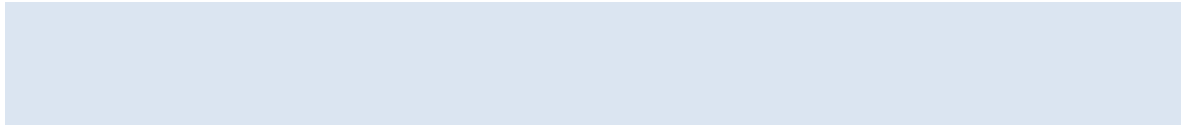




NORTH CAROLINA WORKFORCE DEVELOPMENT BOARD RE-EVALUATION

CAN WORKFORCE DEVELOPMENT BOARDS RESTRUCTURE AND HOW?

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Prepared for Tom White at North Carolina State University

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RESEARCH QUESTIONS

North Carolina State University enlisted our team to identify possible inefficiencies in the economic and workforce development systems and recommend how the processes can be streamlined. We developed the following questions to guide our research:

1. Should economic and workforce development agencies reorganize organizational structures to better serve North Carolina?
2. If so, what initial steps might we recommend to move toward a more streamlined workforce development operation?

RECOMMENDATIONS

Tennessee's use of job base camps to realign their workforce development board structure should serve as a model for North Carolina reorganization. Our interviews with economic and workforce development experts in the state stressed the importance of communication with and buy-in from local elected officials for successful realignment. They reported that improved collaboration between economic and workforce development was a key benefit of realignment.

North Carolina should realign the geographic workforce development structure using labor market areas. Realignment would reduce the number of local areas from 23 to 17. Labor market areas eliminate single-county workforce development regions and result in groups of counties that have more economic similarity than the current structure.

BACKGROUND

Economic development is a complex discipline. The subject consists of activities touching everything from employment and entrepreneurialism as well as policy and planning. Following several conversations with our advisors and client, our team resolved to focus our research on the workforce development component of economic development. Concentrating on workforce development proved to be a manageable field of inquiry for the timeframe in which we were working.

We first examined North Carolina's current economic and workforce development environments. The state's regulatory environment, low cost of doing business, and talented labor supply have made it attractive to businesses. As a result, it has topped Forbes' "Best States for Business" rankings for three years in a row.¹ In 2019, North Carolina also ranked first in economic growth potential in Business Facilities magazine's annual state rankings report. This report noted the state had "put down markers that they are prepared to compete in the hottest emerging growth sectors."² The state's diversity of industries and sufficient provision of young skilled

workers were the key reasons for its top position. Recent data also indicate that North Carolina is growing in parallel to the United States.³ State gross domestic product (GDP) grew by 2.2 percent between 2017 and 2018, while national GDP also grew by 2.2%.⁴ Likewise, state unemployment rates dropped in line with national rates. With critical metrics indicating healthy economic trends, we turned to considering if other metrics might indicate a need for improvement.

Stories of “missed opportunities” and inefficiencies across economic and workforce development organizations prompted further investigation. For example, in 2018, Research Triangle Park (RTP) was a strong candidate for a new Apple campus. The proposed campus would be worth \$1 billion and promised to create roughly 10,000 jobs. North Carolina lawmakers reduced the threshold on capital investment and job creation necessary for government incentives to encourage Apple to choose RTP as its final location.⁵ However, Apple ultimately chose Austin, TX, for its new campus.⁶ In a similar situation, the Research Triangle area was one of twenty finalists in the bid for a new Amazon headquarters, but ultimately was not selected.⁷

At the same time, various reports of inefficiency in communication and alignment across workforce development entities came to our attention and are explored further below. For instance, North Carolina currently has two leading agencies in organizing economic development activity: The Economic Development group at the North Carolina Department of Commerce, as well as The Economic Development Partnership of North Carolina, a public-private partnership. Likewise, our client reported on “missing voices” at critical development meetings. For example, in several instances, large organizations were convening meetings concerning hiring and long-term personnel planning in which workforce development professionals were not present.

Despite strong economic performance in the state, plenty of room exists for improvement in coordinating operations, strategies, and communications across economic and workforce development entities. Upon reviewing these initial findings with our advisors and client, our team focused on the geographic realignment of workforce development organizations as a “first step” toward improving economic development.

Evidence indicates that North Carolina’s current workforce development areas need to be geographically realigned. Our team conducted an analysis of workforce development boards per 100,000 employed persons across the U.S., based on data from the U.S. Department of Labor’s “CareerOneStop” tool and the U.S. Bureau of Labor Statistics.⁸ North Carolina is above average for workforce development boards per 100,000 employees. It has the 9th-most local boards per employee compared to other states. See Figure 1 in the Appendix.

Even before the 2008 recession, the landscape of workforce development in North Carolina was changing. Many manufacturing jobs had moved to locations outside the U.S. The 2008 recession however accelerated rates of unemployment in the state. As a result, the Joint Legislative Program Evaluation Oversight Committee (JLPEOC) tasked the General Assembly's Program Evaluation Division (PED) with analyzing North Carolina's workforce development system. JLPEOC was particularly interested in job training, job placement, and supportive services that existed in North Carolina. These services would be essential in managing high levels of unemployment and supporting North Carolinians in their transition back to work.

