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Contact: [Sarah Oldmixon](#),
Policy Analyst, Social, Economic,
and Workforce Programs Division
202/624-7822
November 9, 2006

State Sector Strategies: Regional Solutions to Worker and Employer Needs

Executive Summary

Governors in a significant number of states are making sector strategies a central element of their state workforce and economic development policies. Sector strategies build partnerships of employers, training providers, community organizations, and other key stakeholders around specific industries to address the workforce needs of employers and the training, employment, and career advancement needs of workers.

The defining elements of state sector initiatives include a focus on customized solutions for a specific industry at a regional level, a central role for a workforce intermediary in bringing the industry partnerships together, and the dual goals of promoting the competitiveness of industries and advancing the employment of low- and middle-income workers.

An Aspen Institute study found that workers in sector-based programs saw their median personal earnings rise from \$8,580 to \$14,040 one year after training and \$17,732 after two years. Based on earnings alone, 48 percent of participants exited poverty. Another outside evaluation found that employers reported a 41 percent reduction in turnover and a 19 percent reduction in rework.

Although many states are implementing sector strategies successfully, they are not easy to establish and sustain. For sector strategies to succeed, states need to align policies and funding streams around new priorities across the education, workforce, and economic development systems; multiple agencies; and various levels of government. Governors are in a pivotal position to provide the leadership needed to address these challenges.

This issue brief explains sector initiatives and their advantages and offers examples of state initiatives. It also suggests steps governors can take to launch their own:

- Support the development of timely, accurate information to identify key industries, examine the state of regional economies, explore the root causes of skills gaps, and promote strategic planning that addresses the needs of workers and employers.
- Direct state agencies to increase their collaboration in producing and using labor market information across agencies to provide up-to-date analysis of industry sectors.
- Direct and redirect public resources, and incentivize private resources to support, sustain, and expand sector initiatives.

- Establish grant funding, matched by private funding, or pool funds from federal, state, and private sources.
- Align resources to support sector strategies by integrating criteria into existing funding streams.
- Align multiple agencies, including their relevant policies and resources, to support targeted sector initiatives.
- Require agency leaders to collaborate to redefine common missions, reallocate and blend funding, and encourage joint work to respond effectively to targeted industries and workers.
- Make the expertise of state agencies available to sector initiatives during the research, planning, and implementation phases.

Many states are implementing a combination of these strategies successfully. When included as part of a comprehensive state policy framework, sector strategies help states address the rapidly changing economic and demographic challenges they face.

The Need for Innovative Approaches

In response to rapid advances in technology and market globalization, the U.S. economy is becoming increasingly knowledge centered, technology based, and innovation driven. These changes present new challenges to employers, workers, and communities.

Employers confront growing shortages of adequately prepared workers, yet high turnover rates discourage many businesses from making major investments in employee education and training. Low-skilled workers experience declining wages, yet they lack the skills to secure better jobs and the resources to obtain higher-level skills. American industries increasingly need workers with higher skill levels and credentials, yet the percentage of the labor force with four-year college degrees is leveling off and the number of workers with two-year degrees and vocational certificates will fall short of the economy's needs.

The shortage of skilled workers also presents a challenge to communities, which increasingly experience intense competition to attract and retain employers. Tax breaks alone are no longer a sufficient incentive to bring in new businesses. When making relocation or expansion decisions, businesses also consider a region's ability to provide a steady supply of skilled workers. However, communities' ability to be responsive to industry skill needs is hindered by the lack of coordination between the public education, economic, and workforce development systems. As a consequence, the industry-specific skills demanded by local industries often are not incorporated into education and training programs.

Currently, the education, workforce, and economic development systems do not address these challenges adequately. Key issues include:

Single-Employer Focus

One key obstacle is that both the workforce and economic development systems focus on single employers rather than industries. This makes it challenging to develop a deep understanding of a particular industry and its needs. As a result, these systems struggle to realize economies of scale. Because different employers within the same industry have similar skill needs and draw on the

same labor pool, greater efficiencies can be achieved by spreading the costs of new program development across multiple firms.

Arbitrary Boundaries

The geographic scope of our education, workforce, and economic development systems also is problematic. Although businesses define their scope in terms of the regional markets—labor and otherwise—they compete in, public systems are bound by geopolitical boundaries such as cities and counties (economic development), workforce investment areas (workforce), and school and community college districts (education). This misalignment complicates employer efforts to work with the public systems and may act as a deterrent to using their services.

