



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #208

Training Assistance Grant Program (Commerce)

[LFB 2005-07 Budget Summary: Page 106, #10]

CURRENT LAW

Commerce provides financial assistance to employers to fund employee training costs primarily through two programs: (a) the Wisconsin Development Fund (WDF) customized labor training (CLT) grants; and (b) the Business Employee Skills Training (BEST) grant program. Commerce is also authorized to make loans for job training costs through a Rural Economic Development (RED) program.

GOVERNOR

Provide \$2,500,000 GPR each year in a biennial appropriation and create a training assistance grant (TAG) program administered by the Department.

DISCUSSION POINTS

1. Under the TAG program, Commerce would be authorized to award a grant for training employees if all of the following apply:

a. The employer satisfies one of the following: (1) the employer will create significant numbers of new, high-paying jobs in Wisconsin, as determined by the Department; (2) the employer will introduce new capital investment to retain a significant number of jobs in the state, as determined by the Department; or (3) the employer agrees to pay a family-supporting wage to employees who successfully complete a job training program, and the Department determines that there is significant potential for those employees to obtain additional wage increases.

b. The employer submits, and Commerce approves, a training plan that has been

developed jointly by the employer with a technical college or other training provider, and that details the proposed use of the grant proceeds.

c. The employer enters into an agreement for the use of the grant proceeds.

d. After receiving a grant, the employer agrees to submit a report to the Department, within six months after the full amount of a grant has been spent, detailing how the grant proceeds were spent.

Commerce would be required to give preference to employers that submitted training plans under which the training would be provided by a technical college. The Department would also be authorized to pay the proceeds of a grant directly to a technical college or other training provider that participated in developing the training plan. Finally, Commerce would be required to promulgate administrative rules that, for the purposes of the training assistance grant program, defined all of the following terms: (a) capital investment; (b) family-supporting wage; (c) high-paying job; and (d) significant numbers. If funding in the TAG appropriation were exhausted, Commerce would be authorized to make training assistance grants from the Wisconsin Development Fund GPR appropriation.

2. The Customized Labor Training (CLT) grant program is administered through the WDF and provides grants to businesses to fund labor training programs that; (a) provide employees with job training in new or more advanced technology, industrial and other employment-related skills; or (b) job training in manufacturing processes to assist employers in maintaining a technologically advanced workforce. Eligible businesses include firms that are locating or expanding in Wisconsin, or are upgrading a product, process, or service that requires training its employees in new technology, and industrial skills, or manufacturing processes, or other job-related skills in which advances have been made. The training must not be readily available through existing federal, state, or local resources, must occur in an instructional setting, and must be new or relatively new to the industry or business. Recipients must guarantee jobs in Wisconsin to all persons successfully completing the training program.

Under CLT, the Department can finance up to 50% of eligible project costs, not to exceed \$2,500 per employee trained. However, the actual level of award for any project is based on analysis of the following: (a) viability of the project; (b) number and nature of jobs created; (c) employee wages and benefits; and (d) the economic impact on the community. Grant funds may be used to pay base wages of trainees and associated instructional costs. Training may be provided by the business that receives the award, other businesses, a consultant or contractor, a local technical college, an adult education school, or a public or private secondary or post-secondary school. Awards cannot be used to fund the following costs incurred by a technical college or public secondary or post-secondary institution: (a) recruiting instructors before the training program begins; (b) developing program curricula; (c) recruiting, screening and counseling program trainees; (d) financial audit costs; and (e) renting instructional equipment and training facilities owned or leased by the district or institution, unless rented only for the training program.

3. Table 1 shows the number and amount of CLT grants for fiscal years 2002 through March of 2005. (Although the table shows annual awards, the WDF appropriation is biennial and unencumbered funds can be carried over from the first year of a biennium to the second year) During the period between 2002 and 2005 the average amount of an award was \$75,200, although the annual average is decreasing. Note that fiscal year 2004-05 amounts are awards through March 2005. It is likely additional awards will be made before the end of the fiscal year. Attachment 1 provides a summary of the purpose and amount of individual CLT awards for fiscal year 2003-04. The attachment shows that CLT awards were primarily used to train employees to use new equipment and for international organization for standardization (ISO) certification.

TABLE 1

Customized Labor Training Grants

<u>Fiscal Year</u>	<u>Number of Awards</u>	<u>Amount Awarded</u>	<u>Average Award</u>	<u>Total Project Cost</u>	<u>Existing Employees Trained</u>	<u>New Employees Trained</u>
2001-02	39	\$3,524,600	\$90,400	\$12,793,200	2,089	1,616
2002-03	56	4,192,800	74,900	10,988,900	2,770	1,611
2003-04	35	2,393,900	68,400	5,310,200	1,295	330
2004-05*	16	869,400	54,300	6,287,200	717	182

*Through March, 2005.