PED's evaluation involved assessing the structure of the state's current workforce development system and providing recommendations on how the workforce development system could operate more effectively. PED's work culminated in a report published in 2012 entitled "State and Local Improvements Needed for Workforce Development System Integration and Accountability."⁹ A key finding from the PED report is that local workforce development boards are not aligned with the labor market or economic development activities throughout the state. PED concluded: "North Carolina's local workforce development areas are not strategically aligned with economic development activities in the State and their structure compromises effectiveness."¹⁰

North Carolina created local areas for workforce development in the 1970s to obtain federal workforce development funding under the Comprehensive Employment and Training Act (CETA) of 1973. CETA gave block grants to states to train the unemployed and underemployed in their local areas. The local areas were designated workforce development boards under the federal 1998 Workforce Investment Act.¹¹ While the state's labor markets have changed over time, local workforce development areas have remained relatively static. The state's 23 workforce development areas range in size from one to 10 counties. They comprise communities ranging from fewer than 200,000 to more than 1 million people. While initially tailored to match workforce services with local job and skill needs, the current geographical configuration of boards no longer matches the state's labor markets. PED specifically concluded that the 23-board structure in North Carolina included too many small local areas. Each local area requires funding and has an administrative team to oversee operations. High spending on administrative costs takes away from funds that local areas could spend on direct services. Reducing the number of boards would bring communities in the same geographic location closer together. This reform could result in more job and training opportunities in these areas as well.¹²

Realigning the local areas would be beneficial for North Carolina under federal funding. The federal government grants states workforce development funding under the Workforce Innovation and Opportunity Act (WIOA). In recent years, a

decline in federal funding has motivated states to ensure they are using funds efficiently. Reducing the number of workforce development boards would ensure that fewer funds go to administrative costs and more funds can be spent on direct services. See Figure 2 in the Appendix for the 2020 WIOA budget, and a comparison of where the budget has fallen short in recent years.

PED's recommendation to reduce the number of local workforce areas was to realign the 23 workforce development boards with the 16 regional Councils of Government in North Carolina. Councils of Government serve as liaisons between local governments and the state government. While PED's report was vague about how it decided on the council organizations, one advantage is that Councils of Government already have administrative structures in place across the state and are plugged into local communities.

We explored realignment of workforce development boards with Councils of Government in our expert interviews. Interviewees who requested anonymity expressed skepticism about using this structure for realignment because the Councils of Government were not formed based on labor market characteristics for the sake of workforce development.

Our team looked for another state we could use as a model to identify an alternative realignment structure. We settled on Tennessee because it neighbors North Carolina and it is one of a few states that has implemented changes to the structure of its workforce development areas. We held a series of three interviews with experts in Tennessee who oversaw the state's realignment process.

KEY FINDINGS

1. TENNESSEE CASE STUDY

As of 2018, Tennessee had 13 workforce development boards. Following an economic boom in the state beginning in 2010, state leaders looked at whether workforce development areas were still configured to best serve workforce development. The state conducted its assessment to ensure the workforce development system could sustain the economic growth and continue to benefit the state. The economic boom included an increase in educational attainment, a 17 percent job growth rate (between 2011 and 2018), and a large influx in private sector jobs.¹³

Staff from Tennessee's Department of Labor & Workforce Development and Department of Economic & Community Development analyzed the geographical structure of the state's workforce development boards beginning in 2012. Their goal was to ensure workforce development, economic development, labor markets, and access to higher education and training services were aligned across the state. The team reviewed a variety of data sources, such as return on investment data and

state commuting patterns. They also obtained input from elected officials and mayors across the state, as well as community members through a series of town hall meetings. Local meetings were essential in ensuring buy-in from community members and unveiling information about how the workforce development structure would affect their day-to-day work lives.

State leaders determined that the state's 13 boards did not reflect the configurations of workforce development across the state. As an alternative workforce development structure, the team looked to job base camps. Tennessee's former Governor Bill Haslam created the job base camps in 2011 as part of the Jobs4TN plan.¹⁴ Governor Haslam was elected in 2011 on a platform that focused on job creation. The Jobs4TN plan was an initiative to transform Tennessee's economic development system after the 2008 recession.

The job base camps decentralized Tennessee's economic development recruitment efforts into 9 regions, with a single point-of-contact appointed in each region. These regions focus on the following key areas: business recruitment; job creation and expansion; business innovation; workforce development; grant oversight; and implementing regional strategic plans. The team found that job base camps were representative of economic activity in the state and realigned their workforce development structure using these areas. See Figure 3 in the Appendix for Tennessee's realignment maps.

Governor Haslam signed the legislative change to the workforce development board structure in May of 2018. The law built in a six-month transition period encompassing the rest of the year. Governor Haslam's realignment letter was optimistic about the future of Tennessee and the positive outcomes that the state would see. Governor Haslam indicated the state's realignment will allow Tennessee to take the lead in workforce development.¹⁵ Changes to the workforce development board structure appeared in the state's 2020 WIOA State Plan.¹⁶

Ms. Deniece Thomas, Deputy Commissioner of Labor and Workforce Development, indicated that the team has had to navigate choppy waters during this transition. Challenges have included helping counties and mayors who previously were not working together to collaborate on the local level. Bringing together urban and rural areas now in the same local area has been another challenge.

Tennessee's Workforce Development Commissioner Jeff McCord and Economic Development Commissioner Bob Rolfe, stressed the ultimate benefits of realignment in their interviews. The new structure has allowed for better alignment between economic and workforce development, leading to the development of a shared strategy across the two systems. Consolidation into slightly larger geographic regions has provided the benefit of scale to many rural communities.