Lack of Meaningful Employer Engagement

Another key challenge facing the public systems is a shortage of mechanisms for meaningfully engaging employers. The workforce system attempted to address this problem by adopting a “demand-driven” focus, which led to many important improvements such as offering business services at one-stop centers and appointing employers as members of state and local workforce investment boards (WIBs). However, the percentage of employers that utilize the one-stop centers to meet their workforce needs remains relatively small. There also is no mechanism to ensure WIB members represent those that use the system, creating a possible disconnect between those businesses represented on the board and those that use or might use the systems’ services. Similarly, most states have no formal mechanism for aligning K–12 and postsecondary curricula with industry skill needs.

Without a way to maintain an ongoing dialogue with industry, government programs cannot adequately understand industry needs, facilitate learning between related businesses, or formulate effective solutions. Subsequently, employers look elsewhere to address their workforce needs, and public systems lose out on opportunities to connect low-income, low-skilled workers to good jobs and keep strong industries in their regions.

Lack of Coordination Among Key Stakeholders

A lack of coordination exists among the various stakeholders who have influence over regional labor markets. In most states, there is no single entity with responsibility for bringing the different systems—and other key stakeholders—to the table. For public systems, funding streams lead organizations to focus on specific categories of individuals (e.g., welfare recipients, unemployed workers) or single firms, making it difficult to focus on the larger challenges confronting regional economies. Further, cultural differences between organizations – including terminology, different definitions of customers, and divergent performance measures – can be daunting obstacles to collaboration.

As a result, regions have no shared vision or set of priorities, leading to lost opportunities for collaboration, leveraging resources, and coordinating information that could lead to a deeper understanding of industries and their needs. Rather than bringing together information and resources to maximize impacts and take projects to scale, programs are confined to small victories.

Limited Focus on Job Quality

Finally, there is no formal mechanism to push the education, economic, and workforce systems to work with those regional industries that yield the highest number of good jobs—jobs that pay

wages that can support a family, offer benefits such as healthcare, and provide opportunities for advancement. Strategies that focus on higher-quality jobs often lead to better financial outcomes for workers and longer job tenures.¹ However, performance measures and funding requirements provide few incentives for public systems to focus on job quality.

New Approaches to Worker and Employer Needs

Sector strategies have emerged as a response to these shortcomings. Sector strategies are regional approaches that focus on the workforce needs of key industries in a regional labor market. Sector initiatives develop expertise in a particular industry, use workforce intermediaries (see Box A) to engage employers and other key stakeholders, and coordinate information and resources to develop and implement effective responses. They are more responsive to industry demand than traditional job-matching and training services because they are problem-oriented, not program-oriented; address needs interdependently, not independently; and work with industries collectively, not as individual firms. Sector initiatives strive simultaneously to meet the skill, recruitment, and retention needs of employers and the training, employment, and career advancement needs of workers in ways that strengthen overall industries and labor markets in a region.

Because sector initiatives involve aligning strategies across many agencies, systems, and programs, gubernatorial leadership is critical. Governors can galvanize the leadership of industry and labor to ensure their voices are at the center of regional sector efforts. They can influence agency leaders, set administrative policy, prioritize how public resources are used, shift the institutional missions of public agencies, issue executive orders, propose budgets, and sponsor legislation. The power of governors to set agendas, reorganize agencies, and redirect resources allows them to focus attention on and promote solutions to workforce and economic development challenges.

Box A

Workforce Intermediaries

A workforce intermediary is an organization with a deep understanding of worker and employer issues in a specific industry. Workforce intermediaries:

- focus on a dual-customer (i.e., business and workers);
- coordinate services that enhance the capacity of both workers and employers;
- integrate funding streams, services, and information services;
- generate ideas and innovative approaches to respond to the needs of employers and workers.

A variety of organizations can act as workforce intermediaries, including – but not limited to – employer organizations (e.g., chambers of commerce, trade associations), labor-management partnerships, community colleges, one-stops, faith- and community-based organizations, and placement firms.

Source: Giloth, 2004. "Introduction." In Robert P. Giloth, ed., Workforce Intermediaries for the Twenty-first Century. Philadelphia: Temple University Press, p. 7; Looney and King. 2005. Expanding Opportunities for Businesses and Workers: Promising Practices for Workforce Intermediary Initiatives. Austin, TX: Ray Marshall Center for the Study of Human Resources, p.3

To assist governors interested in exploring how sector strategies can be used in their states, this issue brief:

- defines sector strategies and describes the potential benefits of this approach;
- discusses policy options, with examples from leading state sector initiatives;
- reviews key considerations for state policymakers; and
- offers recommendations to governors interested in pursuing sector strategies.