4. The Business Employees' Skills Training (BEST) grant program was created by 1999 Wisconsin Act 177 to provide grants to certain small businesses to assist employees or prospective employees in acquiring work skills sought by the businesses. The program is administered by the Department of Commerce and provides funds to small businesses to assist them in upgrading the skills of their workforce. Eligible applicants are businesses located in Wisconsin with: (a) no more than 25 full-time employees; or (b) no more than \$2.5 million in gross annual income in the prior year.

The maximum grant available is 75% of project costs up to \$1,000 per full-time employee that is trained. Grant recipients must provide a cash match of 25% of project costs. Statutorily, a business cannot receive more than \$10,000 in BEST grants; however, in practice, total grants to a business have generally been limited to \$5,000. The maximum total amount of grants that can be awarded is \$500,000 annually. No single funding source is specified for BEST grants. Commerce makes BEST grants from the Wisconsin Development Fund (WDF), Rural Economic Development program (RED), or the Minority Business Development program (MBD), depending on the type of applicant and project. The total amount of BEST awards made through these programs was \$371,100 in 2000-01, \$68,800 in 2001-02, \$69,500 in 2002-03, and \$112,200 in 2003-04. Through March 2005, a total of \$76,500 had been awarded for 2004-05.

5. Table 2 shows BEST awards, by funding source for fiscal year 2001-02 through March of 2005. The table shows that the average grant was \$4,200 during that time period, but the average grant has increased to approximately \$6,000 in the past two years. Attachment 2 provides a description of the types of training funded by BEST awards in fiscal year 2003-04. BEST awards were primarily used to upgrade the skills of existing employees, including obtaining ISO certification.

TABLE 2

BEST Grants

<u>Fiscal Year</u>	<u>Number of Awards</u>	<u>Amount Awarded</u>	<u>Average Award</u>	<u>Total Project Cost</u>	<u>Existing Employees Trained</u>	<u>New Employees Trained</u>
2001-02						
MBF	2	\$10,000	\$5,000	\$24,800	26	0
RED	9	31,000	3,400	28,700	41	0
WDF	<u>17</u>	<u>27,800</u>	<u>1,600</u>	<u>44,400</u>	<u>68</u>	<u>0</u>
Total	28	\$68,800	\$2,500	\$97,900	135	0
2002-03						
MBF	0	\$0	\$0	\$0	0	0
RED	6	24,000	4,000	39,700	35	0
WDF	<u>13</u>	<u>45,500</u>	<u>3,500</u>	<u>94,900</u>	<u>119</u>	<u>0</u>
Total	19	\$69,500	\$3,700	\$134,600	154	0
2003-04						
MBF	1	\$5,000	\$5,000	\$8,800	0	0
RED	7	42,500	6,100	140,900	16	0
WDF	<u>10</u>	<u>64,700</u>	<u>6,500</u>	<u>332,500</u>	<u>74</u>	<u>14</u>
Total	18	\$112,200	\$6,200	\$482,200	90	14
2004-05*						
MBF	0	\$0	\$0	\$0	0	0
RED	4	22,200	5,600	38,500	38	0
WDF	<u>9</u>	<u>54,300</u>	<u>6,000</u>	<u>104,000</u>	<u>81</u>	<u>0</u>
Total	13	76,500	5,900	142,500	119	0
Cumulative Total	78	\$327,000	\$4,200	\$857,200	498	14

*Through March, 2005.

6. WTCS districts provide general workforce training through technical college enrollment. In addition, technical college districts may enter into contracts for customized educational services to businesses and industries, public and private educational institutions

(including school districts), and government agencies. Districts offer three general methods for training the employees of individual Wisconsin businesses. First, the individual employers may subsidize an employee through tuition reimbursement and time off to take a course offered by a technical school that would upgrade the skills of that employee. Second, a business can contract with a technical college to provide an additional section of a technical college course or program at a time and place that is convenient to the employer. The course could be provided on a technical college campus or at the business. Finally, the technical college could contract to develop a specific customized training course or program for an individual employer. For example, employees could be trained to use new computer equipment. Each technical college district establishes the fees that are charged for contract training. Typically the amounts charged recover the costs of providing the training to each business client. Examples of common contract training programs include certification training, OSHA safety standard training, and performance improvement techniques, such as continuous improvement, team building, and quality assessment. Technical colleges also offer consulting services to individual firms that assist the firm in accomplishing an organizational purpose, goal, or mission. Examples would include designing a production line and employee testing.

