

HB 700

Skills Development Fund

Effectiveness Study

Submitted by
the Texas Workforce Commission
to the Texas Legislature
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SKILLS
Development Fund

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Executive Summary

During the 86th Texas Legislature, Regular Session (2019), House Bill 700 (HB 700) was passed, relating to the use of the Skills Development Fund (SDF) program by certain entities and requiring a study and report regarding the effectiveness of that fund. Section 4(a) of the bill states that the Texas Workforce Commission (TWC) must conduct a study on and develop recommendations for increasing the effectiveness of the SDF program established under Texas Labor Code, Chapter 303. TWC reviewed and collected data in three major objective areas: 1) strategies for better achieving the fund's purposes; 2) improving outcomes; and 3) expanding participation in the opportunities available through the fund.

Since the inception of the program, TWC's SDF program has directly contributed to the State's economy through increased and customized skills training, resulting in higher wages for the Texas Workforce. Some of the successes of the program include:

- Over 4,500 employers benefitting from customized training;
- Over 398,000 individuals benefitting from increased skills as a result of SDF sponsored training;
- Increased wages of participants from \$10.33 in 1996 to \$33.96 in 2020.

While the Study identified some areas for continuous improvement, the overall results of the program have been overwhelmingly successful during its 24 years of administration by TWC. Program data reflects that:

- employers are receiving a positive return on employees' time spent in training;
- employees are successfully completing training with increased skill sets;
- there is a positive economic impact in the local region with wages meeting and exceeding the local prevailing wage;
- employee retention is stable, which contributes to economic stability;
- grants are distributed over a wide geographic area of the state; and
- wage increases contribute to the positive economic impact from skills training.

In 2020, the COVID-19 pandemic presented a unique challenge to the state and nation. Due to the flexibility allowed under certain sections of Labor Code, Chapter 303, TWC was able to act quickly and developed and implemented a streamlined application process to assist businesses with their retooling efforts in response to the pandemic. This streamlined process awarded funds to eligible grantees that then allowed them to respond to

businesses' immediate training needs. The positive feedback from stakeholders on this new process resulted in TWC implementing this new method in the overall administration of the SDF program. This facilitated the training of 3,600 Texans to date — in some cases enabling unemployed workers to quickly upgrade their skills and be positioned for success as they return to the workforce. It is continuous process improvement like this that TWC embraced as analysis and recommendations were considered for this study.

One partner organization recently stated that, "I am firmly convinced that our program fulfills the true legislative intent of SDF and that we are now well positioned to make our area an even more attractive destination for advanced manufacturers who are considering Texas as their future home."

This study has allowed TWC the opportunity to review all current processes, implement process improvements where needed, and position the SDF program to enter into a new era of funding innovative training, strengthening the position of Texas as the Best State for Business.

Purpose of Report

During the 86th Texas Legislature, Regular Session (2019), HB 700 was passed, relating to the use of the SDF program by certain entities and requiring a study and report regarding the effectiveness of that fund, with recommendations for increasing the effectiveness of the SDF program established under Texas Labor Code, Chapter 303. Recommendations must include: 1) strategies for better achieving the fund's purposes; 2) improving outcomes; and 3) expanding participation in the opportunities available through the fund.

Skills Development Fund Overview

Background

Texas has long been a state that has cultivated a business-friendly environment and has consistently ranked as not only the Best State for Business, but also the Best Place to Start a Business, thanks in large part to our greatest natural resource — the people of the Lone Star State. It is also the top reason businesses locate here. Therefore, the state has placed a priority on cultivating a workforce that will continue to attract innovation, significant investment, and job creation.

Accordingly, the SDF is Texas' premier job-training program, providing customized training opportunities for Texas businesses and workers to increase skill levels and wages of the Texas workforce. Success is achieved through collaborations among businesses, the public community and technical colleges, the Texas A&M Engineering Extension Service (TEEX), Local Workforce Development Boards (Boards), and local economic development partners. The SDF program helps businesses gain a more highly trained workforce and workers upgrade their skills, thereby bolstering wages and the Texas economy. The state's 28 Boards play a critical role in the alignment of stakeholders and partners through their knowledge of employer and employee needs, and with the passage of HB 700, they are now eligible applicants. College partners enhance their ability to respond to the evolving needs of industry through the development and provision of customized training curriculum and the purchase of specialized equipment for training.

