

Both the OWIB and the Governor's Office recognize the importance of strong coordination and relations between institutions of higher education, community colleges and labor and apprenticeship programs. These programs offer effective mechanisms to create a more highly skilled workforce and lead many Oregonians to good jobs. It is in the interest of the state to assure that these options are available for Oregon's businesses and job seekers. Education reform creates a new opportunity to discuss how to improve coordination and enhance relations from the perspective of achieving the state's 40-40-20 goals, increased employment and wage growth. OWIB recommends that a work group with expertise related to this topic (including any OWIB members who have expertise on this topic) be formed to identify barriers to increasing coordination and make recommendations for further action.

### 7. Revise ORS 660.300 to 660.990 to better align with the OWIB strategic plan

ORS 660 codifies the roles of OWIB, the Governor's Office, the Department of Community Colleges and Workforce Development and LWIBs within the workforce system. The statute is in need of updating because of changes in the system related to:

- WorkSource Oregon service integration,
- The new OWIB strategic plan which clarifies the roles and responsibilities of the parties identified in the statute, and
- The recognition that the state no longer has the resources to support the statutory requirement for regional workforce boards within one local area. This revision makes these boards optional allowing for greater local flexibility.

Revision of the statute will be necessary in the 2014 session or sooner to fully implement the recommendations above.

### 8. Implement Certified Work Ready Communities