7. Table 3 shows the statewide total for contract services and technical assistance for all technical college districts for fiscal year 2003-04. The table shows that over 55% of contract revenue for customized instructional services was from business and industry. Similarly, approximately 60% of total revenues from technical assistance activities were from business.

TABLE 3

**WTCS Contracts for Services
FY 2003-04 Statewide**

<u>Type of Recipient</u>	<u>Number of Contracts</u>	<u>Contract Revenue</u>	<u>Other Revenue</u>	<u>Total Revenue</u>	<u>Contract Cost</u>	<u>Number Served</u>
<u>Customized Instruction</u>						
Educational Institutions	353	\$2,603,893	\$151,760	\$2,755,653	\$3,164,713	6,841
Wisconsin Local Government	754	2,172,659	45,706	2,218,365	1,945,316	18,004
Wisconsin State Government	250	2,206,424	0	2,206,424	2,969,189	15,829
Business and Industry	2,979	9,603,861	221,302	9,825,163	10,174,920	61,139
Federal Government	27	169,070	0	169,070	69,980	803
Out of State Contracts	<u>125</u>	<u>491,778</u>	<u>0</u>	<u>491,778</u>	<u>259,862</u>	<u>1,226</u>
Total Customized Instruction	4,488	\$17,247,686	\$418,768	\$17,666,454	\$18,583,980	103,842
<u>Technical Assistance</u>						
Educational Institutions	157	\$1,346,570	\$13,536	\$1,360,106	\$1,524,158	N.A.
Wisconsin Local Government	269	295,887	0	295,887	159,741	N.A.
Wisconsin State Government	22	100,468	93	100,561	52,243	N.A.
Business and Industry	712	3,052,779	11,601	3,064,380	2,997,570	N.A.
Federal Government	20	29,618	0	29,618	22,716	N.A.
Out of State Contracts	<u>60</u>	<u>239,408</u>	<u>0</u>	<u>239,408</u>	<u>140,430</u>	<u>N.A.</u>
Total Technical Assistance	1,240	\$5,064,730	\$25,230	\$5,089,961	\$4,896,858	N.A.

TABLE 3 (continued)

**WTCS Contracts for Services
FY 2003-04 Statewide**

<u>Type of Recipient</u>	<u>Number of Contracts</u>	<u>Contract Revenue</u>	<u>Other Revenue</u>	<u>Total Revenue</u>	<u>Contract Cost</u>	<u>Number Served</u>
<u>Grand Total</u>						
Educational Institutions	512	\$3,950,463	\$165,296	\$4,115,759	\$4,688,871	6,841
Wisconsin Local Government	1,023	2,468,546	45,706	2,514,252	2,105,057	18,004
Wisconsin State Government	272	2,306,892	93	2,306,985	3,021,431	15,829
Business and Industry	3,691	12,656,640	232,903	12,889,543	13,172,489	61,139
Federal Government	47	198,688	0	198,688	92,695	803
Out of State Contracts	<u>185</u>	<u>731,185</u>	<u>0</u>	<u>731,185</u>	<u>400,291</u>	<u>1,226</u>
GRAND TOTAL - ALL CONTRACTS	5,730	\$22,312,415	\$443,998	\$22,756,414	\$23,480,837	103,842

N.A.: Technical assistance contracts are typically targeted toward the entity as a whole, and therefore, the number served is not applicable.

8. The training grant program is viewed as a key element in the state's economic development program. Training grants assist businesses in upgrading the skills of their employees, and as a result, improve worker productivity. In turn, this should lead to higher wages and more output. The grants would only be provided to businesses that create more jobs, invest in new equipment, and pay higher wages. Moreover, many businesses are concerned about the availability of sufficient numbers of trained workers. The program would encourage businesses to contract with the state technical college system to provide the training.

