ARKANSAS WORKFORCE FUNDING MODEL AND THE MIDDLE-SKILL JOBS GAP

Constitution of the State of Arkansas

Article 14. Education

". . . the State shall ever maintain a general, suitable and efficient system of free public schools and shall adopt all suitable means to secure to the people the advantages and opportunities of education . . .

. . . the General Assembly and/or public school districts may spend public funds for the education of persons over twenty-one (21) year of age and under six (6) years of age . . .

. . . The General Assembly shall provide for the support of common schools by general law. In order to provide quality education, it is the goal of this state to provide a fair system for the distribution of funds. . . . "

Middle-Skill Jobs Gap

Middle-skill jobs require education beyond high school but less than a four-year degree and make up the largest part of the labor market in the United States and in each of the 50 states. However, there is a significant gap between the types of jobs employers need to fill and the number of individuals who have the education and training to fill those jobs. In 2012, middle-skill jobs accounted for 54% of the U.S. labor market, but only 44% of the country's workers were trained to the middle-skill level, a skills gap which keeps employers from hiring and the economy from growing. Today, an estimated 29 million jobs require workers with an occupational certificate or associate degree, with annual wages ranging from $35,000-$75,000, and nearly 40% paying more than $50,000 a year.

In Arkansas, middle-skill jobs account for 59% of the state's labor market, but only 48% of the state's workers are trained in the middle-skill level. In other words, the state needs greater numbers of workers who have attained skills and earned the types of certificates, associate degrees, and linked industry certifications that are available through workforce training and technical programs at Arkansas two-year colleges. The Arkansas border states of Mississippi, Tennessee, Missouri, Oklahoma, Texas, and Louisiana, where many Arkansas students live or commute to work, have very similar statistics, ranging from 43% of workers being trained in the middle-skill level to middle-skill jobs accounting for 59% of the labor market.

A recent report by the Arkansas Research Center underscores the value of two-year college credentials as educational attainment indicators in state employment trends. As indicated in Figure 1, the three credentials offered by Arkansas two-year colleges (certificate of proficiency, technical certificate, and associate degree) rank in the top education level categories of employed Arkansans. *In particular, individuals holding technical certificates and associate degrees exhibit the highest levels of employment in Arkansas in 2012*, along with those who have earned post master's certificates. The report does not include employment data for federal workers in Arkansas.

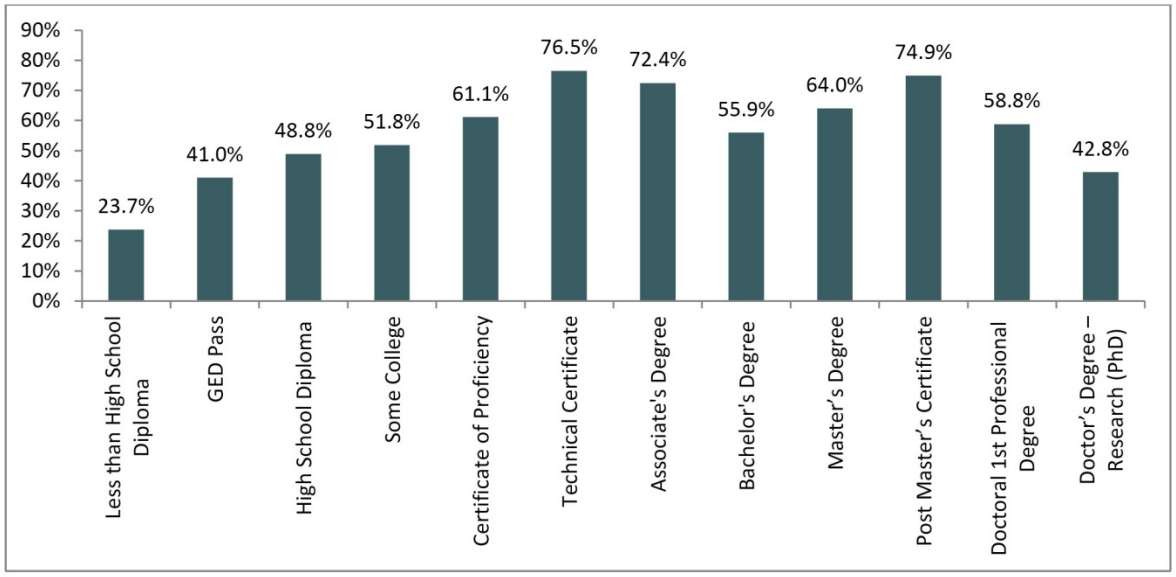

Figure 1. Share of Individuals Employed in Arkansas in 2012 by Highest Level of Education Attained, 2006-2011