Realignment has enabled Tennessee to communicate clearly to employers about the current skills of the state's workforce. The state provides data on employee skill sets, education, and wages that are consistent across job base camps.

2. DR. WALDEN'S ANALYSIS

Consistent with the spirit of the Tennessee model, the work of North Carolina State University economist Michael Walden provides a specific framework for North Carolina to consider. Dr. Walden's 2008 report for the Department of Commerce aimed to determine the best way to group counties to foster the creation of regional economic development strategies.¹⁷ He recommended using labor market areas to promote regional economic development planning and execution. Realignment along economic dimensions is similar to Tennessee's realignment effort that used job base camps. Labor market areas are clusters of counties where people live and work.¹⁸ They are based on commuting zones. These zones include counties that share at least 2 percent of their commuters annually.

Dr. Walden's work can apply to workforce development realignment efforts. Our interviews with Dr. Walden as well as Tennessee economic development leadership revealed that businesses critically rely on local workforces and frequently cite access to labor as a major "pain point." Business recruitment efforts require information on an area's workforce, particularly data on skills, wages, and occupational concentration by industry. Grouping more comparable counties together along these dimensions could facilitate regional economic development planning. Creating areas with more similar job-related characteristics can also make it easier for local workforce development leaders to work together.

Dr. Walden's Evaluation Criteria

Dr. Walden's four key evaluation criteria for defining the best county groupings were as follows:

1. Be a collection of economically similar and contiguous counties;
2. Have a central node, defined as the county with the greatest concentration of economic activity in an area, for strategic coordination;
3. Be based on labor market characteristics to ensure that formations rely on economic logic and can be used by policymakers to form coherent strategies; and
4. "Possess a familiar sensibility," meaning that those unfamiliar with how groupings were formed could look at and make sense of them.

Benefits and Costs of Different County Groupings

Dr. Walden weighed the pros and cons of workforce development boards and labor market areas. One benefit of current workforce development boards is that they are established entities with experienced staff. But these workforce development boards do not group counties based on shared economic activity. This formation of areas results in questionable clusters. Seven workforce development boards have only one county. Single-county areas are a problem because they preclude the development of a shared regional strategy. These areas also receive a disproportionate share of funding.

Dr. Walden concluded that labor market areas were the best construct for creating geographic clusters with similar economic features. He provided four reasons:

1. Areas are based on the single measure of cross-county commuting patterns; so their design is simple and understandable.
2. Relying on commuting patterns ensures that county groupings are linked to economic activity.
3. Labor market areas result in groups with comparable population sizes as each consists of at least 100,000 persons.
4. Labor market areas reflect changes in economic activity over time, as they are updated each decade using new decennial census data.

The primary disadvantage of labor market areas is their reliance on the single measure of commuting patterns. Other measures, like an area's leading industries or access to higher education, may be important for economic development and workforce development strategy.

Methods: Updating Dr. Walden's Analysis

Our team updated Dr. Walden's analysis to confirm that labor market areas result in groups of counties with more economic similarity than workforce development boards. Dr. Walden's work relied on labor market areas created by the U.S. Department of Agriculture's Economic Research service using 2000 U.S. Census Bureau (Census) data.¹⁹ Our updated analysis used labor market areas that were developed by Penn State researchers using 2010 Census data.²⁰ County groupings for workforce development boards came from the North Carolina Association of Workforce Development Boards.²¹

To update Dr. Walden's analysis, we collected county-level data on employment levels, gross local product (which measures economic output in a local area), and income per person for 2018. We used these three measures to summarize economic characteristics for workforce development boards and labor market areas. The measures came from the Bureau of Labor Statistics and Bureau of Economic Analysis.²² We looked at how much average values for these economic measures

varied across the different county grouping strategies to determine which formed more similar areas. We chose the corresponding ranges—which are the differences between the largest and smallest values in data sets—to evaluate how dispersed county values were within workforce development boards and labor market areas.

Below are our main findings:

1. Labor market areas have more economic similarity than workforce development boards

The rows for employment level in Table 1 below show that, on average, the difference between the county with the highest employment level and lowest employment level is about 600,000 employees for workforce development boards. But the range of difference for the proposed labor market areas is only about 100,000 employees. Similar findings are observed for the other measures. Areas with larger ranges are highlighted in red. Areas with smaller ranges are highlighted in blue. This analysis indicates that groups of counties in current workforce development areas are less similar than groups formed by labor market areas.

Table 1: Labor market areas have more economic similarity than North Carolina’s current workforce development areas

Variable	County grouping	Mean	Median	Min	Max	Range (Max - Min)
Employment level	LMA	40051	37410	7438	110047	102608
	WDB	86498	50122	7550	588987	581437
Total economic output (GDP) (billions)	LMA	4	3	1	13	12
	WDB	11	4	1	98	97
GDP per employee (\$)	LMA	76889	76387	57168	102927	45759
	WDB	87737	73504	49320	222054	172733
Income per person (\$)	LMA	39253	38554	33216	44446	11230
	WDB	41162	39922	32654	61137	28484

Source: Authors’ analysis of data from the Bureau of Labor Statistics and Bureau of Economic Analysis.