SDF Statute and Code Requirements

Texas Labor Code, Chapter 303, contains several specific requirements that are integrated into the management of the different programs administered and funded by the SDF program. These include the following:

- Wages must meet prevailing wage for occupations in the local labor market area.
- Funds may be used by public community and technical colleges, community-based organizations (only in partnership with a community and technical college or TEEEX), Boards, and TEEEX for the following job-training purposes:
 - Customized training programs for businesses and trade unions
 - Sponsoring small and medium-sized business networks and consortiums
- Five percent of funds may be used for dual-credit equipment programs to be awarded to lower-division institutions of higher education in partnership with independent school districts (ISDs) and to ISDs in partnership with lower-division institutions of higher education. Projects supported under this program will support courses offered for joint high school- and college-level credit or offered under a college credit career or technical education program that leads to an industry-recognized license, credential, or certificate.
- Funds may be used by public junior colleges or public technical institutes to provide an intensive and rapid response to, and support services for, employers expanding in or relocating operations to Texas, with a focus on employers who will provide complex or high-skilled employment opportunities in this state.
- The agency is required to report annually on the status of the SDF program by reporting certain elements identified in the statute.

In addition to the Texas Labor Code, the Texas Administrative Code (TAC) Chapter 803, Skills Development Fund rules have additional grant requirements, which include the following:

- A limit of \$500,000 for a training project with a single-business partner;
- A goal of 60 percent of funds to be used for job retention training;
- Equipment costs permitted at no more than 10 percent of program costs for multi-business partner projects;
- Administrative costs to be permitted at 10 percent for single-business partners and no more than 15 percent for multi-business projects; and
- Funds not to be used to pay for trainee wages, drug tests, or instructor travel costs.

SDF Policy Parameters

TWC has also implemented a variety of policy parameters for grant awards throughout the years to ensure consistent operations and effective use of funds in meeting the training needs of participating businesses. These parameters are in place to ensure geographic distribution of funds throughout the state, distribution throughout various industries, and use of funds by various businesses of all sizes. The different parameters also contribute to positive economic impacts in the areas where the businesses are located and have remained consistent throughout the years of program implementation.

Study Methodology

To address HB 700 recommendations for the SDF program (that is, develop a better understanding of and increase the effectiveness), TWC completed a comprehensive study (SDF study) of key SDF program elements using FY'17 and FY'18 SDF grants. The SDF study included two major components: 1) data processing and analysis using current SDF program data (for example, average number of jobs upskilled); and 2) data collection and analysis using survey and webinar data obtained from SDF partners (for example, perceived benefits and barriers of the SDF). Each objective is addressed in the following sections, coupled with results from data analyses.

Objective 1: Strategies for Better Achieving the Fund's Purpose

There are two major purposes for the SDF program as described in Texas Labor Code, §303.001: 1) removing administrative barriers that impede the response of public community and technical colleges, community-based organizations, Boards, and TEEX to industry and workforce training needs; and 2) developing incentives for public community and technical colleges, community-based organizations, Boards, and TEEX to provide customized assessment and training in a timely and efficient manner.

TWC reviewed the timeliness of grant awards as well as the number of grant amendments to ensure that the SDF program is removing administrative barriers for grantees so they can provide training in a timely and efficient manner per Statute. TWC staff reviewed the grant timelines and the number of grant amendments for individual grants as markers of whether or not the

program was successful and found that improvements were needed to expedite grant applications to ensure timely award and also fewer project amendments, which were sometimes needed due to delays in award.

In 2020, the COVID-19 pandemic presented a unique challenge to the state and nation. To assist businesses with their retooling efforts in response to the pandemic, TWC developed and implemented a streamlined application process awarding funds to eligible grantees that allowed them to respond to immediate training needs. The overwhelming positive feedback on this new process has resulted in TWC using a similar streamlined method in the overall administration of the SDF program, allowing for the immediate award of funds to eligible grantees to provide a timely and efficient response to businesses’ training needs on an ongoing basis.

Recommendations:

TWC will continue the use of the new streamlined application and approval process resulting in more immediate training of Texans in need. TWC released the new application in October 2020, and a webinar with an overview of the new process was presented on November 17, 2020. The new application process will substantially reduce the number of amendments needed due to a timelier review and approval process.