The middle-skill jobs gap is not just a local or state issue. The Chair of the National Governor's Association (NGA) recently launched a new initiative, *America Works: Education and Training for Tomorrow's Jobs*, to raise awareness about the significant benefits for individuals, businesses, and state economies when governors act to raise their population's educational attainment and better align their education and training systems with the future demands of employers.

Through the America Works initiative, NGA identified a set of actions that states can take to improve the educational attainment of their citizens and the alignment of those credentials with employer demand. In part, states are encouraged to (1) articulate and implement a strong vision connecting a state's education and training pipeline with the needs of its economy to have more Americans achieve the "new minimum" of a postsecondary degree or certificate with labor market value, and (2) modify the use of resources and incentives to support the attainment of the integrated vision. At least 15 states enacted new skills-related legislation in 2014, and governors in Ohio, Virginia, and Massachusetts announced new skills initiatives.

Specific NGA recommendations include:

- Review state and federal funding to identify opportunities to increase alignment between education and the needs of the economy.
- Develop or strengthen state policies or actions that align resources and incentives in support of the vision.
- Increase the effectiveness and efficiency of a state's postsecondary, workforce, and career-tech system.

Funding Model Issues

Two-year colleges are generally designated as the primary mechanisms to provide workforce training, and state policy is a key factor in determining how effective they are in carrying out their workforce development mission. This is certainly true in Arkansas, yet the workforce training which is so critical to regional and state economic development is not included in the state's funding formula for two-year colleges.

- The current funding formula is designed primarily to fund general education and transfer functions and is based upon traditional university student profiles which assume most students are prepared for college with few barriers to completion.
- No additional funding consideration is given to capacity-building and delivery of technical programs which are critical in meeting industry-driven employer needs for the development of a skilled workforce.
- The current funding formula does not differentiate between a general education class and a technical class (i.e., Philosophy vs. Robotics). This means that the formula calculation for funding for a Robotics class is the same as the formula calculation for funding for a Philosophy class, although the expense of offering a Robotics class is much greater.
- The costs of ensuring qualified faculty for technical programs, who can receive more attractive compensation in the private sector, are not factored into the two-year college funding formula.
- The costs of acquiring and maintaining technology and equipment that meet industry requirements are not factored into the two-year college funding formula.
- There is no funding mechanism for technical training that is not part of an academic award system; the current model does not fund industry certifications that lead to employment.
- No additional funding consideration is given to enable college to effectively meet the educational and social needs of economically and educationally challenged students—the very population that needs additional support to become tax producers instead of tax consumers.

- Local public school districts receive millions of additional dollars annually in NSLA* funding to support poor students, particularly in eastern Arkansas, yet no state formula funding provides support for these same students when they enter college.

A recent article in *The Atlantic Journal* notes that:

> "The country's low-cost sub-baccalaureate system—created a century ago to provide an open and affordable entry into higher education to an ever more diverse group of Americans—now enrolls 45 percent of all U.S. undergraduates, many of them part-time students. But only a fraction ever earns a degree, and hardly anyone does it quickly. . . . higher education, over the past three decades, has become a prerequisite for a middle-class life. But of course, as the matriculation rate has climbed, so has the number of students who enter college with marginal credentials and other handicaps. The least academically prepared and most economically hard-pressed among them are typically bound for community college, where low-income students—plenty of them the first in their family to venture beyond high school—outnumber their high-income peers 2-to-1. Many of these students are already juggling jobs and family commitments by their late teens . . . . This could hardly be a more challenging population to serve. Students at the bottom, whose life histories and social disadvantages make them the most likely to need clear guidance and structure, receive astonishingly little of either. Meanwhile, students at the super-selective top, prodded toward high ambitions and disciplined habits by attentive parents and teachers ever since preschool, encounter solicitous oversight every step of the way."