9. The basic economic principle supporting worker training is human capital theory. In the 1960's Theodore Schultz and Gary Becker developed the theory that investment in education and skill formation was as significant a factor in economic growth as investment in physical plants and equipment. Becker (1975) advanced the theory by developing rate of return data demonstrating that an investment in training and education to increase one's human capital was as important and measurable as an investment in another form of capital. A significant aspect of the theory is that investment in knowledge, skills, and health does not only benefit the individual, but it can also increase both the employer's and state's human capital resource pool and potential productivity. It is recognized, that for a country or firm to be competitive in high-value-added products and services, its workforce must be educated and well trained. As the essential skill set for many jobs becomes more complex, and the demand for highly-skilled employees rises, employers should see a direct productivity benefit by investing in their employee's capabilities through training programs and the funding of post-secondary education (Galor & Moav, 2001). A basic distinction is made between general training that develops skills that are readily transferable, and specialized training that enhances the employee's skills in a manner that is primarily or uniquely applicable to the needs of

the employer. Becker (1975) indicates that most on-the-job training increases the future marginal productivity of workers in the firms providing the training, while general training also increases their marginal product in other firms. In addition to improving productivity and firm output, specialized training can also increase the wages earned by the worker.

10. Research on the impact of training programs indicates that employee training increases both wages and productivity. However, some of the studies rely on subjective measures. Using data from the 1982 Employment Opportunity Pilot Project, Bishop (1994) found that employer-based training increased productivity by almost 16%. Based on a statistical analysis of wage and productivity growth, Barron, Black and Loewenstein (1989) determined that worker training was the primary factor that increased productivity growth. In different studies, Holzer et. al. (1993), Bartel (1994), and Barrett and O'Connell (2001) found that training had a positive effect on productivity. Lynch (1992) studied the outcomes of training on youth and found that all types of training were associated with higher wages. Becker writes that the limited data available indicates that on-the-job training is an important source of the increase in earnings for workers. The National Center on the Educational Quality of the Workforce (NCEQW 1995) surveyed approximately 3,000 businesses with 20 or more employees about employment, training, and hiring practices. The survey found that a 10% increase in the average education of all workers was associated with an 8.6% increase in output for all industries. According to information developed by the U. S. Department of Labor (DOL), Employment and Training Administration, employers have indicated that worker training increases profitability, improves the quality of goods and services produced, ensures on-time production and delivery of goods and services, increases worker morale and reduces turnover, and improves the level of customer service provided.

11. In evaluating the different types of training, Bishop (1994) found that school-based training could not replace some kinds of employer training and was generally less effective than employer-provided training of the same duration. Most studies imply, at least in the short run, that training pays off in higher wages only when the employer sponsors it, Bassi (1994). Barnow (1987) found that the largest gains from participating in government-provided education and/or training programs accrue to individuals who receive on-the-job training. Loewenstein and Spletzer (1999) did not find any difference in the wage returns to employer-provided general and specific training. Barrett and O'Connell (2001) found that only general training had a significant effect on productivity.

12. (This section is based on a compilation of information from a research brief prepared for the Workforce Investment San Francisco Board (WISF) in October 2002, and is, in part, based on a number of national surveys.) Employer-provided and financed training is a significant form of worker training. National surveys indicate that: (a) 70% of all employers provide formal training (1993); (b) employers spent about 2% of payroll in 2000 on direct training expenditures; (c) between 35% to 65% of all workers receive formal training (1993); and (d) workers spent 20 to 60 hours a year in formal training. In the 1993 Bureau of Labor Statistics Survey of Employer-Provided Training, 75% of respondents indicated that the training was necessary to develop worker skills that were specific to their business. Over 50% indicated that the training was necessary to adapt to changes in technology or production methods, and to retain valuable employees.

Companies provide both specific job skills training to perform a specific job, and general skills training to develop knowledge or skills that can be used in a number of different jobs. The most common types of specific skills training provided were for management, computer procedures, programming and software, and sales and customer relations. General orientation and occupational safety were the general skills training most frequently offered. The characteristics of training recipients reflected the type of training provided by employers. Studies of employer training generally have found that the more educated, higher paid workers in full-time, high skilled jobs are the most likely to receive training. Differences in size, industry, human resource practices, and turnover rate often determine the levels of training that are provided. Larger firms that can spread fixed costs across more workers, generating economies of scale, are more likely to provide formal training to workers. Firms with 1,000 or more employees are 24% more likely to provide formal training than firms with 20 to 50 employees. In addition, the following types of businesses would be likely to provide relatively higher levels of worker training; (a) skill-intensive industries such as finance, insurance, transportation, communication, and public utilities; (b) businesses that provide more employee benefits such as paid vacation, health insurance, and child care; and (c) firms with relatively low rates of turnover. Businesses rely on in-house training staff to provide training with 51% of direct training expenditures going to in-house staff, while 22% of training expenses are for outside vendors. Tuition reimbursement accounts for about 11% of training expenditures. Most businesses rely on private training firms (82% of businesses) and independent contractors (77% of businesses) for outside training services. Product suppliers and four-year colleges are also significant contributors. Forty-five percent of businesses use technical and vocational schools as a source of outside employee training. The following tables provide related summary information concerning employer provided training.

