COMMUNITY DEVELOPMENT
AT THE ST. LOUIS FED

Policy Insight

Connecting the CRA to WIOA: Promising Policies for Bank Responsiveness to Workforce Development

By Sam Evans and Neelu Panth

Key Takeaways

- Since the passage of WIOA in 2014, opportunities have improved for those with barriers to employment, connecting education and support services to in-demand job opportunities, including an increase in the creation of skill-development training.
- In 2016, CRA guidelines were updated to clarify that bank activities supporting workforce development programs serving LMI individuals are eligible for positive CRA consideration.
- The federal government invests more than $9 billion annually through the public workforce investment system; however, federal government spending for adult, dislocated worker and youth workforce programs has been in decline since 2001.
- By connecting WIOA and CRA, workforce development funders and providers can leverage these policies to create systemic change across a disconnected workforce system by scaling up innovative programs and removing barriers to employment for low-income, working-age individuals, while also meeting employers' demand for a talented pipeline of workers.

Background

As the U.S. economy continues to evolve, workers and employers find themselves facing new challenges and uncertainties due to a tight labor market, globalization, changing demographics and automation. In the aftermath of the Great Recession, jobs that require only a high school education and a willingness to work are limited. More than 53% of U.S. jobs are middle-skill, meaning they require some form of education and training beyond a high school diploma but less than a four-year college degree. Yet, only 43% of the labor force is trained to the middle-skill level.[1]

Compounding the skills gap is an increase in automation and technological advances with the potential to replace jobs in the manufacturing and service sectors. According to some economists, an estimated 57% of jobs in the U.S. may be at risk of automation.[2] While technological advances and the demand for skilled workers are increasing, the labor force participation rate has been in decline since the Great Recession. When adjusted for inflation, wages for low- and moderate-income (LMI) workers have largely remained stagnant over the past few decades, thus impeding opportunities for economic mobility.[3] Further, while the unemployment rate is at a near-half-century low, prospective workers remain on the sidelines.

Introduction

The most vulnerable workers—low-income, low-skill adults and youth—face barriers to securing an education and attaining jobs with family-sustaining wages. These barriers include insufficient transportation, child care, and housing and health services. To address these challenges, efforts have been made at the federal, state and local levels through informed policies and investments to increase opportunities for workers and their families.

Since the passage of the Workforce Innovation and Opportunity Act (WIOA) in 2014, opportunities have improved for those with barriers to employment, including an increase in the creation of skill-development training that connects education and support services to in-demand job opportunities. WIOA also strengthened accountability measures of workforce development programs by emphasizing outcomes for adults and students rather than outputs (e.g. shifting from thinking about the number of participants trained to the number of participants who obtain a skill that leads to a recognized credential). However, a lack of funding and disconnection of services at the federal, state and local levels have fragmented workforce development services, causing a lack of coordination to properly scale up innovative solutions.[4] By leveraging the workforce system, banks can play an important role—through their Community Reinvestment Act (CRA) obligations via partnerships and financial investments in services—in improving the workforce development system for LMI individuals.

WHAT IS WIOA?

WIOA reauthorizes the employment, training, adult education and vocational rehabilitation programs created under the Workforce Investment Act (WIA) of 1998. WIA consolidated local workforce development centers into a nationalized network, establishing the one-stop system, and created a voucher system allowing individuals to choose from eligible training providers and services through Individual Training Accounts (ITAS).

*For more information, check out the Department of Labor's website at doleta.gov/wioa

In connecting WIOA and CRA, workforce development funders and providers can leverage these policies to create systemic change across the workforce system to properly diffuse innovative programs and creating opportunities to employ more low-income, working-age individuals, while also meeting employers' demand for a talented pipeline of workers. When CRA and WIOA goals are braided in rural and urban markets, these policies can:

- increase access to, and opportunities for, training, education and support services for LMI individuals that experience barriers to employment;
- incorporate financial literacy education into youth training and employment services, so banks and workforce development providers can improve outcomes and opportunities for disconnected youths; and
- provide financial support and develop partnerships for workforce development initiatives to increase the number of job seekers that participate in high-quality training programs.

Discussion

The CRA and Its Impact

In 1977, Congress enacted the CRA. The original law required federal financial regulatory agencies to encourage regulated financial institutions to help meet the credit needs of their local communities, including LMI neighborhoods. The law specified that community lending activity be consistent with the safe and sound operation of financial institutions.