In addition to the numerous challenges previously identified, the state's historical trends in per student investment indicate not only a significant decline in state funding to Arkansas two-year colleges but also inequitable funding in comparison to the continued increases in K-12 funding (see Figure 2).

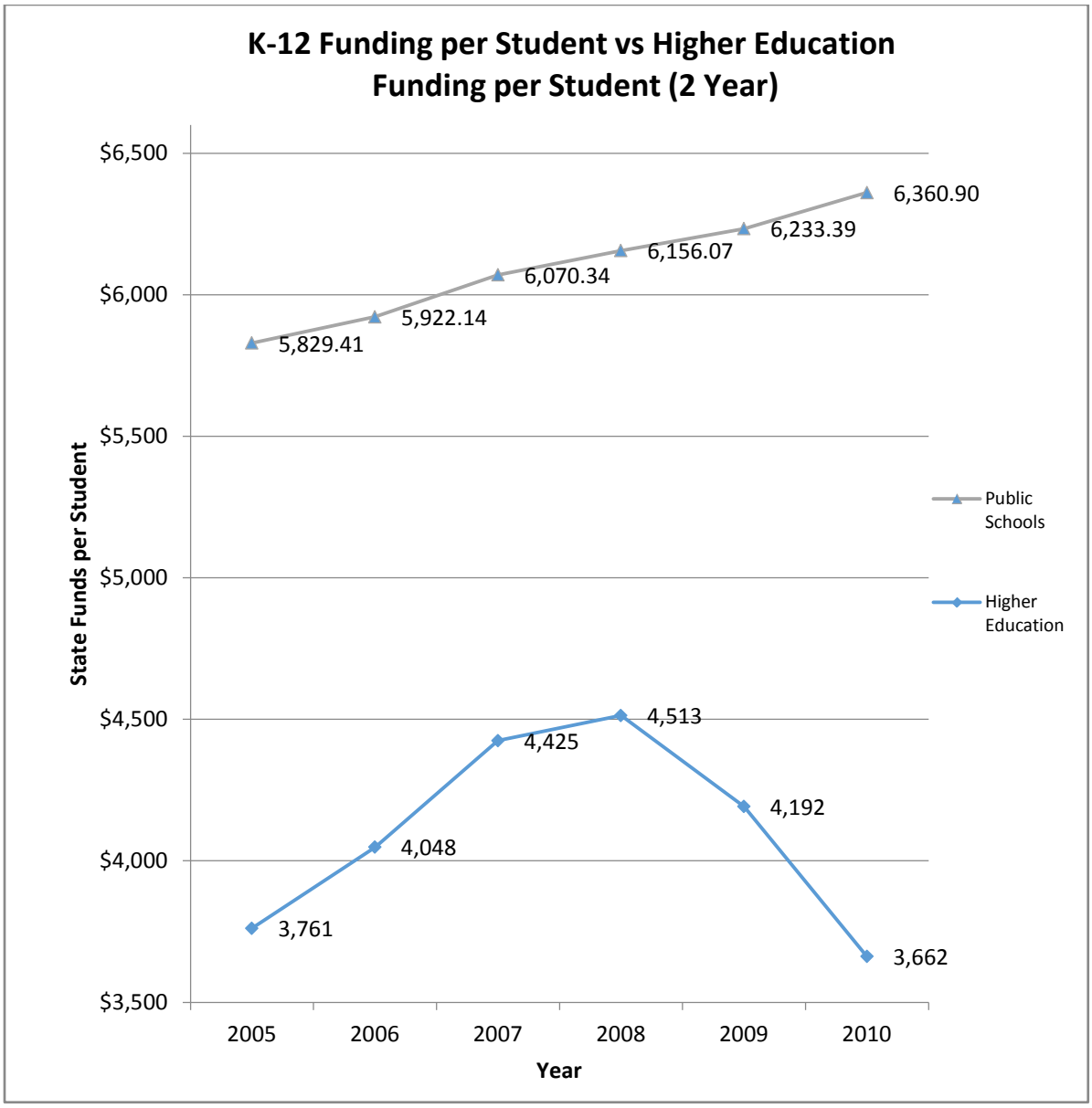

Figure 2. Arkansas Two-Year College and K-12 Funding Trends

Additionally, the majority of Arkansas two-year colleges house a secondary technical center, offering workforce training to high school students through a model designed not to duplicate technical program offerings on area high school campuses. This model supports college and career readiness through a career pathway concept, offering concurrent credit which enables students to attain a college certificate of proficiency while in high school and then progress along the pathway of stackable credentials to earn additional certificates/degrees as a college student.

The secondary technical center programs are funded primarily by the Arkansas Department of Career Education and pass-through funding from the local school districts, but state appropriations for these programs have been flat for several years, with *less than a 1% increase in 2014-15 appropriations when compared to 2007-08 appropriations*. The lack of adequate state funding also means restrictions on new program start-ups and limited/delayed funding of one-time equipment grants to support programs. As a result, the ability to sustain relevant, industry-driven programs is impaired, and the two-year colleges must attempt to absorb the shortfall with already insufficient institutional resources.

Conclusion and Recommendations

There are obviously flaws in Arkansas' current funding model for two-year colleges. Institutions must stretch already tight and even declining budgets to absorb those expenses beyond what tuition and fees cover. Some colleges are increasingly seeking external grant resources to (1) add relevant technical programs to meet employer needs, (2) improve technology and equipment infrastructure, (3) hire qualified faculty with relevant industry credentials, and (4) provide supportive services essential for student success. Once the initial funding has ended, however, colleges struggle to sustain that capacity.

The state is moving quickly to distribute $15 million in new funds to support workforce programming on two-year college campuses in Arkansas, thus moving the state in the right direction to address the middle-skill jobs gap and provide the trained workers that employers need. The two-year colleges, therefore, must assume the responsibility to provide the General Assembly with a realistic model to address the current flaws and continue programs beyond initial funding.

