

MINUTES OF THE HOUSE COMMITTEE ON NEW ECONOMY.

The meeting was called to order by Chairperson William Mason at 3:30 p.m. on January 30, 2001 in Room 522-S of the Capitol.

All members were present except: Representative Ray Cox - E  
Representative Valdenia Winn - E  
Representative Gwen Welshimer -E

Committee staff present: Lynne Holt, Legislative Research Department  
Rose Marie Glatt, Secretary

Conferees appearing before the committee: Richard E. Beyer, Secretary, KS Department of Human Resources

Others attending: See Attached List

The Chairman introduced Richard Beyer, Secretary, Department of Human Resources who addressed the committee on workforce development in the state (Attachment 1). He stated there is a silent crisis in Kansas and employers cannot find enough people with the right skills to fill the existing openings throughout the state. There are approximately 100,000 openings and roughly 50,000 unemployed people, with a low unemployment rate of 3.2. The economy has undergone tremendous changes in the past 10 years and technology will continue to propel the new economy, creating new jobs and altering the skill mix required to succeed. There is also a mismatch between the location of workers and available jobs resulting in losses for businesses as well as tax revenues for the state. The Department of Human Resources believes that workforce development is economic development and worthy of investment.

He outlined TARGET, a state employment trust fund; a bill that was introduced this morning in the Senate Commerce Committee. TARGET would allow the department to capture taxes sent to Washington, retain them in Kansas, and then use the interest from the fund for workforce investments. The plan would provide resources for Training, Assessment, Recruiting, A Gateway to services, Employment centers and Transition support for employers and employees. There are eight legislation critical features: (1) Divert 50% of the unemployment insurance benefits tax from the federal government into the TARGET trust fund in the Kansas treasury, (2) A four-year diversion would create a TARGET fund of about \$400 million, (3) Interest of about \$20-\$30 million a year would be available for TARGET investment, (4) Five-year sunset. If sunset, state trust funds return to the federal trust fund, (5) Target initiatives advised by business, labor and civic leader panel and then subject to formal appropriations processes, (6) TARGET funds not available for general state government, (7) Kansas joins 29 other states already using a state trust fund and (8) TARGET provides essential funding for transition from JTPA to WIA and from federal control to local control of workforce development. In summary he stated that Kansas has the opportunity to make strong improvements in the labor exchange system, however without a plan Kansas will soon be forced to downsize and pull back into the delivery of only core services in limited locations. He stood for questions.

The issue of re-training disabled persons to fill employment needs was discussed by Roger Aeschliman, Deputy Secretary. He stated that there could be programs developed if funds were available.

The downside of TARGET was discussed. The Secretary gave several reasons people are not supportive of the initiative; the Chamber of Commerce is not fully endorsing the plan and if the money is spent in the wrong place and does not expedite employment, the interest earned would not build up for the payment of benefits, which could ultimately cause a tax increase. The Secretary also believed that more states are not participating in this program because they do not know what they need or how much money they lack to drive the workforce development.

The fact there is no central location in the state where one coordinate's all the information on all job needs and available employees was addressed. Barb Reavis, Workforce Development Coordinator, stated that without funding that remains a long range goal. Mr. Aeschliman explained the Federal Government & Workforce Investment Act of 1988 and the lack of supporting funds to accomplish what the act requires.

The criteria used for compilation of data in the department's reports was questioned as well as methods used for recruiting employees from other states.

The Chairman asked for data regarding the current status of unemployment funds verses what they were before the moratorium. The Secretary stated that as of last Friday there was \$480 million dollars in the fund while there was \$734 million dollars before the moratorium. He reviewed the history of the fund and was questioned whether the state was trying to build the fund to justify the use of the money. The Secretary stated that there was no tax increase connected to the fund. He was asked what the enabling legislation was in order to access those funds and Mr. Aeschliman replied that it is technical in nature: businesses would get two notices, one for the state tax and one for the federal tax for each trust fund. One check would be sent from the businesses and a state entity would set up two funds, one for receiving and disbursements.