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> For further information on the CRA, bank rating criteria and designation, see the St. Louis Fed's website.

Community development, as defined by the regulations that the federal banking agencies adopted to implement the CRA, includes a broad range of activities serving the credit, investment and service needs of LMI communities within their assessment areas.

To qualify as a community development loan, investment or service, the activity's primary purpose must be community development, and it must fit into one of the following categories:

- **affordable housing for LMI people**: for example, loans to developers of affordable housing; investments in city bonds that support LMI housing;
- **community services for LMI people**: for example, grants to nonprofits providing education or child care to LMI families; loans to health care facilities targeting LMI needs;
- **economic development for LMI people, small businesses or small farms**: for example, loans to small businesses in amounts over $1 million as part of the SBA's 504-loan program; or
- **revitalization or stabilization of LMI communities, underserved rural neighborhoods or disaster areas**: for example, grants for the renovation of a public school in a distressed area that includes LMI children; loans for rebuilding community infrastructure in a designated disaster area.

The OCC, the Federal Reserve, and the FDIC examine regulated financial institutions for their compliance with the CRA. In assessing a bank's CRA performance, examiners rely on both hard data and qualitative information gathered from the bank and community sources in their assessment area.[5] A bank's performance is evaluated within their assessment/geographic area. In most cases, the bank's size—small, intermediate small, or large, based on its assets as of December 31 of both of the prior two calendar years—will determine the tests an examiner uses to determine the bank's rating for CRA performance. However, regardless of a bank's size category, it will receive one of four overall ratings for its CRA performance: "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Noncompliance."

In 2016, CRA guidelines were updated to clarify that bank activities supporting workforce development programs serving LMI individuals are eligible for positive CRA consideration.[6] A recent Federal Reserve report highlighted several investments in skill development through bank partnerships with local community organizations. These investments resulted in benefits for LMI individuals and the community at large, and also raised the profile of the bank as a responsive entity in the community.[7]

POLICY SPOTLIGHT: EMPLOYMENT CONNECTION AND RISE FOUNDATION

Within the Eighth District, workforce development-focused organizations—like Employment Connection in St. Louis and the Rise Foundation in Memphis, Tenn., are working to break down barriers to self-sufficiency for people with limited opportunities, including at-risk youths, the homeless, U.S. veterans and women on welfare, through job training, job placement, and financial capability programs and services. Both organizations have strong partnerships with financial institutions. They have received services and funding from banks to support financial capability services, transportation costs for program participants, and housing-related services. Additionally, Employment Connection is a participant of the Bank-On Save-Up St. Louis program and the Rise Foundation is a participant of the Bank On Memphis—Save Up program, both of which involve area financial institutions.

Studies by the Federal Reserve and other agencies have demonstrated that the CRA has had positive effects on LMI neighborhoods and that lending practices have been implemented in a safe and sound manner.[8] Activities include loans supporting affordable housing for LMI individuals, volunteer activities supporting community services targeted to LMI individuals, investments in small businesses and farms promoting economic development and loans that revitalize or stabilize LMI census tracts.

Other community development programs and products include:

- Low-Income Housing Tax Credits (LIHTC)
- Small Business Investment Companies (SBICs)
- CRA-targeted mortgage backed securities (MBSs)
- New Markets Tax Credits (NMTCs)
- Community development financial institutions (CDFI)
- Community development corporations (CDCs)
- Minority or women-owned financial institutions and low-income credit unions
- Grants to qualified community-based organizations and programs

WIOA and Its Impact

The workforce development system operates as a coordinator of policies and programs that provide individuals with the opportunity for sustainable livelihoods while also maintaining a viable workforce that can meet both the current and future needs of businesses and industry.[9]

WIOA Title I (adult, dislocated worker and youth formula) programs provide job search, education and training activities. Of the reported 1.5 million adult and youth participants served through title I programs and services, more than 823,000 participants reported experiencing one or more barriers to employment.[10] WIOA steps beyond WIA by prioritizing low-income people and those with barriers to employment—such as those experiencing long-term unemployment, returning citizens, older workers and out-of-school youth—for funding and services. The law provides flexibility—eliminating the sequence of service provision, so that individuals can directly enter into training—and allows workforce development boards at the state and local levels to establish career pathways and sector partnerships that are more responsive to local labor market forces.