Regional, Industry-Specific Solutions to Workforce Challenges

Sector strategies are industry-specific, regional approaches to workforce needs that aim to:

- address the needs of *employers* by focusing intensively on the workforce needs of a specific industry sector over a sustained period, often concentrating on a specific occupation or set of occupations within that industry;
- address the needs of *workers* by creating formal career paths to good jobs, reducing barriers to employment, and sustaining or increasing middle-class jobs;
- bolster *regional economic competitiveness* by engaging economic development experts in workforce issues and aligning education, economic, and workforce development planning;
- *engage a broader array of key stakeholders* through partnerships organized by workforce intermediaries; and
- promote *systemic change* that achieves ongoing benefits for the industry, workers, and community.

Implementation of sector initiatives requires the various partners to work closely together over a sustained period. Sector initiative partners typically include a combination of relevant stakeholders from local businesses, industry groups, the public workforce system, economic development agencies, education and training providers, human services agencies, and faith- or community-based organizations. Key activities for these partners include:

- undertaking rigorous research to identify industry and worker needs and the root causes of labor market gaps;
- designing customized solutions such as career ladders, training programs, or technical assistance to help employers improve human resources practices;
- leveraging funding;
- evaluating progress;
- considering opportunities for expansion; and
- promoting systemic change.

The coordinating and convening roles of the workforce intermediary are critical for partners to successfully carry out these activities. Intermediaries bring together the right agency and

community partners with the right industry representatives to address a region's particular workforce and economic goals most effectively. They also coordinate training, work supports, technical assistance, and other services.

Sector strategies provide opportunities to develop customized and comprehensive approaches that benefit employers, workers, and communities. For example, **Pennsylvania** brought together key agencies to identify industry clusters in which the state likely had competitive advantages and long-term growth potential. The resulting analysis identified nine sectors, including advanced materials and diversified manufacturing, agriculture and food processing, building and construction, and financial services. Within these, the state worked with industry experts to identify priority occupations based on number of annual job openings, wage levels, growth rates, opportunities for workers to advance, and the projected number of workers in the pipeline. Using this information, the state created grants to provide incentives to regional partnerships around the state to create new career ladder and training programs that focused on their priority clusters and occupations.

Michigan adopted a sector-based approach after recognizing a need to link workforce and economic development in a more systemic way. Similar to Pennsylvania, Michigan offered grants on a competitive basis to local partnerships but allowed each partnership to define its regional boundaries and identify target industries based on local data and analysis. Target industries of the 16 FY05/06 Regional Skills Alliances include manufacturing, healthcare, homeland security, and utilities.

Each partnership is employer led and involves active participation by key community colleges, employers, workforce boards, and community organizations to design, implement, and enroll students in demand-driven curricula that fill industry skills needs. Many worker training programs are on the job and incorporate technical assistance to employers to improve human resource and management practices. To qualify for one-year startup grants, which are jointly provided by state and foundation funds, Regional Skills Alliances must provide a budget plan that leads to self-sufficiency after three years.

Benefits for Employers, Workers, and Communities

Sector strategies benefit employers, workers, and communities. An Aspen Institute survey of sector initiative participants found the percentage of respondents who worked at some point during the year went from 74 percent before training to 94 percent after training. Among the 94 percent of respondents who worked, median personal earnings rose from \$8,580 to \$14,040 in the year following training and \$17,732 in the second year after training. Forty-eight percent of participants moved out of poverty based on earnings alone.ⁱⁱ

In a similar evaluation of sector initiatives in **Massachusetts**, employers reported a 41 percent reduction in turnover, a 19 percent reduction in rework, and a 23 percent reduction in customer complaints.ⁱⁱⁱ One hundred percent of participating employers found value in the partnerships they developed with other companies through sector initiatives.

More generally, the potential benefits of sector initiatives for employers include:

- sharing the costs and risks associated with developing skill training programs across an industry and within a region;

- increased availability of skills training that responds to the actual and shared workforce needs of regional industries;
- guidance on ways to improve human resource practices, including the application of technology and other productivity-enhancing measures, to improve quality, efficiency, and output; and
- Reduced turnover as a result of improved working conditions or expanded opportunities for career advancement.

Sector initiatives provide similar potential benefits to workers, including:

- increased availability of jobs offering decent wages, benefits, and/or opportunities for advancement ;
- improved working conditions for entry-level and low-skilled workers;
- expanded supply, accessibility, and coordination of work supports for low-income workers that lead to better job retention; and
- increased opportunities for education and training for high-demand occupations, including literacy, language, and job-skills development programs.

Finally, for communities, sector initiatives can:

- close skill and labor gaps in the labor market;
- enhance a community's ability to attract and retain higher-wage employers;
- support the retention and expansion of local industries;
- address poverty and unemployment challenges;
- increase community cooperation; and
- use public resources more efficiently and effectively.^{iv}

For states to realize these benefits of sector strategies, state leadership and guidance at each phase of implementation is essential.