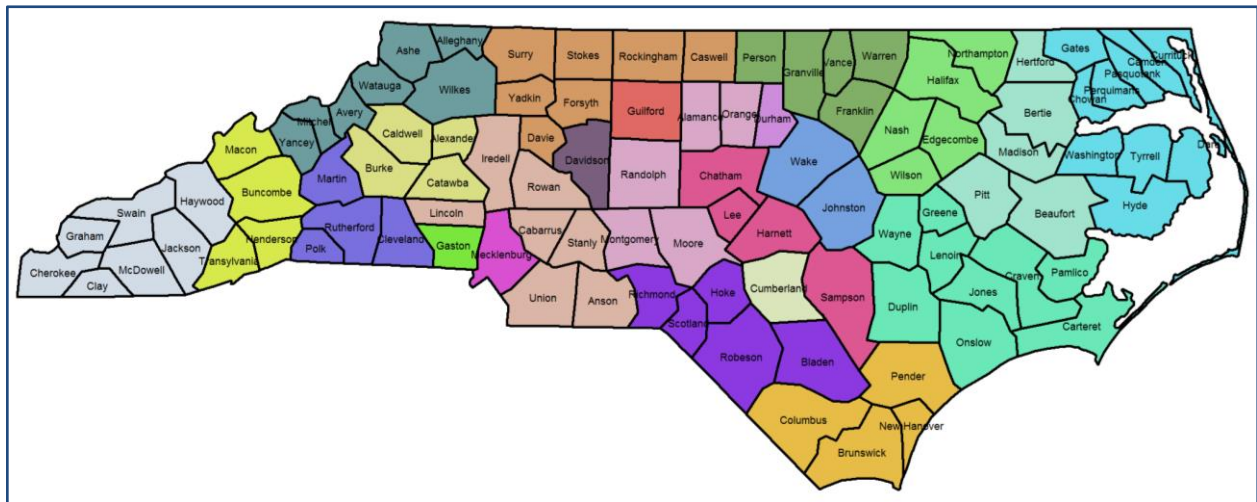
2. Labor market areas eliminate single-county workforce development regions and undo questionable groupings

Figure 1 below shows that labor market areas would eliminate the seven single-county workforce development boards, including those in Durham and Mecklenburg

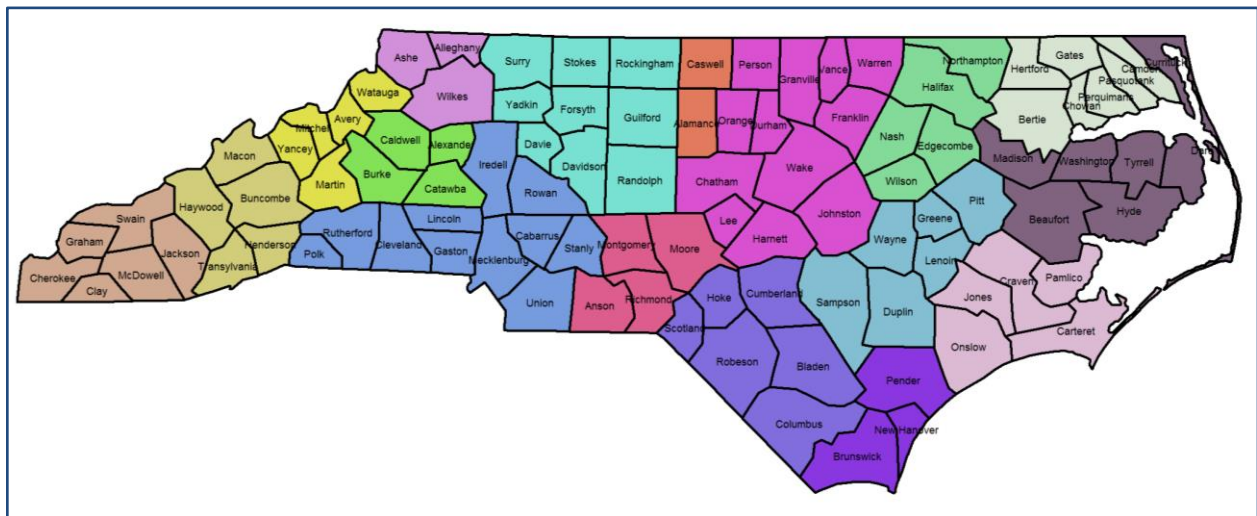
County. They would also ensure that counties sharing many commuting workers and possessing similar economic characteristics, such as Sampson and Duplin, are grouped together.

Figure 1: Labor market areas eliminate single-county workforce development regions and undo questionable groupings

North Carolina's Current Workforce Development Board Structure (23 areas)



Revised Labor Market Area Structure (17 areas)



Source: Authors' analysis of data from the NC Works Commission and Penn State Commuting Zone/Labor Market delineations.

3. Labor market areas create larger areas and more sensible groupings - Triangle region example

The Research Triangle area provides a good example of the benefits noted above. See Figure 4 in the Appendix. Wake, Durham and Orange County drive economic activity throughout central North Carolina. Current workforce development areas split these counties into three separate areas. Labor market areas would place them in one group.

Labor market areas would also deliver the benefit of scale to smaller counties located north of the Triangle, such as Person and Granville County. These counties share commuters with economic hubs like Durham and Wake County but are not able to utilize the workforce development resources of these nearby areas. Grouping them together would increase resources available for the smaller geographies and improve their competitiveness with nearby, larger geographies. Larger areas can also improve a region's attractiveness relative to neighboring states.

