

Provide State-funded Retraining for Workers



What is it?

Nearly half the states use taxes on employers to provide training to jobless workers, supplementing federally-funded training under the Workforce Investment Act (WIA) and other federal programs. States gain greater control and flexibility when funding their own training programs, although most of these programs are coordinated with WIA training as well.

Frequently, state-funded training programs focus on manufacturing and furnish job-specific skills. In other cases, state-funded training supplements federally-funded training programs, permitting states to fund more training than federal funds support. While state funding for training is small when compared to the billions in federal funding, the number of states adopting these programs indicates considerable appeal for states. In particular, the General Accountability Office (formerly the General Accounting Office) found that programs supporting specific industries or occupations and focusing on currently employed workers were the most common forms of state-funded training.



Key arguments in favor

States gain flexibility and control with state-funded training. Federal funds for training have specific governance, planning, and reporting requirements. States that need to support specific industries or occupations have found that state-funded training permits them to respond more directly with programs customized to the needs of specific situations.



Key arguments against and responses to them

Opponents say: If training is worthwhile, states should pay for it instead of taxing employers to do so.

Response: Workforce and economic development efforts are directly related to the functioning of each state's economy and efforts to boost economic growth. Employers have as big a stake in developing a more skilled workforce as anyone. Given the scarcity of state general funds, asking employers to make a minimal contribution, often less than \$20 yearly, is reasonable.

Opponents say: If incumbent workers need retraining, it should be provided by their employers, not by taxing other businesses in the state.

Response: Providing training to currently employed workers is potentially more politically controversial than assisting jobless and dislocated workers. Many states have found, however, that employers are more willing to accept tax-funded training when some employers reap direct benefits from tax revenues through their use for skills

State Choices

11 states use UI tax offsets

Alabama
California
Idaho
Louisiana
Massachusetts
New Jersey
New Hampshire
South Dakota
Tennessee
Washington
Wyoming

8 states use separate employer taxes

California
Delaware
Hawaii
Massachusetts
Montana
New York
Nevada
Rhode Island

5 states use penalty and interest funds

Indiana
Kansas
Nebraska
Oregon
Wyoming



upgrading of incumbent workers. Using targeted state-funded training programs for incumbent workers is a common use for state-funded retraining programs.

Which states do it?

In 2002, 24 states spent \$278 million on training funded by state employer taxes. (Since then Texas and Michigan have discontinued state funded training and 21 states currently have state-funded training financed by employer taxes.) State funding for these training programs comes in three main forms. Currently 11 states “offset” a small portion of their existing UI payroll taxes (typically, 0.1 or 0.2 percent) by lowering the UI tax rate that would otherwise be due and imposing an equivalent state training tax. Eight states imposed a small payroll tax for training without any offset of UI taxes. (California uses both of these taxes.) Finally, five states use state UI penalty or interest funds to support their state-funded retraining programs. California’s program has existed since 1982 and spent over \$84 million in 2002.



Model legislation

California

In addition to other contributions required by this division, every employer ...shall pay into the Employment Training Fund contributions at the rate of 0.1 percent of wages specified in Section 930. The contributions shall be collected in the same manner and at the same time as any contributions required under Sections 977 and 977.5.

CAL. UNEMP. INS. CODE § 976.6

There is in the State Treasury a special fund known as the Employment Training Fund. There shall be deposited in or transferred to this fund all contributions collected from employers pursuant to Section 976.6. Costs incurred for the purposes specified in Section 1611 in fiscal year 1982-83 shall be reimbursed, and thereafter shall be annually appropriated by the Legislature from the Employment Training Fund.

CAL. UNEMP. INS. CODE § 1610

References

U.S. GENERAL ACCOUNTING OFFICE, WORKFORCE TRAINING: ALMOST HALF OF STATE FUND EMPLOYMENT PLACEMENT AND TRAINING THROUGH EMPLOYER TAXES (February 2004).