State Options to Support Sector Initiatives

Many states recognize that gaps exist between their education and training outcomes and the skills needs of their major industries, but they need leadership to promote coordinated action toward effective solutions. Governors can play a key role in affecting changes needed to address these gaps. For example:

- In 2001, former **Massachusetts** Governor Jane Swift launched the Task Force to Reform Adult Education and Worker Training in response to a report showing that 667,000 adults did not have sufficient math and literacy skills to participate in the state's economy. This resulted in a series of policies that reoriented state and regional entities to close skills gaps in targeted industries by providing workers with customized training and support services. Today, BayState Works, funded through a state budget allocation, supports 11 regional sector partnerships focusing on critical industries such as long-term care, aerospace, and manufacturing.

- In 2004, **Michigan** Governor Jennifer Granholm initiated a strategic planning process that examined the state’s labor and economic development functions and led to new policies that supported realignment of regional entities to create sector initiatives. The result was the implementation of the state’s Regional Skills Alliances—locally managed partnerships formed to address strategic workforce issues affecting groups of firms operating in the same industry in a specific region.
- In 2005, **Pennsylvania** Governor Ed Rendell launched Job Ready Pennsylvania with the goal of making a better public investment in workforce development by understanding the fundamental needs of industry in the state. This initiative significantly escalated state support by allocating \$20 million in funding to support sector initiatives in nine clusters: \$5 million to organize industry partnerships and \$15 million to support the incumbent worker training developed by the partnerships. There are currently more than 70 industry partnerships, which, in the last fiscal year (05/06), trained more than 7,500 workers at more than 900 companies.
- In 2005, Governor Mitch Daniels launched a major initiative to restructure **Indiana’s** workforce development system. A key outcome of this effort was the emergence of a new sector-focused framework for responding to workforce challenges. Indiana’s Strategic Skills Initiative requires regional workforce boards to convene a consortium of business, education, workforce, and economic development officials to identify and alleviate current and projected shortages in critical industries. When skill shortages are determined to be statewide, a State Action Team is established to spearhead the development and implementation of statewide solutions. To date, State Action Teams have been created to address the state’s manufacturing and healthcare challenges.

States vary in the degree to which they provide direction for sector initiatives. Some states, for example, designate key industries on which they want regions to focus. **Washington State’s** workforce plan, High Skills, High Wages, identifies industry clusters by region to guide funding priorities for its Industry Skill Panel initiative, which brings together firms, community colleges, workforce boards, and other organizations to develop sector approaches for a given industry. In contrast, other than its extended-care career ladder initiative, **Massachusetts’** BayState Works initiative did not designate a specific industry focus.

States also differ in their approach to identifying regional boundaries for sector initiatives. **Michigan** allows each Regional Skills Alliance to determine its own regional boundaries. Conversely, the **Illinois** Department of Commerce and Economic Opportunity designated 10 economic development regions and requires local workforce boards in each region to identify and analyze the root causes of skills shortages faced by key industries in the region and convene partnerships with the industry, community colleges, and others to develop and implement solutions.

Regardless of how states choose to balance state and regional control over initiatives, state support is vital to the successful development and implementation of sector initiatives. Governors can play a major role in driving the development of sector initiatives in their states by:

- identifying industry needs and skills gaps;
- creating funding opportunities;

- aligning missions and policies across agencies; and
- tapping into state agency expertise.

Identifying Industry Needs and Skills Gaps

Sector initiatives need a deep understanding of particular industries and regions to formulate effective solutions. Governors can draw on state resources to address this need in several ways.

State agencies can use their access to labor market information from various data sources to examine the current state of a regional economy, explore the root causes of skills gaps, and help sector initiatives plan for long-term labor market trends. The Michigan Department of Labor and Economic Growth published in-depth workforce reports for manufacturing and healthcare and can produce customized industry reports by region for local workforce investment boards. These customized reports include information about the regional labor supply, occupational vacancies, wage information, and location quotients. Similarly, Pennsylvania’s Labor Market Information office works with local industry partnerships to produce up-to-date regional industry cluster analyses.^v

Some states provide training to help sector initiative partners learn how to collect and use labor market information for decisionmaking. Michigan provides training for sector initiatives on working with healthcare workforce information. Colorado is convening a coalition of “intelligence leaders” to increase collaboration and efficiency in the production and use of labor market information for various policies and programs, including sector strategies.

Governors also can drive the development of new information on labor market trends by engaging industry representatives. Governor Taft’s Advance Ohio initiative created healthcare and manufacturing industry councils to provide recommendations to the state’s workforce investment board to address these industries’ workforce needs.