4. Labor market areas improve access to career resources for the unemployed/underemployed

Half of all North Carolina employers report difficulties in hiring new workers because of inadequate job skills.²³ Increasing skill development for the unemployed and underemployed can close this gap. The patchwork of current workforce development boards hinders regional collaboration.

A realignment decreasing workforce development areas to 17 labor market areas would increase the number of career centers and community colleges in each workforce area. See Figure 5 in the Appendix. Career centers and community colleges are both important workforce development entities.²⁴ These institutions in economically strong places like Wake County and satellite campuses in surrounding rural areas could work with the unemployed or underemployed to improve career outcomes. Having a more similar workforce using these resources could also enhance regional planning by allowing local workforce development board leaders to capitalize on their shared strengths.

CONCLUSION

North Carolina should use labor market areas to realign workforce development boards. Labor market areas are more streamlined than the current workforce development board structure and are a better system for realignment than the councils of government. This realignment would reduce the number of local workforce development areas from 23 to 17. Dr. Walden mentioned in his study that this number is "enough to recognize the geographic and economic diversity in the state, but not too many as to be unmanageable." Having more comparable counties in a group should improve collaboration and help with the collective execution of plans.

As North Carolina legislators move forward with this recommendation, they should ensure that regional directors and local stakeholders are involved in the realignment process. Our Tennessee interviewees stressed that stakeholder engagement is a critical component to ensure buy-in from local elected officials.

Labor market areas can help overcome economic development's winner-take-all mentality. Site selection for business recruitment is currently viewed as a winner-take-all contest with only one county benefitting from landing a new employer. But successful business recruitment is a benefit for workers in that county and commuting employees. Labor market areas can help highlight these regional benefits to policymakers since they are constructed using commuting patterns.

Results in the upcoming election in the fall of 2020 could create a window of opportunity for economic development reform. Workforce development board realignment with labor market areas results in more labor market-friendly areas that can gather business and political support at the local level.

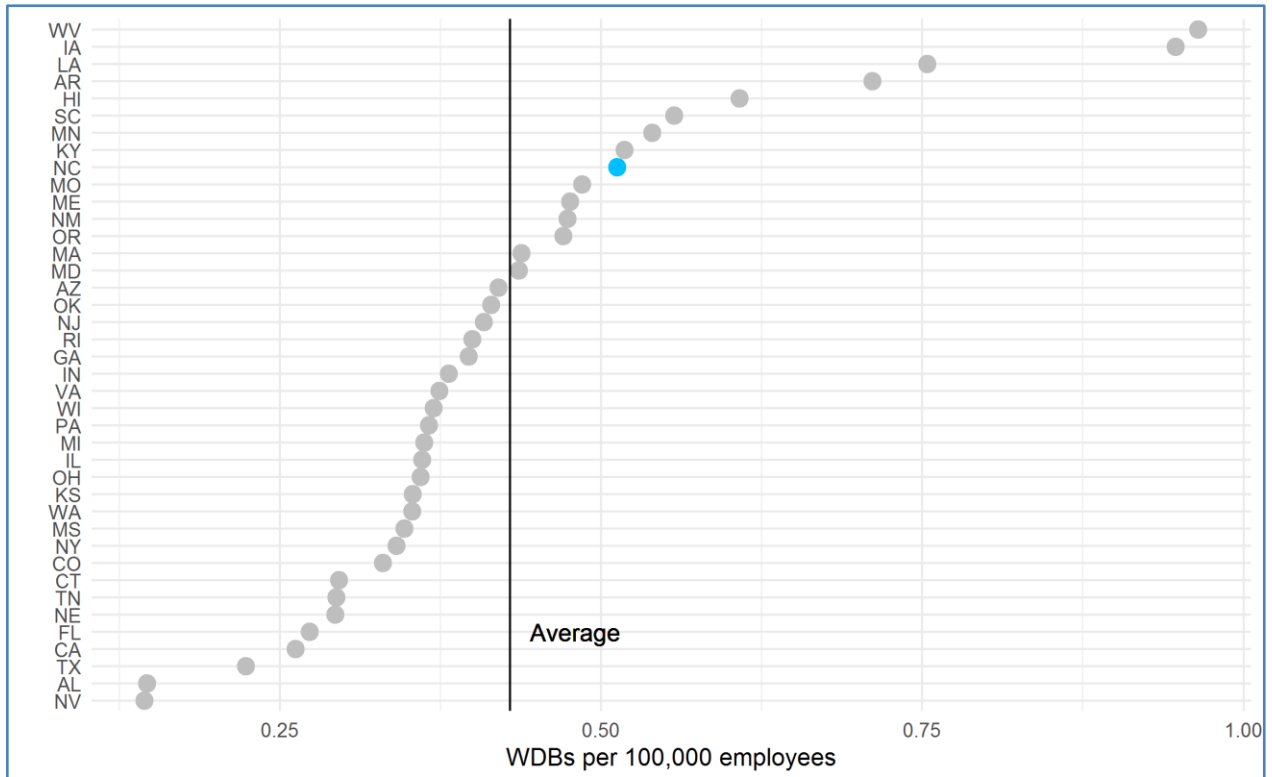
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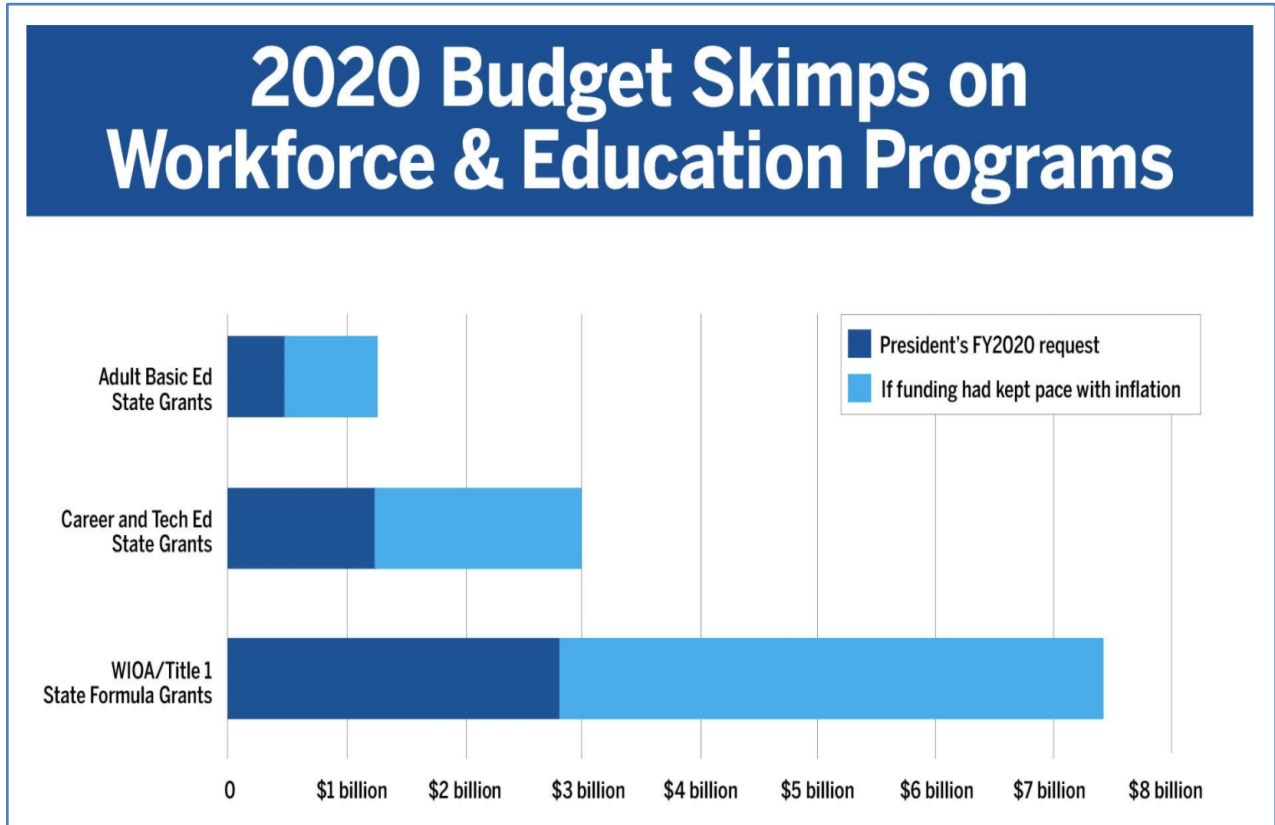
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Figure 1: Workforce development boards per 100,000 employees