Policy Implications

Opportunities to Connect the CRA to WIOA

Increase access to, and opportunities for, career pathways and sector partnerships for LMI individuals experiencing barriers to employment

While the career pathway model has been around since the early 2000s, it was not until WIOA that it was defined into law and became a function of state and local workforce boards as a permissible activity under all parts of the act. The career pathway approach allows participants to learn while they earn by connecting education, training, support services and credentials to specific occupations tied to regional industry and employer needs. This approach has shown positive results benefiting low-income, lower-skilled adults, and youths—who often balance work, family and school.[11] Some states, such as Arkansas, have combined their career pathway initiatives to incorporate safety-net programs including assistance for low-income adults eligible for the Temporary Assistance for Needy Families (TANF) program who are earning postsecondary credentials and funds for in-demand industry sectors or occupations.

Sector or industry partnerships are workforce collaboratives with key stakeholders in an industry cluster that focus on the shared goals and human resource needs in a local area.[12] Since the passage of WIOA, 29 states (as of 2017) have either created or expanded their sector partnership policies within their state plans as a way to improve employment opportunities for low-income individuals, while also supporting business competitiveness.[13] For example, as a key state strategy, Missouri has created regional sector partnerships that align public agencies with industries, through which data analysis and regional talent development are carried out.

As banks look to fund private sector workforce development efforts, career pathway initiatives and sector partnerships provide opportunities for banks, through CRA, to partner with their business clients as well as local community colleges or technical schools to provide credentialing needed to address these employability concerns.

Focus on youth training and employment services, so banks and workforce development providers can improve outcomes and opportunity for disconnected youths

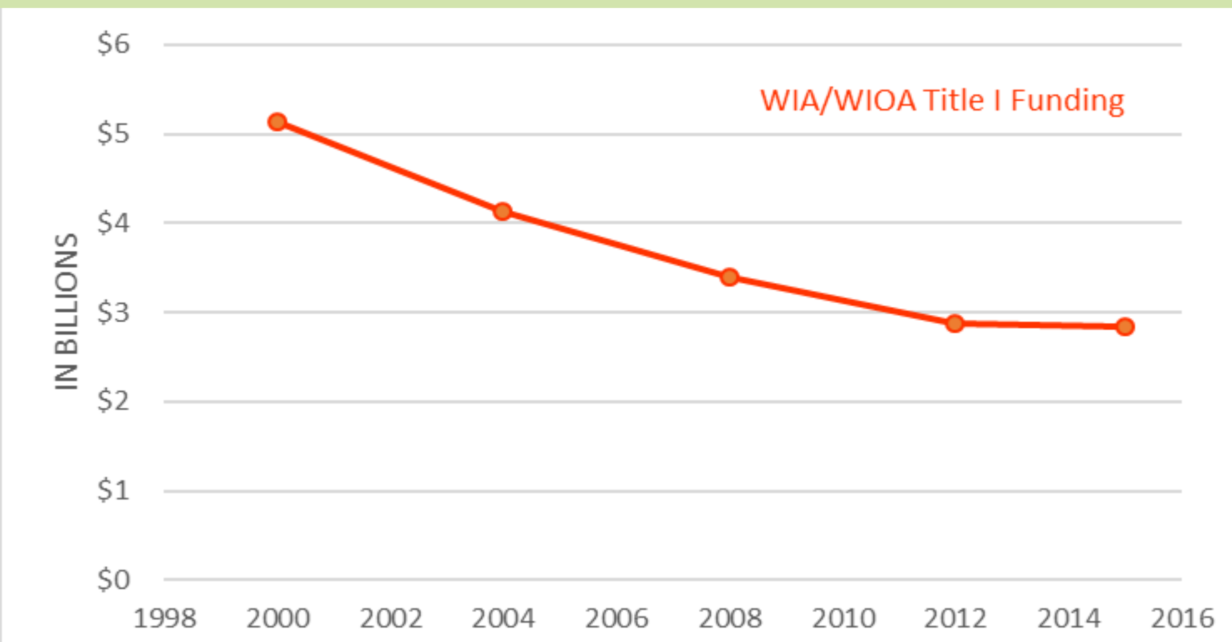
More than 11% of 16- to 24-year-olds were neither enrolled in school, nor employed nor actively looking for a job. These youths, or disconnected youths, face greater barriers to opportunity. According to research conducted in 2018, those working or in school as teens and young adults earn more per year and are 45% more likely to own a home, be employed and have better health outcomes than those who have been disconnected as young people.[14]