Creating Funding Opportunities

Historically, workforce partnerships struggle to piece together public and private funding. Similarly, many sector initiatives cite funding gaps as major barriers to achieving scale and sustainability.^{vi} Governors can address these challenges by driving the development of new funding streams, redirecting existing streams, and incentivizing private investments.

States utilize several federal, state, and private sources to fund sector initiatives, most commonly tapping public Workforce Investment Act (WIA) discretionary (or “15 percent”) funds. For example, the Washington State Workforce Training and Education Coordinating Board uses WIA discretionary funds to support Industry Skill Panels. The Illinois Department of Commerce and Economic Growth used \$18 million in WIA Discretionary funding to create their Critical Skills Shortages Initiative.

A variety of other state and federal funding streams also can be tapped. Arkansas utilized \$14 million in Temporary Assistance for Needy Families (TANF) surplus funds to create the Career Pathways program within community colleges. In Pennsylvania, Governor Rendell’s Job Ready Pennsylvania initiative allocated \$5 million of the state’s general revenue for its statewide sector initiative, Industry Partnerships, and \$15 million for a separate grant program to support training by the industry partnerships in target industries and priority occupations identified by the state.

Also in Pennsylvania, the state legislature set aside \$1.5 million in unemployment insurance penalty and interest monies to create the Job Training Fund Equipment Grant. This grant provides funding for training-related equipment purchases for priority industries outlined by the Pennsylvania Job Ready Initiative.

Many states have used investments from state and federal funding sources to leverage additional funding from employers, industry associations, and foundations. Washington State pooled state and federal funds to provide \$1.3 million to the Eastern Washington Agriculture and Food Processing Partnership, resulting in a \$1.5 million industry match. The Michigan Department of Labor and Economic Growth launched the Regional Skills Alliances Initiative with \$2 million in funds pooled from the WIA discretionary account, the Michigan Economic Development Corporation, and a major grant from the Charles Stewart Mott Foundation.

In Massachusetts, the Building Essential Skills through Training initiative (BEST, now BayState Works) developed a \$3.5 million funding pool using WIA discretionary funds, incumbent worker training monies from the Workforce Training Fund (financed entirely by employers), WIA Title II funds from the department of education, and TANF funds from the department of transitional assistance. BayState Works, the Washington Industry Skill Panels, and the Illinois Critical Skills Shortages Initiative all have matching requirements.

When considering strategies to promote third-party investments to support sector work, state policymakers should consider whether state funding can be directed to public-private “workforce funding collaboratives” that aggregate philanthropic funding with funding from other sources. For example, the New York City Sectors Initiative is funded by the New York City Workforce Development Funders Group, a consortium of foundations and corporate philanthropies that pool their resources to support workforce projects.^{vii}

It is not always necessary to create or modify funding streams to support sector strategies. Several states have promoted sector initiatives by integrating criteria into existing funding streams:

- In **Colorado**, the state’s WIA discretionary grant funding guidelines require local workforce investment boards to prioritize sector-based workforce approaches.^{viii}
- Similarly, in **Washington DC**, the Workforce Investment Council requires that funding decisions support training programs in priority industries identified by the council.^{ix}

For additional examples of funding sources states can use to support sector initiatives, see Appendix A.

When a state locates funds to support sector activities, policymakers must decide how to disburse the funds. As demonstrated above, establishing a grant program is a popular way to finance sector initiatives. A grant-based funding approach allows state policymakers to set criteria to drive how funds are used, such as:

- Identify specific industries, occupations within them, demographic groups, or particular regions to target.
- Identify the types of entities that can apply for funding, requiring certain stakeholders to be partners while allowing regional sector organizers to determine other partners.

- Determine the purpose and/or activities for which sector initiatives may receive funding. For example, funding may be used to support the design and development of sector initiatives or may be used to support operations.
- Specify employers' role in developing and operating the sector initiative.
- Set requirements for sector initiatives that secure commitments of matching funds, expectations of employers, and expectations of local funding.

States that adopt the grant-making approach should work to balance state policy goals with the need for local flexibility.

Although grant programs are a popular approach to steering funding to sector initiatives, states also can choose to invest directly in sector initiative work. For example, in **California**, the Entertainment Industry Development Corporation, in partnership with the Los Angeles Workforce Investment Board, received support from the state's WIA discretionary fund to conduct industry analysis for the entertainment industry.^x Also in California, the Gateway Cities Partnership received \$600,000 in WIA discretionary funds to implement training in logistics.^{xi} The **Wisconsin** Department of Transportation contracts with a regional sector initiative, the Wisconsin Regional Training Partnership, to increase the diversity of the workers for construction projects in the southeastern region of the state.^{xii}

Regardless of how states choose to steer funding to sector initiatives, policymakers should structure funding to promote sustainability and encourage initiatives to bring operations to scale. To achieve these goals, sector initiatives will need to plan for sustainability and growth from the onset. States can require sector initiative partners to make a commitment to develop a longer-term funding strategy during the planning stage, place time limits on the number of years programs can use a certain grant, or require matching funding from employers, foundations, and other local resources.