Source: Authors' analysis of data from the U.S. Department of Labor's CareerOneStop tool and the Bureau of Labor Statistics.

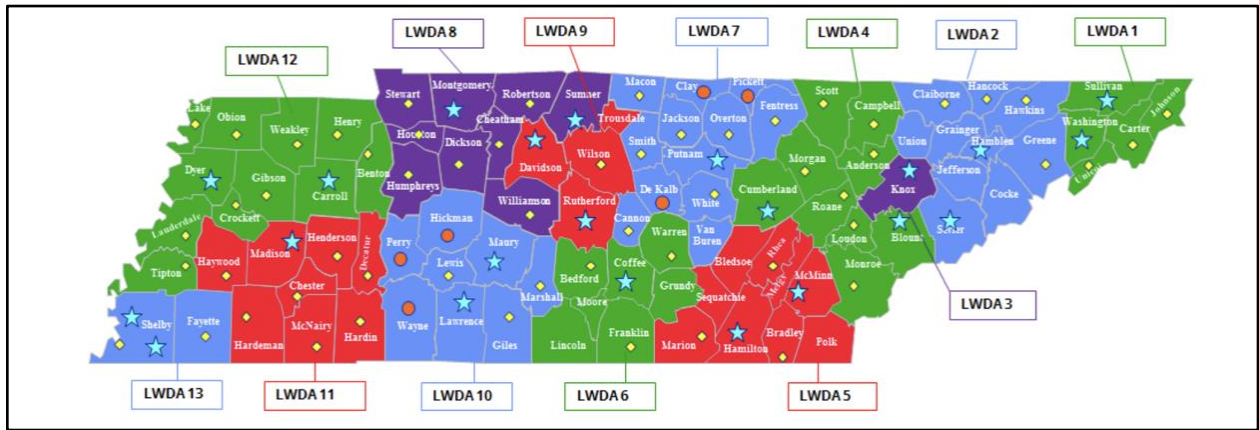
Figure 2: Federal Funding for Workforce and Education Programs