The net effect of the following recommendations more accurately represents the needs of all two-year colleges in their efforts to meet the state's immediate and growing workforce requirements. The colleges realize that any meaningful funding increases will require associated data-driven outcome measures. This is more reason than ever to refine Arkansas' funding model to reflect the uniqueness of the two-year college workforce mission, funding needs, and the willingness of the two-year colleges to be held accountable for outcomes.

- **Change the SSCH* per FTE* Faculty standard for Category II (most technical programs) SSCH from 480 to 360 to match Category IV (Allied Health programs)**. This change provides a more accurate, smaller class size number for technical programs than does the present standard. Technical program class sizes are comparable to Allied Health program class sizes, not developmental education (Category III).

- **Change the faculty salary calculations for Category II (Technical) and Category IV (Allied Health) to 125% of the SREB* faculty average**. This change properly accounts for the market economics of hiring high-demand instructors. A certified or licensed welding or nursing instructor cannot be hired for the same pay rate as an English or history instructor. The current funding model is oblivious to this market reality.

- **Build a Technical Equipment Provision line item into the Other Academic Support calculation**. **The line item would be derived by calculating $25 times the total SSCH for Categories II & IV**. This change accounts for the equipment/tools/consumable supplies needs for technical programs that are not recognized in the current funding model.

- Ensure funding for initiatives such as the Arkansas Works Career Coach Program, Career Pathways Initiative, Achieve the Dream, the Working Families Success Network, and others which have proven that high-touch intervention programs to help students with academic and life skills have a significantly positive effect on retention on retention and goal achievement. (Note: *The Atlantic Journal* article recommends a 35% increase in funding for at-risk students to provide the necessary support structures to ensure completion.)

- Provide initial funding to help at-risk students achieve success, in addition to outcomes-based funding.

- Re-establish adequate funding for secondary technical centers to support student enrollment increases and new program start-ups, including one-time equipment funding.

* National School Lunch Act (NSLA), Student Semester Credit Hours (SSCH); Full-Time Equivalent (FTE); Southern Region Educational Board (SREB)

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