Requiring the participation of certain partners also can help by integrating the activities developed by the sector initiatives into existing regional infrastructures. In **Michigan**, the Regional Skills Alliance initiative encourages grant recipients and their partners to reorient existing programs to support the sector initiative's objectives. In Illinois, the Critical Skills Shortages Initiative requires a consortium of local workforce investment boards to manage regional initiatives. Grantees are required to outline how local workforce, education, and other resources will be aligned to implement the regional workforce strategies.

Aligning Missions and Policies Across Agencies

States can align relevant agency policies and resources to support sector initiatives better. Sector initiatives and the industries they benefit often have complex relationships with state agencies. Sector initiatives are multifaceted, with activities that fall under the purview of several state agencies such as labor, economic development, education, temporary assistance, adult basic education, and human services.

In response to these challenges, governors have broken down traditional program silos and initiated interagency alignment as part of their sector strategies. Governors are critical in achieving this alignment. Only they have the authority to require agency leaders to establish a culture of interagency collaboration, redefine department missions, reallocate resources, and/or reorganize agencies.

In **Massachusetts**, former Governor Swift brought together the departments of education, transitional assistance, and workforce development and the division of employment and training to take action on challenges outlined by the state’s Task Force to Reform Adult Education and Worker Training. This interagency group recommended the creation of the BayState Works initiative to provide support to regional sector initiatives. Each agency contributed funding to the initiative, jointly shaped the program, and provided technical assistance to the grantees.

In **Washington State** the Workforce Training and Education Coordinating Board worked closely with the State Board for Community and Technical Colleges and the Employment Security Department. These agencies developed a coordinated competitive grant that funded planning and development, implementation of skill standards, development of new training programs, and operations of training programs. The Workforce Training and Education Coordinating Board managed the Industry Skill Panel initiative responsible for planning, analysis, and development of sector initiatives. The State Board for Community and Technical Colleges managed two grants that supported the implementation of skill standards and curricula development and the creation of new training programs. The employment security department managed a grant that funded training for incumbent workers.

Michigan Governor Jennifer Granholm created a new agency, the Department of Labor and Economic Growth, by bringing together most workforce, career, and economic development programs into one agency that housed federal- and state-funded workforce programs. Governor Granholm also reorganized eight executive departments and the state’s welfare agency. The reorganization’s intent was to create a workforce system that aligned workforce and economic policy and consolidated public workforce resources. An early outcome was the creation of the Michigan Regional Skills Alliances sector initiative.

In **Oklahoma**, Governor Brad Henry moved all state and federal workforce programs under the jurisdiction of the Secretary of Commerce and created an Assistant Secretary for Workforce to support the reconstituted state Workforce Investment Board. This reorganization provided the institutional arrangements necessary for Oklahoma to align the design and implementation of workforce policy with priority industry targets.^{xiii}

Tapping Into State Agency Expertise

Governors also can support sector strategies by directing state agencies to lend their skill and expertise to regional initiatives. Several states provide ongoing technical assistance to regional sector initiatives to research, plan, and implement projects.

The **Michigan** Department of Labor and Economic Growth created a 10-person team whose primary charge is to assist Regional Skills Alliance grantees with sector orientations, trainings, and cross-site learning forums. **Washington’s** Workforce Training and Education Coordinating Board provides Industry Skill Panel grantees with assistance in research, planning, facilitating industry groups, and troubleshooting. In **Massachusetts**, an interagency team with staff from the Commonwealth Corporation and the departments of education, transitional assistance, and workforce development and the division of employment and training helped design BayState Works and continues to provide technical assistance to BayState Works initiative grantees.

Some states have developed training opportunities to increase front-line staff members’ understanding of the sector-based approach. **Pennsylvania** operates a sector academy to educate regionally based staff from workforce boards, community colleges, and unions. The **Michigan**

Department of Labor and Economic Growth invested in capacity-building activities for the Michigan Regional Skills Alliance’s management unit.