Three impediments and barriers for training in vocational schools were explained; lack of a statewide detailed employment plan, lack of commitment by the state and lack of funding are the main obstacles. The problems of overcrowded vocational schools and community colleges as well as good programs that lack qualified students were addressed. Joint partnerships between private/public sectors for training purposes were discussed. The advantages offered at the railroad school in Kansas City were mentioned and the Chairman stated that it might be of interest for the committee to see the facility and he would check further.

The next meeting is February 6.

The Chairman adjourned the meeting at 5:10 p.m.



## **TESTIMONY TO HOUSE NEW ECONOMY COMMITTEE**

**Tuesday, January 30, 2001**

**by Rick Beyer**

**Secretary, Kansas Department of Human Resources**

Chairman Mason, Esteemed Committee Members:

Thank you for this opportunity to talk with you about the critical importance of workforce development in our New Economy. There is a silent crisis in Kansas. Quite simply, employers cannot find enough people with the right skills to fill their openings. There are approximately 100,000 openings in Kansas and roughly 50,000 people who are unemployed. This gap between the supply of and demand for job-ready talent is both costly and manageable. It is the "burning platform" and a top priority in our state.

In many respects, the labor exchange system in Kansas is healthy. The Kansas unemployment rate for December 2000 is only 3.2 percent and our economy is strong. The average unemployment rate for calendar year 1999 in Kansas was 3.0 percent; the comparable rate for 2000 is 3.4 percent. Given this persistently low rate of unemployment and the continued labor shortage within Kansas, we have opportunity and challenge to build a streamlined workforce development system that more meets the needs of Kansas employers. That said, we have an opportunity to improve our labor exchange system and make a good system great! Our collective challenge is to build a workforce development system that more fully meets the needs of our 21<sup>st</sup> Century environment.

### **Importance of Workforce Development to the New Economy**

During the economic boom of the 1990's, the private service-producing sector accounted for 65 percent of all job growth and boosted its share of total employment to about 80 percent. Our economy in the past 10 years has undergone tremendous change. In Kansas, employment has increased by nearly 16 percent during the decade. Employment in Services has increased by 100,000 while manufacturing has increased by 26,000. Ten industry sectors alone account for 60 percent of the job growth in our state in the decade. The two largest are Business Services and Health Services adding 61,000 jobs.

Technology dynamics are remarkable and dramatic. Our robust economy is heavily driven by the efficiencies and effectiveness made possible by technology, especially computers, telecommunications and robotics. And, this driver is only beginning to reveal the extent of its potential impact. Technology will continue to propel the new economy, creating new jobs and altering the skill mix required to succeed.

Rapid technological transformation has helped prolong the longest economic expansion on record and has created a substantial number of employment opportunities.

It will be difficult for the supply of labor to keep pace with demand, especially in light of the large number of retirements anticipated over the next five to ten years. These changes in demand and skill mix call for us to build a fully functioning workforce development system – one that is fluid and produces just-in-time results. Our current labor exchange system consists largely of brick and mortar of offices in 23 Kansas locations. These facilities have a stellar record of performance and many have been in existence since mid-1940's. Funded principally by U.S. Department of Labor grants, the system is constrained by years of budget reductions.

### **New Economy Requires Enhanced Systems**

The Kansas economy continues to shift from goods-producing to service-producing industries. This change in industry mix comes with a corresponding change in skill requirements.

There is a mismatch between the location of workers and available jobs, and a mismatch between the skills required and the talents of the unemployed. The cost of this disconnection is enormous.

The average Kansas worker earns \$30,000. There are currently 100,000 job openings; individuals are missing out on \$3 billion of personal income. The average Kansas worker produces \$50,000 of net income for a business. Therefore, businesses are losing out on \$5 billion of net income. Combined, this personal and business income could generate \$500 million of state tax revenue each year – and that doesn't include local government and other sources of tax revenue.



Current federal workforce policy is not responsive to local demand. For over 20 years our federal funding has not kept pace with growth in the economy and demands of the workforce. There is nothing to indicate this trend will change.

### **Workforce Development System for the New Economy**

We believe that workforce development is economic development and worthy of investment. It is important to recognize the lost opportunity cost of not maintaining the status quo. All of this is tied to K-12 education, community colleges, and technical schools. The system for current job seekers and businesses seeking workers must be improved and energized.