Objective 2: Evaluate Methods for Improving Outcomes

The SDF program is results-oriented and has been successful in providing a skilled workforce to participating employers for the benefit of the state’s overall workforce. An annual report of the SDF is provided to the legislature by TWC, which details key measures of the program such as number of applications received, number of trainees, average and median weekly wages paid to trainees, and geographic location of applications. To review the 2017, 2018, and 2019 annual SDF reports, please visit:

<https://twc.texas.gov/partners/skills-development-fund-training-providers-workforce-development-partners#grantInformation>.

In FY’17, 90 percent of SDF grants successfully met their training outcomes, and in FY’18, 82 percent met outcomes.

	2017	2018
Applications funded	47	50
Average award size of grants	\$485,839	\$474,616
Average spent per grant	\$438,334	\$390,677
Total awarded (all grants)	\$22,834,452	\$23,730,810

Total spent (all grants)	\$20,601,695	\$19,533,853
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A key feature of SDF projects is skill upgrades for participants. In 2017, 83 percent of participating employees had their skills upgraded, and in 2018, 86 percent of participating employees had their skills upgraded.

With new skills come new opportunities for trained employees, including wage increases. Increased wages are evidenced in the mean and median weekly wages among SDF-trained employees from FY'17 to FY'18. Whereas new employee average weekly pay increased by \$237 (from \$940 to \$1177) between 2017 and 2018, incumbent, upgraded employees' average weekly pay increased by \$177 (from \$950 to \$1127). New employee median weekly pay increased by \$276 (from \$855 to \$1131) between 2017 and 2018, and incumbent, upgraded employees' weekly pay increased by \$309 (from \$814 to \$1123).

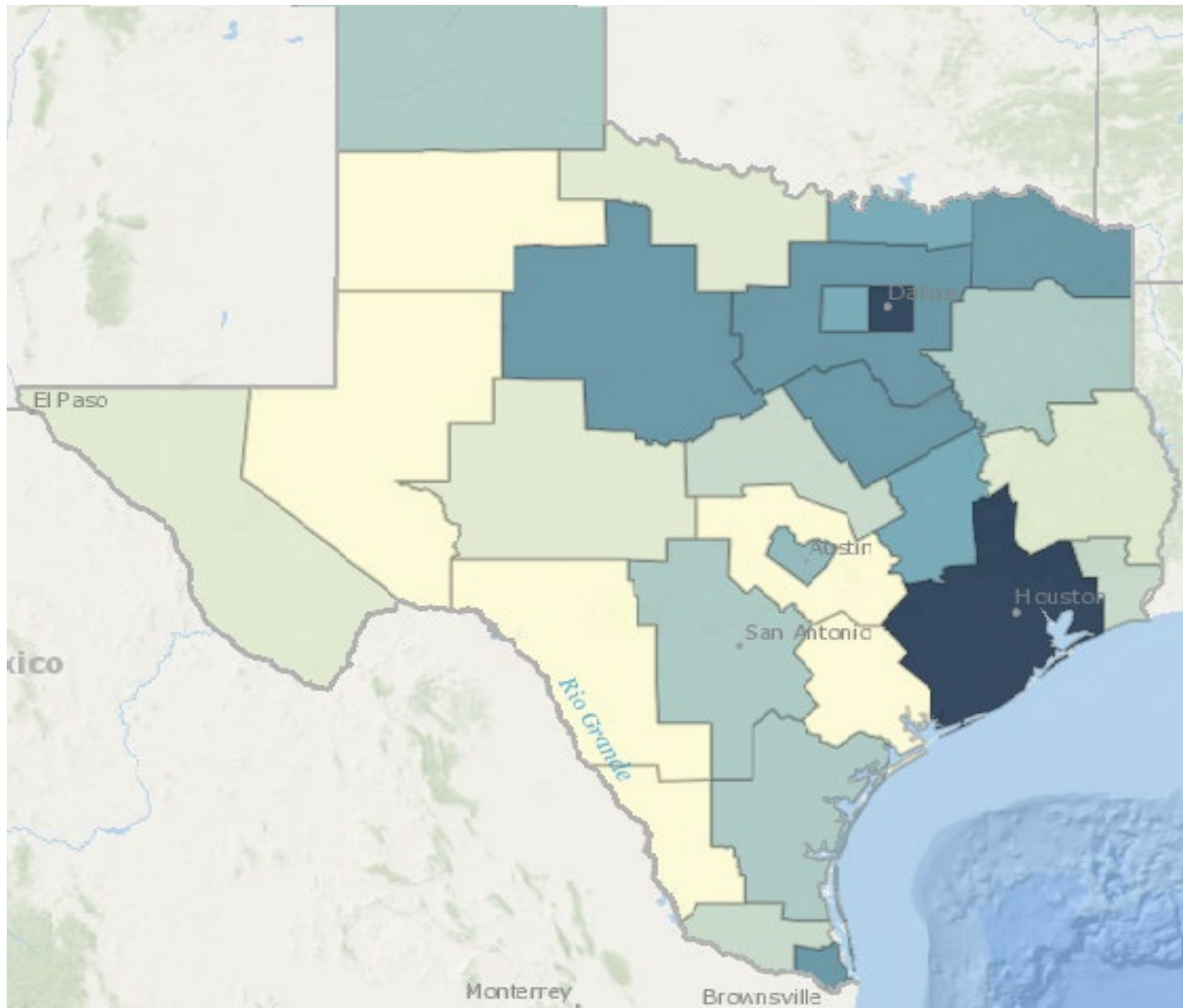
Data include wages for current employees who were trained for upskilling (upgraded) and new employees hired into new positions. The data in this report shows that the SDF program demonstrates a quantitative wage increase that is directly attributable to participation in an SDF training grant.