Recommendations for Governors

Sector strategies have demonstrated success in creating more strategic, targeted, and systemic responses to labor market changes and aligning state workforce and economic development activities. Governors have a unique opportunity to lead the development of sector initiatives in their states. In doing so they can improve their states’ ability to respond effectively to the demands of a rapidly changing economy. Governors and states can:

- support the development of timely, accurate information to identify key industries, examine the state of regional economies, explore the root causes of skills gaps, and promote strategic planning that addresses the needs of workers and employers alike;
- direct state agencies to increase their collaboration in producing and using labor market information across agencies to provide up-to-date analysis of industry sectors;
- direct and redirect public resources, and incentivize private resources to support, sustain, and expand sector initiatives;
- establish grant funding, matched by private funding, or pool funds from federal, state, and private sources;
- align resources to support sector strategies by integrating criteria into existing funding streams—this can be a key strategy to ensure sustainability and expansion of sector strategies;
- align multiple agencies, including their relevant policies and resources, to support targeted sector initiatives;
- require agency leaders to collaborate to redefine common missions, reallocate and blend funding, and encourage joint work to effectively respond to targeted industries and workers; and
- make the expertise of state agencies available to sector initiatives during the research, planning, and implementation phases—orientation, learning support, and technical assistance for management and front-line staff are critical to successful implementation of sector strategies.

By developing a policy framework that combines gubernatorial leadership, innovative funding strategies, interagency alignment, and targeted technical assistance, states can build a solid foundation to support sector initiatives. In doing so, states strengthen industry competitiveness, provide employers with skilled labor, and ensure good jobs that lead to promising careers for workers.

This Issue Brief is published as part of the Accelerating State Adoption of Sector Strategies project, a joint effort of the NGA Center for Best Practice, the Corporation for a Skilled Workforce (CSW) and National Network of Sector Partners (NNSP) with funding from the C.S. Mott and Ford Foundations. The Brief was written by Dexter Ligo-Gordon of NNSP and Sarah Looney Oldmixon, Lindsey Woolsey, and Martin Simon of the NGA Center. The authors wish to thank Jack Mills of NNSP and our partners at CSW for their valuable input.

APPENDIX A - Examples of Funding Sources Used to Support Sector Initiatives

FEDERAL SOURCES

WIA Discretionary Funding: WIA can be used for a variety of activities. Governor's WIA discretionary funding often is used as seed funding for sector initiatives, research, partnership development and coordination, project management and administration and can support a variety of operational activities such as training and supportive services

WIA Title I: Core and Intensive Services: These funds are distributed by local workforce boards and can be used to serve WIA eligible populations. They support a variety of activities, including orientation, skills/interest assessments, supportive service needs, career counseling, job readiness classes, and case managements.

WIA Title I: On-the-Job Training: These funds are distributed and governed by local workforce investment boards. They support employer or training provider designed programs and can be used for wage subsidies. These funds may be used to support employers or groups of employers, who must provide a 50 percent match. Local workforce investment boards must approve the training programs.

WIA Title I: Training Funds: These funds are available for WIA eligible and registered participants. They can be used for training up to a limit set by the local workforce investment board. They support job training, tuition and other training programs approved by the local workforce investment boards.

WIA Title II: Adult Education: These funds can be utilized to provide skills training to low skilled adults that lack a high school diploma or GED. These are granted as contracts to education institutions and community based organizations.

Food Stamp Employment & Training Job Placement with Retention: These funds can be utilized to serve Food Stamp eligible populations. They can be used to support skill development and create career paths among other activities. These funds are usually administered by the State Departments of Human/Social Services.

Pell Grants: These grants may be used to provide for tuition, living expenses, materials, and other expenses for eligible low-income students.

Federal Work Study: These funds, administered by the U.S. Department of Education directly to accredited educational institutions, can be used to subsidize a student's wages. Campuses may target these resources to provide work subsidies for students in sector based training programs.

STATE SOURCES

State Discretionary Education Funds: Many states have utilized education funds to support sector strategies. In post secondary institutions, many states have utilized education funding to create new industry-aligned curricula, create short-term program models, and create customized training and other activities that reshape educational institutions to be more industry responsive.

State Economic Development Resources: Some states have developed training tax credits for groups of employers to train new entrant or incumbent workers that allow workers to enter or advance within an industry. Some states also have utilized state economic development resources to train workers for firms that relocate or expand in the state.

State General Revenue: General revenue can be used to support a wide range of activities. Many states have developed grant funds to provide start-up capital for sector initiatives, pay for training for new entry workers and incumbents, provide scholarships to participants, and conduct a number of research, analysis and evaluation activities.

Unemployment Insurance Surplus: Some states have utilized surpluses in unemployment insurance revenue to incumbent worker grant funds to provide skills training to allow workers to advance in the workplace.

PRIVATE SOURCES

Foundation: Foundation resources support a range of activities at various stages of a sector initiative. Usually foundation resources have been used as start-up capital to convene a sector initiative and develop partnerships. However, foundation resources also have been used to provide training, supportive services, and project management.