WIOA calls for the public workforce system to provide high-quality services to all youth and young adults while outlining broader support for states and local areas to leverage other federal, state, local, and philanthropic resources. While WIA funding targeted in-school youths, WIOA emphasizes serving disconnected youths who experience one or more barriers to postsecondary education and employment.[15] WIOA also prioritizes work experience and expands the list of program elements to include financial literacy. Evidence has shown financial education is best received and applied when it's tailored, timely and relevant. Service providers, trainers and funders have diligently worked to integrate financial capability content and methods into youth summer employment programs. Such efforts allow youth to employ the financial knowledge gained to utilize financial products and services. Research findings of “My Path,” a financial capability initiative for employed disadvantaged youths, showed that the 197 program participants saved an average of $1,210 in their respective accounts over a six-month period. By including financial literacy as a program element that can be funded through WIOA, local communities support youths participating in summer and year-round employment, pre-apprenticeships, on-the-job training and internships and work-based learning, which can lead to financial capability.[16] Expanding work experience and training opportunities for young adults and disconnected youths in particular could yield returns for both the individuals and society.[17]

Financially support and develop partnerships for workforce development initiatives to increase the number of job seekers participating in high-quality training programs

The federal government invests more than $9 billion annually through the public workforce investment system. However, federal government spending for adult, dislocated worker, and youth programs has been in decline. Unlike WIA, WIOA includes specific funding levels for each fiscal year, showcasing an increase in funding up to fiscal year 2020. However, WIOA has experienced a decrease of funding by 40%. As Figure 1 below reflects, there has been a decrease in funding since 2000, from approximately $5.1 billion to $2.8 billion in 2015. The United States is an outlier on workforce development funding for public job training programs relative to other countries—it is ranked lower than other member countries in the Organization for Economic Cooperation and Development (OECD).[18] Because of a lack of public funding, workforce development training providers are often reduced to serving fewer workers and following less-effective methods for serving individuals with barriers.

FIGURE 1 WIA/WIOA TITLE I FUNDING



Source: National Skills Coalition’s Interactive Federal Funding Tool. See https://www.nationalskillscoalition.org/federal-policy/federal-funding-tool.

In response to a decline in funding at the federal level, nonprofit organizations, community development corporations, the private sector and philanthropic resources have stepped in to provide funding for education and training. These organizations have provided funding and partnerships to scale and sustain programs for workers and employers. By working in collaboration with workforce development providers, innovative strategies have emerged, including CRA-eligible opportunities and new models including pay–for-success and income-share agreements. Pay-for-success and income-share agreements are a set of financing strategies that may be used in the workforce development sector to fund human capital. Pay-for-success is a contractual arrangement that ties payment for delivery of services to specific, measurable outcomes; whereas, income-shared agreements are contracts whereby a student agrees to pay a percentage of income for a fixed period upon graduation.[19, 20]

Many of these innovative strategies have changed the paradigm within the workforce system to view workers as assets rather than liabilities and to improve the model of funding for outcomes rather than outputs.

<u>Conclusion</u>

For millions of low-income, low-skill youths and adults, moving up the economic ladder by attaining family-sustaining wages depends on their ability to access education and training. Moreover, it requires a workforce development system with supportive policies and strategies to assist them in preparing for college or career success. At the same time, the system must continue to engage employers in labor market solutions that see employees as assets, not expenses.[21] To remain competitive in a global economy, the U.S. has an opportunity to connect policies, such as the WIOA and CRA, in ways that increase access to, and opportunities for, skill development and education, providing support services for those with barriers to employment. In addition, incorporating financial literacy into employment programs, rather than in a classroom setting for disconnected youths—to allow them the opportunity to directly apply the knowledge learned and to access financial products and services—provides a greater chance of their being financially capable. Investment in workforce development has widespread benefits for workers, employers and society.

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Policy Insight is a product of the St. Louis Fed's Community Development department, sharing analysis and ideas about the issues and opportunities that impact the economic resilience and mobility of low- and moderate-income and underserved communities.

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[12] An "industry or sector partnership" is defined in Section 3 of WIOA. These partnerships are designated by the state or local workforce development board and include representitives of multiple businesses—including those from small- and medium-sized employers—one representative from the state or local workforce development board, at least one representative from higher education and one representative of labor organizations, when appropriate. See https://www.govinfo.gov/content/pkg/PLAW-113publ128/pdf/PLAW-113publ128.pdf
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