TABLE 4

**Percentage of Employers Providing Training
By Types of Training
1995**

<u>Job Skills Training</u>		<u>General Skills Training</u>	
Management	67%	Orientation	73%
Computer Procedures, Programming, Software	66	Occupational Safety	72
Sales and Customer Relations	51	Awareness	52
Professional and Technical	49	Communication	46
Clerical and Administrative Support	38	Employee Wellness	37
Production and Construction	30	Basic or Remedial Skills	9
Service-Related	27		

Source: Lerman, McKernan, and Riegg (1999) Analysis of Bureau of Labor Statistics (BLS) Survey of Employer-Provided Training.

TABLE 5

**Characteristics of Training Recipients
Percentage of Workers Receiving Training
1995**

<u>Education Level</u>		<u>Occupations</u>		<u>Earnings Quartile</u>		<u>Status</u>	
B.A. or Higher	50%	Management/Administrative	50%	Top	49%	Full-Time	39%
Some College	44	Professional/Technical	55	Third	42	Part-Time	35
High School or Less	22	Sales/Clerical	33	Second	31		
		Service	32	First	27		
		Production/Construction	24				

Source: Lerman, McKernan, and Riegg (1999) Analysis of the 1995 National Household Education Survey.

TABLE 6

**Size of Firms Providing Training
1997**

<u>Number of Employees</u>	<u>Percent Providing Training</u>
1,000 or more	93%
250-999	87
100-249	82
50-99	72
20-50	69

Source: Lerman, McKernan, and Riegg (1999) Analysis of Bureau of 1997 National Employer Survey and 1995 Household Education Survey.

TABLE 7

**Distribution of Direct Training Costs of Employer-Provided Training
2000**

<u>Source of Training</u>	<u>Percent of Total Costs</u>
In-House Providers	51%
Tuition Reimbursement	11
Outside Trainers	22
Other	16

Source: American Society for Training and Development (2002).

TABLE 8**Employers Using Outside Providers by Type of Provider
2000**

<u>Type of Provider</u>	<u>Percent of Employers</u>
Private Training Firms	82%
Independent Contractor	77
Product Suppliers	71
Four-Year Colleges	71
Community Colleges	59
Technical/Vocational Schools	45
Unions, Trade and Professional Associations	30
Government Organizations	26

Source: American Society for Training and Development (2002).

TABLE 9**Percentage of Employees Receiving Training by Type of Training
1995**

<u>Job Skills Training</u>		<u>General Skills Training</u>	
Management	28.4%	Basic Skills	6.7%
Professional and Technical	30.9	Occupational Safety	58.0
Computer Procedures, Programming, Software	38.4	Communications, Employee	
Clerical and Administrative Support	18.7	Development and Quality Training	40.2
Production and Construction	21.0	Other	3.4
Service-Related	12.5		
Sales and Customer Relations	26.6		

Source: U.S. Department of Labor, Bureau of Labor Statistics, 1995 Survey of Employer-Provided Training.

13. Market failures and social goals can provide a rationale for public intervention in the employment and training area (Osterman 1996). A study by the Organization for Economic Cooperation and Development (OECD 1994) found that many firms invest less in training than the rate of return from training would justify. A number of factors can contribute to the underinvestment in training, including short-term cost calculations, difficulty in obtaining financing, employee training time and mobility, and lack of information. Training expenditures are typically

treated as an operating cost and expensed in the year incurred, rather than depreciated over the period in which the benefits are provided. On the other hand, capital investments are depreciated over the useful life of the asset. As a result, firms will face pressure to reduce operating costs through reduced training. As was noted, training costs are substantial (2% of payroll) and firms typically use working capital as a source of funds. The lack of available funding could prevent businesses from investing in training. This can be a relatively important issue for small businesses. Worker training also involves an opportunity cost to the employer in the form of lost work time while the employees are being trained. Again, this can be more of a problem for small and mid-sized businesses that have a relatively small workforce to absorb the lost production from the trainees. Employers can be reluctant to invest in worker training programs because they are concerned that workers may move to other jobs before they recoup the cost of the training. Learning new skills particularly general skills, could help the individual get hired at another firm. Also, unforeseen future market conditions could force the business to reduce its workforce and not benefit from the training. A final barrier to investment in training is a lack of information about the availability, costs and benefits. As a result, it is difficult for the business to calculate a return on investment for training.