Industry Contribution: Employer partners provide financial and in-kind contributions to sector initiatives that support various aspects of sector initiatives, including paid release time, tuition reimbursement, materials, instructors, facilities, skills testing, and marketing/recruitment among others.

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Appendix B - Putting the Pieces Together: The Pennsylvania and Massachusetts Sector Initiatives

When developing a sector initiative, state leaders often pick and choose from the various policy options highlighted in this brief to develop a customized and comprehensive approach that meets the particular goals, needs, and circumstances of their state.

Pennsylvania used sector strategies to reorganize its workforce development system, promote economic growth, increase family-sustaining employment, and enhance the state's ability to compete effectively in the global economy. Massachusetts made sector strategies a central framework for its workforce and economic development activities. The state created new grant programs, developed the capacity of nonprofit and community organizations, and developed strategic interventions in participating industries.

Pennsylvania

Pennsylvania's sector strategy focuses state and federal resources on target industries and high-priority occupations derived from research and analysis of the state's industries and labor market. The departments of labor and industry, community and economic development, and education identified nine industry clusters and eight sub-clusters in which Pennsylvania likely had a competitive advantage and long-term growth potential.

Pennsylvania's Center for Workforce Information Analysis (CWIA), industry leaders, and other regional stakeholders established a set of criteria to determine which occupations were critical to the future success of these clusters and established these as Pennsylvania's high-priority occupations. Criteria included a minimum number of annual job openings, wage levels, growth rates, career ladder opportunities, and whether there were sufficient new workers in the pipeline.¹⁴

Pennsylvania supports industry sector efforts in all targeted industries but started with a \$5 million investment manufacturing partnership. In July 2005, the governor's Job Ready Pennsylvania program significantly escalated state support by allocating \$20 million in funding to support sector initiatives in all nine clusters: \$5 million to organize industry partnerships and \$15 million to support the incumbent worker training developed by the partnerships. The grants were awarded through a competitive process. More than 70 industry partnerships in the last fiscal year (05/06) have trained more than 7,500 workers at more than 900 companies.

Job Ready Pennsylvania also included \$10 million for working adults to continue their education, \$1.5 million for industry-aligned career and technical education equipment and curricula upgrades, and additional funding for community college courses in high-priority occupations. In total, Job Ready Pennsylvania will invest close to \$100 million in state funds for worker training, community college courses aligned with high-priority occupations, equipment for education/training, and curriculum development.¹⁵ The state also leveraged public sources such as WIA discretionary dollars, annual WIA state appropriations, state discretionary economic development funds, and federal grant funds.

To ensure new and existing workforce funding is invested wisely, Pennsylvania implemented major accountability measures that provide the basis for assessing the effect of Job Ready Pennsylvania's investments.¹⁶

Finally, the department of labor and industry and the Pennsylvania Workforce Investment Board developed learning opportunities to help staff, workforce board members, and partners build their capacity to understand and implement sector strategies, including orientations for local workforce investment boards and contracted technical assistance for state staff. This investment in learning opportunities and capacity building facilitated the transition of state and regional entities to adopt a sector-based approach.

Massachusetts

In Massachusetts, state sector strategies developed after then-Governor Jane Swift issued Executive Order 428 in 2001 in response to a report that showed 667,000 of the commonwealth's adults did not have sufficient literacy or math skills to participate in Massachusetts' economy.¹⁷ The executive order established the Governor's Task Force to Reform Adult Education and Worker Training. The task force recommended a \$3.5 million grant program to support sector-based and demand-driven regional initiatives.

The initiative, Building Essential Skills through Training (BEST, now BayState Works), funded the development of regional industry teams to work with local industry, workforce development, economic development, education, labor, and the community to develop solutions to skills gaps identified by regional industries. BayState Works pooled funds from various agency and program sources including the division of employment and training and the departments of education, transitional assistance, and workforce development. An interagency team was developed to provide technical assistance to the regional industry teams to design and implement their initiatives. BayState Works is funded through a state budget allocation included as a provision in the state's 2004 economic stimulus bill.

Massachusetts also developed tools to assist workforce, education, and economic development professionals to create and implement sector strategies. A quasi-public organization, the Commonwealth Corporation, conducts research and evaluation, develops demonstration programs, and documents and disseminates promising practices from its sector projects. By investing in capacity development, Massachusetts provides regional partners with the tools to create and implement effective sector strategies.

Pennsylvania and Massachusetts exemplify how states can combine strategies to reorient public systems to support sector initiatives. Through gubernatorial leadership, funding strategies, industry and labor market analysis, interagency alignment, and capacity building, these two states have retooled public systems to bridge the needs of employers for skilled labor and workers for good jobs.

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