The table and map show the number of SDF grants awarded to each of the Boards in FY'17 and FY'18. Gulf Coast received the most SDF grants overall (15), and Greater Dallas received the most within one year (10).

Board Area	2017	2018	Total
Panhandle	1	2	3
South Plains	0	0	0
North Texas	1	0	1
North Central	4	2	6
Tarrant	1	4	5
Greater Dallas	10	1	11
Northeast Texas	3	3	6
East Texas	1	2	3
West Central Texas	4	2	6
Borderplex	0	1	1
Permian Basin	0	0	0
Concho Valley	0	1	1
Heart of Texas	2	4	6
Capital Area	1	3	4
Rural Capital Area	0	0	0

Brazos Valley	3	2	5
Deep East Texas	0	1	1
Southeast Texas	1	1	2
Golden Crescent	0	0	0
Alamo	1	2	3
South Texas	0	0	0
Coastal Bend	0	3	3
Lower Rio Grande Valley	1	1	2
Cameron	2	4	6
Texoma	1	4	5
Central Texas	2	0	2
Middle Rio Grande	0	0	0
Gulf Coast	8	7	15

The map shows the distribution of grant awards, with the lighter shades indicating few to no grants, and the darker shades indicating a higher number of awards. Gulf Coast and Greater Dallas are the darkest workforce areas, with the highest number of awards.



As noted above, SDF grant awards in 2017 and 2018 reflect a diverse geographic distribution. Study reflects that a few areas of the state may benefit from additional SDF projects and future outreach strategies will include focused effort on expanding training in these areas. TWC also recognizes the need to expand projects in certain areas of the state. Discussions with local businesses, Boards, and economic development entities in these areas will help to inform a targeted plan for outreach and project development.

TWC is considering implementing additional performance outcome requirements to further incentivize grantees and businesses to focus on benchmarks such as training completed and certifications earned.

Colleges shared a concern about being fully liable for training expenses even though they are not able to control businesses that may not end up fulfilling their role in a training project. The colleges would like for TWC to consider a mechanism that ensures that businesses share responsibility with grantees for successful outcomes. Performance outcomes could support a move toward joint responsibility.

Recommendations:

To maintain successful SDF program performance, TWC will convene a stakeholder workgroup to consider performance outcomes around skills upgrade, wage increase and long-term employment and promotion along with strategies for new business participation. TWC is committed to targeted outreach and technical assistance in workforce areas that do not have as many SDF projects to ensure that as many businesses and Texans as possible are being served.

Objective 3: Identify Ways to Expand Participation in the Opportunities Available through the SDF

Increased training for Texas' workforce leads to positive outcomes for both employers as well as communities and the state as a whole. The state has an interest in maintaining a diverse and ready workforce. The variety of programs available for funding under SDF increase opportunities for new and current grantees and businesses to have a significant impact on their local communities and economies.