14. From a social perspective, public subsidies for training could help increase the overall skill level of the state workforce and increase the wages of low-skilled workers. In a PriceWaterhouseCoopers survey of top 150 high-growth companies in the U.S., the availability of workers was identified as key concern and factor in business growth. Similarly, a survey by the National Federation of Independent Business (2001) found that 71% of employers had difficulty finding qualified workers. Two-thirds of these employers could not find needed employees, and one-half said they had to limit production or turn away business. State subsidized training programs are viewed as means of upgrading the overall skill levels of workers in the state.

15. Based on data from the Congressional Budget Office (CBO), the distribution of income in the United States is becoming more unequal. Between 1979 and 2002, the shares of national income received by low- and middle-income groups decreased. The middle 20% received 16.5% of after-tax national income in 1979, but 15.8% in 2002. The bottom 20% of the population received 6.8% in 1979, but 5.1% in 2002. Since a significant proportion of privately-funded training is directed to higher level management and technical personnel, some economists argue (Osterman 1996, Lynch 1997) that government training programs should be directed at raising the wages of low-skilled workers.

16. A fundamental issue in evaluating an economic development program is determining what would happen in the absence of the program. There is the potential that the cost to the state of subsidizing training that would otherwise be provided by the employer will more than offset any benefits from providing the grants to firms that need them. Barnow, Chasanov, and Pande (1990) identified cases where government training incentives operated as windfalls for the businesses and resulted in a substitution of public spending for private investment. In a review of state-subsidized, employer-centered training programs in California, Massachusetts, North and South Carolina, Batt and Osterman (1993) found that each of the states examined had funded programs that appeared to represent substantial subsidies of activities that would have occurred

without public funding. The authors suggested that strategies for limiting subsidies would be to target small and at-risk firms and to target specific types of workers and skills.

17. Since the TAG program is new, there are a number of basic structural issues and specific programmatic issues the Committee may wish to address. First, the level of funding provided (\$2.5 million per year) would approximately double the amount of funding that Commerce currently awards through CLT and BEST. Because the Department has no direct experience with the level of demand or type of projects that might be eligible under the new program, the Committee could reduce the annual level of funding to \$1 million. This would allow the Department to fund about 16 projects a year that were the average-sized CLT project (\$64,000) during the current biennium. A second alternative would be to incorporate the BEST program into the TAG program to provide a defined funding source for BEST grants. A third alternative would be to incorporate both the TAG and BEST programs into the WDF to centralize funding and administration for grant programs. A final consideration would be to transfer administration of TAG and BEST to WTCS. This could be viewed as increasing the likelihood that the businesses that receive the grants would contract with WTCS for training services. (It should be noted that Assembly Bill 241 and Senate Bill 129 would eliminate the BEST program under Commerce, transfer the program to WTCS for administration, and provide funding of \$1.0 million in 2005-06 and \$1.5 million in 2006-07 for the program. AB 241 passed the Assembly and both bills are currently in the Senate Committee on Job Creation, Economic Development and Consumer Affairs.)

18. The comparative administrative capabilities of Commerce and WTCS in regards to economic development projects are quite different. Commerce staff regularly underwrite and award economic development grants and loans. In making awards, the Development Finance Board and Department apply statutory criteria including: (a) whether the project is likely to occur without the grant or loan; (b) determining that other financing is not available; (c) requiring that recipients provide matching funds; and (d) determining that the project will increase employment. These statutory criteria are further reflected in underwriting criteria used by the Bureau of Business Finance. The underwriting criteria include project viability and risk, number of jobs created and retained, the amount of employee wages and benefits, total company investment in the state, the type of business and ownership, and the effect on competing businesses. Successful applicants for awards are required to enter into a contract with Commerce to implement the grant or loan, and must provide the Department with periodic financial and program audits. Each contract has clawback provisions to allow the Department to recoup the award if the recipient fails to meet the terms of the agreement. A financial audit and final program report must be submitted at the end of the contract.

19. WTCS administers a number of grant programs including incentive grants, the health care grant program, faculty development grants, minority student grants, alcohol and drug abuse grants, chauffer training grants, farm training tuition grants, instructor competency grants, and truck driver training grants. District staff also regularly contract to provide training services and technical assistance to businesses. However, WTCS does not underwrite economic development projects. The Board submitted a fiscal note for AB 241/SB 129 that indicated the Board would require an additional 0.33 GPR position and \$26,800 GPR to administer the program. Finally, in

awarding training grants to businesses WTCS might have a conflict of interest, since the training programs funded by the grants could be provided by private sector businesses as well as district colleges.