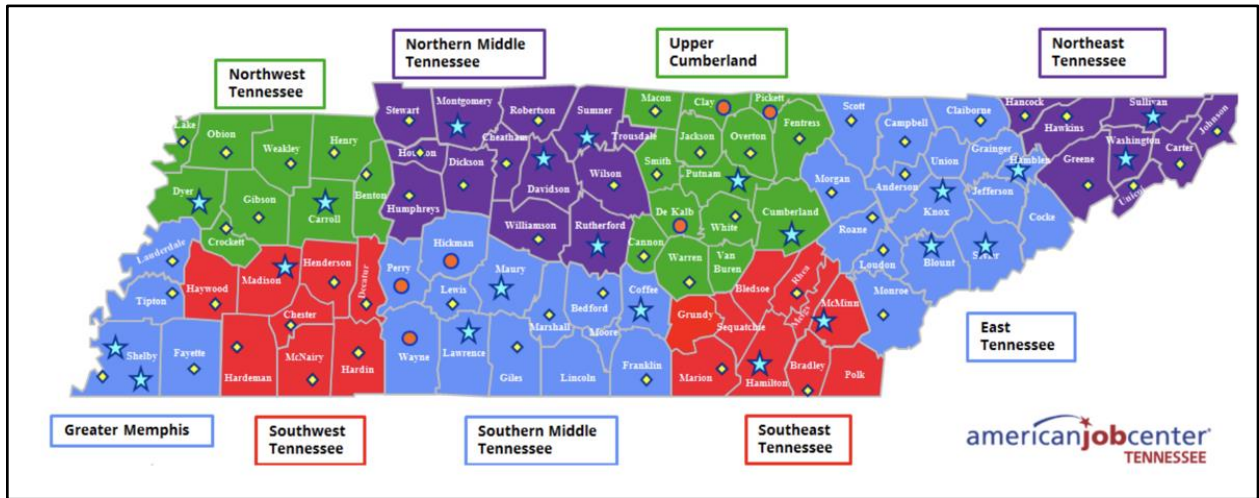
Source: National Skills Coalition²⁵

Figure 3: Tennessee Workforce Development Area Realignment Maps

13 Workforce Development Areas Prior to Realignment



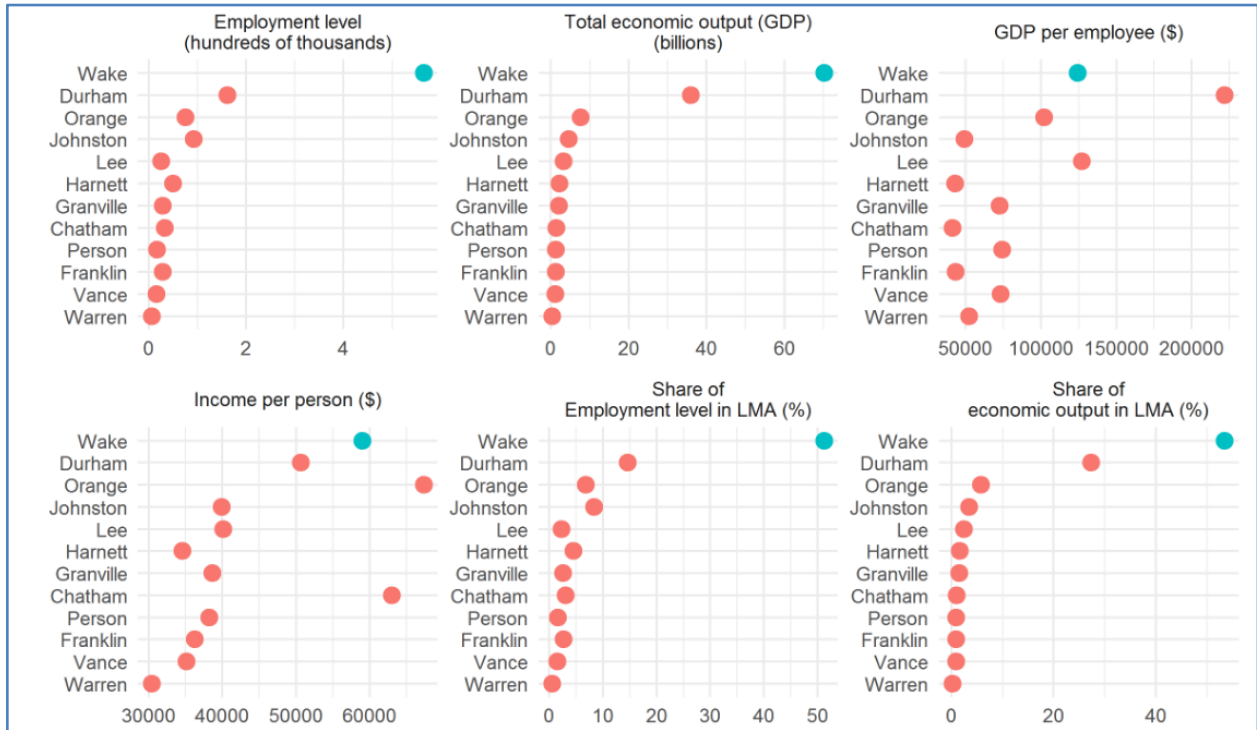
9 Workforce Development Areas Post-realignment



Note: Tennessee realignment eliminated single-county workforce development boards and linked regions of the state that are similar for economic development and workforce development. Changes include regions such as Knox county, previously its own workforce development board under LWDA 3, now aligned with the greater Eastern Tennessee region.