Special Initiatives under the Skills Development Fund Program

Skills for Small Business - By providing training for Texas small businesses and their employees, the Skills for Small Business (SSB) program provides small businesses, in both rural and urban communities, the opportunity to respond to their operational needs by increasing the skills of their employees.

This initiative provides training opportunities through existing courses offered by the participating local public community or technical college or TEEX to businesses with fewer than 100 employees.

Recruit Texas - Recruit Texas provides leadership and direction to, and linkage among, employers, economic developers, economic development organizations, local workforce development boards, public junior colleges, and public technical institutes to address the employers' needs for recruitment and hiring for complex or high-skilled employment positions to facilitate employers' relocation to or expansion of operations in Texas. The program provides the opportunity for Fast-Track curriculum development including customized training necessary to facilitate complex and high-skilled business operations.

Dual Credit Program - The TWC Dual Credit grant program addresses local industry demands through expanded joint credit courses in partnership with local independent school districts and public community, state, or technical colleges.

The program gives grantees the opportunity to enhance career and technical education (CTE) dual credit programs through equipment purchases utilizing Skills Development Funds.

Skills Development Fund COVID-19 Special Initiative Grant Program - In 2020, the COVID-19 pandemic presented a unique challenge to the state and nation. To assist businesses with their retooling efforts in response to the pandemic, TWC developed the Skills Development Fund COVID-19

Special Initiative Program, setting aside up to \$10 million in SDF funds. TWC implemented a streamlined application process awarding funds to eligible grantees that allowed them to respond to immediate training needs. During the fourth quarter of the Fiscal Year, almost 100% of the \$10 million set aside for the initiative was awarded in grant funds, with awards ranging from \$50,000 - \$250,000 (plus administrative fees). The overwhelming response to the program led the Commission to approve an additional \$5 million for this Special Initiative enabling the agency to respond to continued business training needs during the pandemic.

In addition to the numerous initiatives funded by SDF, TWC administered surveys to assess partner perceptions of the SDF program's successes and barriers, and to ensure business training needs are being met. Each survey was tailored to a specific audience, and the survey questions and results were utilized to inform the effectiveness study and recommendations contained herein. The survey was emailed to 242 representatives from community and technical colleges and TEEX, 553 business partners, and 641 representatives from Boards and economic development corporations (EDCs). Once the email survey data collection was complete, follow-up webinars were held with partners to provide an additional forum for sharing feedback about the SDF program.

Webinar participants understood that their feedback would inform the development of recommendations for increasing the effectiveness of the SDF. During the webinars, TWC presented the survey results and asked follow-up questions using polls and open-ended questions.

Business Partner Results

SDF grants are awarded to meet businesses' training needs in real time. Businesses share their specific training needs with colleges or Boards that then work to provide that technical training so that new and existing workers can maintain and grow their skills. Some businesses have been frequent users of SDF grants, while others may not be aware of the program. TWC invited businesses to share their experiences with SDF staff to better understand any issues preventing participation.

Businesses were vocal about the many benefits they are receiving as a result of their participation in SDF grants, including increased profits as a result of training, increased employee retention rates, and increased wages, which are directly correlated to participants training completion and skills upgrade.

Business partners confirmed that, at times, it is difficult to release employees from work during the workday to take the training. Employers discussed best practices around scheduling training during low production

times, the off-season, and evenings. Off-season and evening times are other less utilized options for training.

Businesses also indicate that TWC's requirement that employers increase wages for incumbent workers at the conclusion of training is sometimes difficult.

Other input was provided about administrative processes and reporting requirements. Employers voiced having limited time to spend both in development of the application and in reporting training attendance and outcomes. Collecting and reporting the required Personally Identifiable Information (PII) of trainees is also a challenge for some employers.

Last, a limitation on frequency of involvement by the same employer is in place to allow for the identification and recruitment of new businesses to SDF training. The program is so popular that a few employers voiced interest in allowing employers to receive training again, without a wait. TWC is considering viable options that may alleviate some of the pressure felt by employers in these areas, specifically.

Community College Results

The survey and webinars for the colleges align with the SDF purposes of reducing administrative burden and ensuring timely grant awards. The data collection addressed a series of key issues, including staffing, equipment, training needs, and benefits received. The webinars also provided an opportunity for TWC to ask about other areas that were needed to understand why or why not organizations applied for SDF grants, which included administrative burden, timelines, and how often colleges apply.