20. Under the TAG program, grants would be awarded for significant job creation or retention or for employing individuals at a family-supporting wage. The criteria would seem to limit awards to small businesses only to projects that resulted a family-supporting wage. In order to target more funds to small business, the Committee may wish to modify grant criteria to require that at least 50%, or 75%, of total funding be awarded to small business. In restructuring the WDF, the Governor recommends defining small business as a business with fewer than 100 employees. In a 2002 survey of state employment and training programs, the Government Accounting Office found that most states targeted services to employers with fewer than 100 employees. Under the program provisions, family-supporting wage is not defined, rather Commerce would be required to promulgate rules defining the term. Currently, Commerce requires businesses to pay at least 150% of the minimum wage plus benefits in order to claim jobs tax credits. However, in practice, the Department requires hourly pay of \$9.75. As an option, the Committee could adopt this definition.

ALTERNATIVES

1. Adopt the Governor's recommendation to create a training assistance grant (TAG) program and provide \$2,500,000 GPR in each year.
2. Modify the Governor's recommendation by adopting one or more of the following:
 - a. Transfer administration of the TAG program to WTCS.
 - b. Reduce annual funding for the TAG program to \$1,000,000 GPR annually.

<u>Alternative 2b</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$3,000,000

- c. Reduce funding to \$1 million in 2005-06 and \$1.5 million in 2006-07 (the levels provided under AB 241 and SB 129).

<u>Alternative 2c</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$2,500,000

- d. Incorporate the BEST program in the TAG program.
 - e. Incorporate the BEST and TAG programs with CLT grants in the WDF.

f. Require 50% of total grant funding to be awarded to small businesses, and define small businesses as businesses with fewer than 100 employees.

g. Require 75% of total grant funding to be awarded to small businesses, and define small businesses as businesses with fewer than 100 employees.

h. Eliminate the requirement that, to receive a TAG grant, the business must pay a family-supporting wage, and instead require the business to pay at least 150% of minimum wage plus benefits.

3. Maintain current law

<u>Commerce</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$5,000,000

Prepared by: Ron Shanovich
Attachments

ATTACHMENT 1

Customized Labor Training Grants 2003-04

Recipient (Location)	Use of Award	Award
Snap-On, Inc. (Milwaukee)	Grant to train 133 employees. These positions were previously at the Kenosha facility and moved to Milwaukee.	\$300,000
Stora Enso North America Corp. (Kimberly)	Grant to train 154 employees on new paper and wet lap machines.	265,200
Stora Enso North America Corp. (Wisconsin Rapids)	Grant to train 161 employees on upgraded equipment.	250,000
Aacer Flooring, LLC (Peshtigo)	Grant to train 88 employees (three new) as part of an upgrade of production facilities.	200,000
Brunswick Corporation (Fond du Lac)	Grant to train 78 employees as part of a reengineering process.	197,000
Tufco Technologies, Inc. (Green Bay)	Grant to train 76 employees (15 new).	161,600
Appleton Coated, LLC (Combined Locks)	Grant to train 99 employees on new equipment.	111,000
Stora Enso North America Corp. (Wisconsin Rapids)	Grant to train 70 employees (four new) on new equipment.	91,100
Don Evans, Inc. (Oshkosh)	Grant to train 88 employees (36 new) on new injection molding plastic manufacturing equipment.	72,084
Manitowoc Ice, Inc. (Manitowoc)	Grant to train 61 employees (six new) as part of a consolidation of assembly lines and new product manufacturing.	70,150
Green Bay Converting, Inc. (Green Bay)	Grant to train 30 employees (17 new) on new equipment.	51,150
Stora Enso North America Corp. (Wisconsin Rapids)	Grant to train 33 employees on the use of new equipment at Biron plant.	50,100
Blenker Companies, Inc. (Amherst)	Grant to train 52 employees (35 new) on new equipment.	50,000
K & L Tooling, Inc. (Port Washington)	Grant to train 33 employees (18 new)	44,719
Imperial Lithographing Corporation (Milwaukee)	Grant to train 31 employees as part of ISO 9001 certification.	44,400
Muza Metal Products Corporation (Oshkosh)	Grant to train 33 employees on new equipment.	38,565
Servo Motors and Drives, Inc. (Milwaukee)	Grant to train 16 employees as part of ISO 9002 certification.	34,094
Louisiana-Pacific Corp. (Tomahawk)	Grant to train 45 employees (six new) as part of an expansion of the company's manufacturing capabilities.	33,859
Seneca Foods Corp. (Baraboo)	Grant to train nine new employees.	31,250
Custom Wire Technologies, Inc. (Milwaukee)	Grant to train 17 employees (nine new) as part of ISO 9001/2000 certification.	29,225
Barton Products Corp. (West Bend)	Grant to train 10 employees (four new) on new manufacturing technology for precision parts and components.	25,000
Ryeco, Inc. (Beloit)	Grant to train 14 employees and fund registration costs that will enable company to become ISO certified.	24,250