We have a plan – TARGET – to capture taxes sent to Washington, retain them in Kansas, and then use the interest for TARGETED workforce investments. Without such a plan, the federal support for workforce development will continue to contract and, despite everyone's best intentions and cooperation, we will soon find ourselves downsizing even more and pulling back into the delivery of only core services in limited locations.

I'm offering an introduction of a TARGET System as a partial solution. TARGET represents training, assessment, retention, gateway, employment, and transition. Teamwork, cooperation and collaboration are vital!

That summarizes my very brief comments on the Kansas economy. We are living in exciting economic times. We have the opportunity to make strong improvements in the labor exchange system. Thank you for allowing me to appear before you today. I will be happy to answer any questions.

# *On TARGET:*

## **An Initiative for the 21<sup>st</sup> Century Workforce**

TARGET is an initiative of the Kansas Department of Human Resources and other workforce development partner agencies to close the gaps in the Kansas workforce development system. Creation of the TARGET fund would provide resources for TrainAssessment, Recruiting, a Gateway to services, Employment centers and Transition support for employers and employees.

Employers in Kansas have 100,000 unfilled jobs currently available in Kansas, a number that could double if employers believed a qualified workforce existed to fill more positions.

The lost opportunity of these unfilled jobs is \$5 billion in business revenue, \$3 billion in family income, and \$500 million in unrealized state taxes annually.

We know where the jobs and the unemployed are in Kansas. We know there is a gap between the skills required for the vacant jobs and the skills the unemployed have. We know there is often a physical gap between where the jobs are and where the potential workers are. The workforce development system team knows how to close the skills and geography gaps that prevent a seamless linkage between the two groups. What we don't have is funding to build a system that matches the supply of labor to the demand of business in critical occupational and geographic areas.

TARGET focuses on those gaps to assess those in need of skills and businesses in need of workers, to recruit and train, and to expand and fully develop the rich palette of workforce services available.

Currently all employers payroll taxes go into the federal treasury in Washington DC. Of the Federal Unemployment Tax Act taxes paid by Kansas employers – specifically for the operation of the workforce development system – only 43 cents returns to run these programs. This is unlikely to change.

The other tax, the benefits tax, could be diverted into a Kansas TARGET Trust Fund, generating interest which could be invested in TARGET initiatives. This would happen over four years, building the TARGET Fund to about \$400 million, which would generate between \$20 and \$30 million a year for workforce development efforts in Kansas.

TARGET funds would be subject to guidance from an advisory panel of business, labor and civic leaders, and further subject to the normal appropriations process including the Governor's budget office and the Kansas Legislature.

The trust fund would be a permanent fund not available for expenditure. The fund would sunset in five years subject to Legislative reapproval.

TARGET initiatives could include efforts to stop the “brain-drain;” recruiting qualified workers from other states and internationally; training and retraining across the state to fill the specific needs of local business and industry; skills upgrading for those old economy workers who find themselves abandoned by the new economy; aggressive One-Stop improvements in both physical facilities and e-services; and progressive improvements in transition services such as Unemployment Insurance and Workers Compensation in order to return Kansans to the workforce faster.

### LEGISLATION CRITICAL FEATURES:

- Divert about 50% of the unemployment insurance benefits tax from the federal government into the TARGET trust fund in the Kansas treasury.
- A four-year diversion would create a TARGET fund of about \$400 million.
- Interest of about \$20-\$30 million a year would be available for TARGET investments.
- Five-year sunset. If sunset, state trust funds return to the federal trust fund.
- TARGET initiatives advised by business, labor and civic leader panel and then subject to formal appropriations processes.
- TARGET funds not available for general state government.
- Kansas joins 29 other states already using a state trust fund.
- TARGET provides essential funding for transition from JTPA to WIA and from federal control to local control of workforce development.

### **CONTACTS:**

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# TARGET Initiative

## Training

The Governor's Vision 21<sup>st</sup> Century Task Force on Workforce Development recommended that "the importance of technical education must be elevated, and technical education must be enhanced and better integrated into the school system." The Task Force recommended that the State "upgrade equipment and support staff and faculty development at K-12, technical schools, and community colleges" and that the State "improve capital outlay to the community colleges, technical schools, and technical colleges." Programs such as the Training Equipment Grant program, which is currently funded at less than \$300,000 per year, could upgrade technical training equipment throughout the post-secondary school system with additional funding.