Source: TN Department of Labor & Workforce Development²⁶

Figure 4: Labor market areas create larger areas and more sensible groupings - Triangle region example

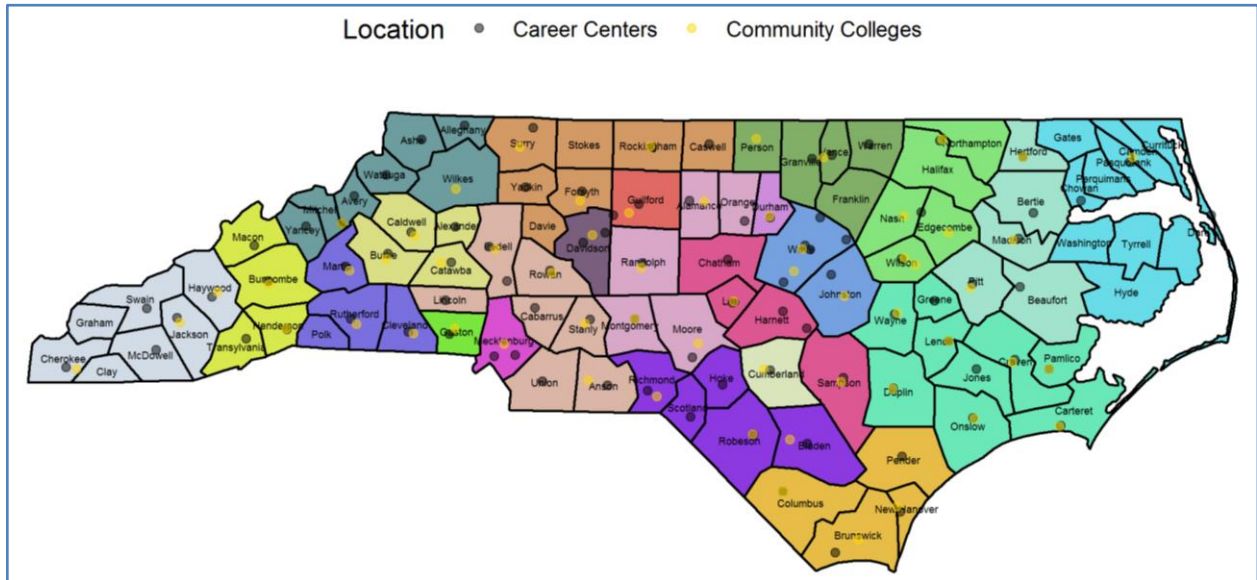


Note: Wake County, highlighted in blue in Figure 4 above, accounts for the greatest share of economic activity in the area and would become the new central node for driving strategy in the Triangle labor market area.

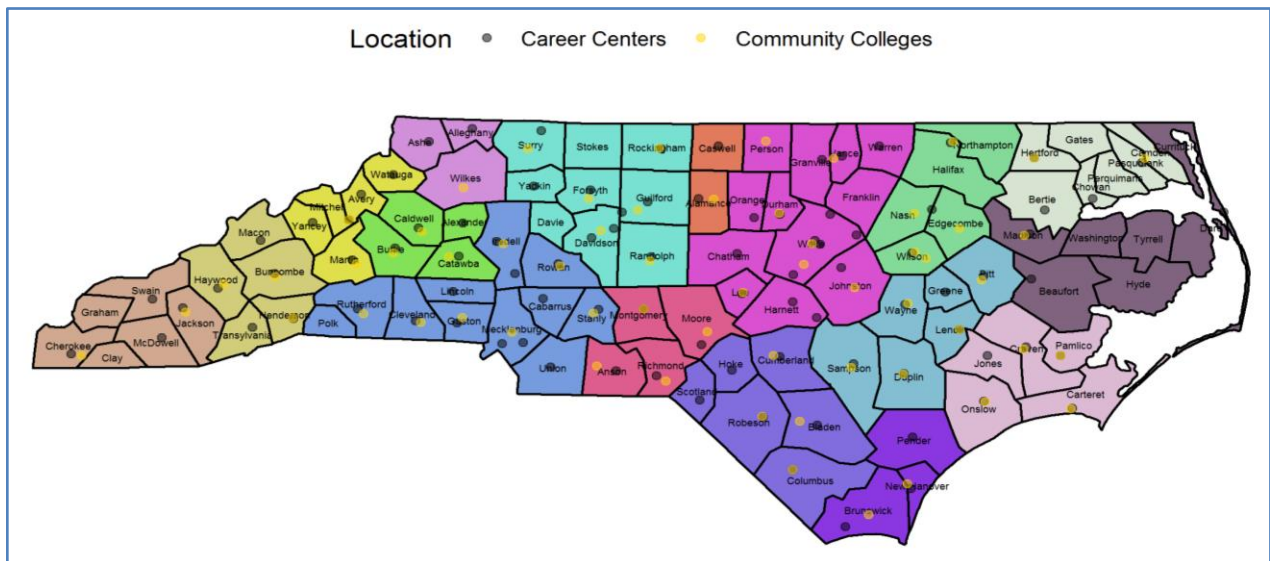
Source: Authors' analysis of data from the Bureau of Labor Statistics and Bureau of Economic Analysis.

Figure 5: Labor market areas result in more career centers and community colleges per workforce development region

North Carolina's Current Workforce Development Board Structure (23 areas)



Revised Labor Market Area Structure (17 areas)



Source: Authors' analysis of career center location data from the NC Works Commission and community college location data from NC Community Colleges.²⁷