The colleges are experts on training provision, and TWC wanted to understand how existing policy requirements around training may be limiting the current training plans with businesses. Colleges commented that reporting can be time consuming, and some of the parameters around allowable training categories make timely customization of training more challenging. For instance, the current limitations on certain types of less technical training can be challenging, particularly when working with employers whose training needs are primarily non-technical.

Another noteworthy topic raised by colleges regarding training revolves around questions about how to hold the business partner accountable for non-performance. Because the colleges serve as the grantees, they are responsible for any training costs that are not completed and may owe grant funds to TWC if an employer has not fulfilled their training obligation.

Last, Chapter 803 recommends up to 10 percent of program costs for equipment purchases for multi-business partners, and projects with single businesses require a waiver from the TWC executive director. Colleges commented that equipment is often a need and funds are limited for purchasing the needed equipment.

In recent years, TWC's SDF Outreach and Project Development Team developed a repository that lists all training and courses funded by the SDF, including a description of the curriculum, number of course hours, type of training, Classification of Instructional Program (CIP) codes, and key contacts for colleges to contact should another college want to acquire the curriculum. Webinar participants indicated that they appreciate the availability of the repository annually, and most review it annually for useful curriculum and tools.

Participants also confirmed that SDF grants are highly valued by employers and local EDCs in serving and supporting known employers, and inevitably help to generate partnerships with new employers. SDF grants provide an opportunity for colleges to establish themselves as leaders in support of in-demand industries in their local workforce development area (workforce area). For example, one college built a curriculum to serve key manufacturers in their service area. Another college was able to create a much-needed corporate college for key advanced technology manufacturers where businesses like Samsung, Applied Materials, and NXP Semiconductor participated in SDF grants. The college built a curriculum, not only for manufacturing technician needs, but that can now be used to serve other key manufacturers.

Boards as Grantees

HB 700 presents a new opportunity with Boards added as eligible applicants for SDF grants. The bill amended §303.001(a) to add Boards to the list of entities that are eligible to use SDF grants:

- as an incentive to provide customized training;
- to develop customized training; and
- to sponsor small and medium-sized business networks and consortiums for job training purposes.

Texas Government Code §2308.264 prohibits Boards from directly providing workforce training or one-stop workforce services unless the Board requests and is approved for a waiver based on the lack of an existing qualified alternative for delivery of workforce services in the workforce area. However, Chapter 303, as amended by HB 700, does not state that Boards

must provide training directly, and, therefore, does not conflict with §2308.264.

The inclusion of Boards as grantees increases TWC's ability to cover areas of the state that are currently underserved due to the lack of a robust presence by other entities that can participate in the SDF program.

Boards review SDF applications from community colleges to confirm the labor market need for specific technical training and to coordinate training efforts across workforce areas. But, because Boards are new eligible applicants, TWC wanted to explore their thoughts about working with a program from a partner perspective. The Board data were collected via survey and webinar.

First, TWC wanted to know how many Boards were planning on applying for an SDF grant. Seventy-one percent of participants stated that they would apply for a grant. To date, 10 Boards have applied for SDF COVID-19 grants, which is 35 percent of all current eligible Boards. This expanded participation in the program and increased the system capacity in areas needing additional training resources.

TWC also wanted to understand the key industries in which Boards are seeing a need for skills training in their workforce areas. Not unexpectedly, manufacturing and healthcare sectors are showing demand in workforce areas followed by transportation and warehousing.

Recommendations:

TWC will continue to support high-tech training and will seek more detailed feedback from stakeholders regarding specific training and equipment needs as well as types of training courses required by businesses.

Closing Thoughts

The strength and stability of the Texas economy is dependent on the success of Texas business and the skill and longevity of workforce supporting those businesses. The Skills Development Fund is an important tool utilized by the Texas Workforce Commission for the benefit of the Texas Workforce and the many communities we serve through these economic and training programs.

TWC wishes to sincerely thank all of the business partners, colleges, and Boards for providing valuable feedback to support the development of recommendations for this report. Although the SDF study identified areas for continuous improvement, our partners also offered gratitude for our shared

work of providing workforce skills development training that keeps businesses thriving in Texas.