Recipient (Location)	Use of Award	Award
PROFAB Corp. (Waukesha)	Grant to train 20 employees as part of ISO 9001/2000 certification.	\$23,131
Stora Enso North America Corp. (Stevens Point)	Grant to train 73 employees on automatic bale de-wiring and continuous repulper feed line equipment.	22,670
Stora Enso North America Corp. (Stevens Point)	Grant to train 73 employees on automatic bale de-wiring and continuous repulper feed line equipment.	22,670
AW Company (Franksville)	Grant to train 11 employees as part of ISO certification.	21,130
Reich Tool & Design, Inc. (Menomonee Falls)	Grant for ISO 9001/2000 certification.	20,000
Accurate Alignment and Frame Service, Inc. (Appleton)	Grant to train 42 employees (one new) to attain IOS 9000/2000 certification.	18,838
Marlin Technologies, Inc. (Horicon)	Grant for ISO certification.	17,169
H.E. Tool & Die Corp. (West Bend)	Grant to train eight employees as part of ISO 9001 certification.	16,850
Megomat USA, Inc.	Grant for ISO certification training.	16,000
Journeyman Machine and Supply Co., Inc. (Fond du Lac)	Grant to train 11 employees for ISO certification.	15,350
Ultratech Tool & Design, Inc. (Fond du Lac)	Grant to train 11 employees as part of ISO and QS9000 certification.	13,412
Toolcraft Co., Inc. (Germantown)	Grant to train five employees to operate a new high speed milling machine.	12,000
Swanson Wiper Corp. (Oshkosh)	Grant to train 10 employees (three new) on new production equipment.	11,948
Dimat , Inc. (Cedarburg)	Grant to train five employees for the plant to become ISO 9001/2000 certified.	10,397

ATTACHMENT 2

Business Employee Skills Training Grants 2003-04

Minority Business Finance Program		
Recipient (Location)	Use of Award	Award
Precise Underground Marketing Corporation (Milwaukee)	Grant to fund location of electric gas and telephone infrastructure and utility location certification.	\$5,000
Rural Economic Development Program		
Millennium Three, LLC (Platteville)	Grant to train employees to develop a continuous improvement action team.	5,000
Murray & Sons Transportation Inc. (Browntown)	Grant to train 12 existing employees to become ISO certified.	5,000
Centerline Industries, Inc. (Waterloo)	Grant for training to upgrade skills of existing employees.	4,950
Meister Cheese Co., LLC (Muscodia)	Grant to train management team members in team facilitation, problem solving, and leadership skills.	5,000
Helicopter Specialties, Inc. (Janesville)	Grant for training to upgrade skills of workforce.	7,500
Heinzen Printing, Inc. (Marshfield)	Grant for training for upgraded pre-press facilities.	5,000
A.F. Gelhar Co., Inc. (Readfield)	Grant for ISO certification for company locations in Town of MacFord (Green Lake Co.) and in Readfield (Waupaca Co.)	10,000
Subtotal RED		\$42,450
Wisconsin Development Fund		
Recipient (Location)	Use of Award	Award
Medalist Laserfab, Inc. (Oshkosh)	Grant to provide employee training to upgrade skills of company's workforce.	\$10,000
Merrill Power Coatings, Inc. (Merrill)	Grant to train 16 employees for ISO certification	10,000
Man and Material Lift Engineering, LLC (Cudahy)	Grant for ISO 9000 training and certification	9,675
JHL Mail Marketing (Stevens Point)	Grant to train employees on new processing equipment.	7,700
The Sign Shop at West Bend, LLC (West Bend)	Grant for training employees on new computer software.	2,000
Uniplex Corp. (Pewaukee)	Grant to train employees on robotics and vision system programming and implementation	6,345
The Laser Shop, Inc. (Germantown)	Grant to train seven employees in Value Stream Map and Facilitated Application.	5,000
Acry Fab, Inc.(Sun Prairie)	Grant to train five employees to upgrade the skills of the workforce.	5,000
American Laser Products, Inc. (Middleton)	Grant to train six employees to improve productivity.	5,000
Cardinal Industries, Inc. (Milwaukee)	Grant for ISO training of employees	4,000
Subtotal		\$64,720
TOTAL		\$112,170

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