The TARGET Initiative could be used to target specific industries and occupations in need of a more intensive approach in the development of skilled labor. For example, one key sector of the economy in Kansas is the aviation industry. This industry could benefit from an aviation occupations training center located in the post-secondary school system to develop the thousands of jobs available in aircraft manufacturing. Other skill trades centers could be developed throughout the technical college system in the State. Additionally, programs such as Manufacturing Skill Certification and Service Skill Certification initiatives could be created to develop basic, core skills required of jobs in both of these important, broad sectors of the economy.

## Assessment Tools

The Governor's Vision 21<sup>st</sup> Century Task Force on Workforce Development recommended that "the Kansas education delivery system must be reviewed to incorporate performance-based standards that help student develop employability skills required by Kansas employers." One of the areas in which the Task Force sought to incorporate standards was by assessing "every high school student statewide in areas of core skills, using an evaluation tool like Work Keys." Work Keys and other assessment tools are also becoming increasingly valuable to employers wishing to increase their odds of matching the right person with the right job. The TARGET Initiative could be used to fund statewide assessment tools for high school students and the adult Kansas worker.

## Recruitment of Labor

With unemployment rates well below four percent throughout the state, employers have been finding it difficult and in many cases impossible to fill open positions. In fact, this challenge has prevented many employers from growing their businesses, which has cost employers millions of dollars in sales and profits and has cost the state millions of dollars in tax revenues. While the state invests millions of dollars to attract industry and visitors, Kansas has never seriously invested in an organized marketing strategy aimed at attracting the additional labor force required of a growing economy. The TARGET Initiative could be used to market Kansas as a great place to live and work.

## **Gateway to Services**

*Kansasjoblink.com* is the newly created web site created to be the gateway and the backbone of Kansas' labor exchange system. Administered by the Kansas Department of Human Resources, *kansasjoblink.com* is designed to provide job seekers access to thousands of jobs listed by employers through Kansas Job Service and to provide employers more information on job seekers and labor information than what was previously available. This site is a sophisticated and powerful tool that is utilized by workforce development centers, schools, and chambers of commerce throughout the state. In addition, this tool can also be utilized by state and local agencies to bring common information together for better reporting and, more importantly, better customer service for both employees and employers.

The ability for agencies to share common intake information, for job seekers to submit resumes on line, and for employers to receive up-to-date, localized labor information and assessment scores of job seekers is dependent on a consistent funding mechanism which does not currently exist. TARGET funding could be used to maintain and improve this important new tool.

## **Employment Centers**

The new Workforce Investment Act (WIA) provides the framework for a national workforce preparation and employment system designed to meet the needs of business and job seekers. The most important aspect of WIA is its focus on providing information and services through a single access point. The WIA legislation refers to this single access point as a "One-Stop" system where customers are able to obtain training, education, and employment services at a single neighborhood location.

Several workforce development centers offering a variety of employment and training services have been established throughout the state in renovated Job Services offices and on community college campuses. But much of the state is still served by stand-alone Job Service, Social & Rehabilitation Services, and WIA training centers. This disparate manner of developing employment and training services is confusing and is a barrier to job seekers searching for employment and training and to employers seeking skilled employees. TARGET funding could be used to buy and/or lease facilities in areas not served by consolidated workforce development centers where all employment and training programs could be located and delivered under one roof.

## **Transition Support**

The Kansas Department of Human Resources has moved the delivery of unemployment services to call centers which can be accessed from home. No longer does the State deliver services at physical locations where the unemployed must stand in line to register for and receive unemployment benefits. During peak times of unemployment these call centers are overwhelmed by calls, making it difficult and frustrating for those seeking benefits to register. It is not in the State's best interest to have potential job seekers standing in line or waiting for long periods of time to register to receive benefits. It is much wiser to implement a strategy that allows for the efficient delivery of these services so that those unemployed may spend their time receiving training and transitioning back into employment.

The challenges facing these call centers may be resolved through proper levels of staff and appropriate technology, which could be funded, in part, through the TARGET Initiative.