



SOCIAL POLICY RESEARCH
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Analysis of the WIA Substate Allocation Formulas

Final Report

October 10, 2003

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Contract No. G-7713-9-00-87-30
Project No. 1375

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Acknowledgements and Attributions

This report was conducted by Social Policy Research Associates. The project was directed by Andrew Wiegand of SPR, who also wrote this Final Report.

We wish to acknowledge the contributions and support of DOL staff, especially our project officers, Alberta Baker and Dan Ryan. Their advice and steadfast support are much appreciated.

Thanks, too, to the invaluable contributions of the State workforce staff, whose responses to the evaluation survey are a critical component of this report.

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CONTENTS

EXECUTIVE SUMMARY	ES-1
I. INTRODUCTION	I-1
CURRENT ALLOCATION FORMULAS	I-3
Comparison with Allocation Formulas under JTPA	I-7
ISSUES IN THE USE OF THE ALLOCATION FORMULAS.....	I-8
Financial and Organizational Stability	I-8
Inequities Inherent in Formula Design	I-11
Data Quality and Access.....	I-16
Alternatives to the Standard Formulas	I-17
Questions Concerning Substate Dislocated Worker Allocations	I-19
Defining Need.....	I-21
PROPOSED NEW FORMULAS	I-24
Adult and Dislocated Worker Formulas	I-24
Youth Formula	I-27
CONCLUSION	I-29
II. STATES' CURRENT ALLOCATION FORMULAS	II-1
ADULT AND YOUTH ALLOCATIONS	II-2
Discretionary Formulas	II-2
Statewide Activities	II-8
Perceptions of Allocation Formulas' Suitability	II-8
Fluctuations in Funding Under Current Formulas.....	II-13
DISLOCATED WORKERS.....	II-17
Allocation Formulas	II-19
Funding Stability and Recapture of Funds	II-22
SINGLE WORKFORCE AREA STATES	II-23
SUMMARY	II-24
III. COMPARISONS OF CURRENT ALLOCATIONS WITH ALTERNATIVE MODELS	III-1
REPLICATING CURRENT ALLOCATION FORMULAS	III-2
Excess Unemployed.....	III-4
Areas of Substantial Unemployment	III-4
Disadvantaged Adults/Youth.....	III-6

Factors Used in Current Discretionary Formulas	III-7
COMPARISONS OF ALTERNATIVES TO CURRENT ADULT AND YOUTH FORMULAS	III-8
Applying Discretionary Formulas to All States.....	III-9
ADDITIONAL ALTERNATIVE FORMULAS.....	III-25
Adult Formulas	III-25
Youth Formulas	III-27
DISLOCATED WORKER FORMULA.....	III-28
IMPLEMENTING PROPOSED FORMULAS.....	III-32
Adult Allocations	III-32
Youth Allocations	III-42
MECHANISMS TO PROMOTE ORGANIZATIONAL AND FINANCIAL STABILITY	III-46
Hold Harmless	III-51
The Impact of Replacing Factors Causing Instability	III-56
Incorporating Carry-In Funds to Subsequent Allocations	III-60
CONCLUSION	III-65
 IV. SUMMARY	 IV-1
BACKGROUND	IV-1
STATES' CURRENT ALLOCATIONS.....	IV-3
COMPARISONS WITH CURRENT ALLOCATIONS	IV-4
Applying Discretionary Formulas	IV-4
Dislocated Workers	IV-6
Applying Proposed Formulas	IV-8
Mechanisms to Promote Organizational and Financial Stability.....	IV-10
CONCLUSION AND RECOMMENDATIONS.....	IV-12
 APPENDIX A: FACTORS INCLUDED IN SIMULATED FORMULAS	 A-1

EXECUTIVE SUMMARY

In this report, we examine the formulas that states use to allocate funds to local workforce investment areas under the Workforce Investment Act (WIA) Title I adult, dislocated worker, and youth programs.

In Chapter I we identify several key issues of concern in using the formulas. These issues, which represent a summation of several earlier research efforts as well as concerns expressed by states and local areas as part of this study, include concerns about the organizational and financial stability of local areas under WIA, inequities in targeting funds to meet the goals of the legislation, data quality and access, and the use of discretionary formulas. Many of these issues arose under JTPA, and remain concerns under WIA, because the formulas are actually quite similar.

STATES' CURRENT ALLOCATIONS

In Chapter II, we describe the results from a survey of all states concerning their current allocation formulas under WIA for the adult, youth, and dislocated worker programs. We received completed surveys from 44 states, plus Washington, D.C and Puerto Rico. Results showed that very few states actually chose to use a discretionary formula for their adult and youth programs, even though WIA allows states to do so for up to 30% of their allocated funds. Those four states that did adopt discretionary formulas did so for both their adult and youth programs, and typically used indices of excess unemployment, or unemployment above the state average, as their discretionary measures.

Most states were primarily concerned that the formula used to allocate funds under WIA target those funds to areas with the greatest need. Though the survey results would suggest that states' concern for targeting need is paramount, the fact that only four states opted to adopt a discretionary formula in allocating funds for the adult and youth program suggests that perhaps stability in funding among local areas may instead be the critical factor in this allocation. In an effort to ensure this stability, the vast majority of states invoked their authority to implement a hold harmless provision in substate funding, even though WIA did not mandate one until two years after WIA implementation.

Substate funding for the dislocated worker program relied primarily on several factors, including most prominently unemployment, unemployment concentrations, and

long-term unemployment, which are similar to the factors used in inter-state allocations. Several other factors often were used in substate allocations, though typically these other factors received less weight in the allocation formula.

Finally, eight of the states in our sample were single workforce area states. Of these, three reported allocating funds to substate areas, often using the standard WIA adult and youth formulas, or slight variants of them, as the mechanism by which to make these allocations. The remaining five states did not allocate funds to substate areas and, instead, directed funds as needed from the state level.

COMPARISONS WITH CURRENT ALLOCATIONS

In Chapter 3, we describe the results of several simulations conducted to examine both how allocations are currently made and how the amounts allocated to local areas would change under several alternative formulas. First, we describe the process by which we simulated current allocations, obtaining data from the 2000 Census and several years of data from the Local Area Unemployment Statistics (LAUS) and ES_202 programs. Using these data, we were able to mimic current allocations by either applying the standard formula, for those states who were utilizing only this formula for adult and youth funding, or a combination of the standard and discretionary formulas, for those states that had adopted a discretionary formula, as well as the dislocated worker formula identified by states in their survey.

Once we simulated the current allocations, we then simulated several alternative allocation formulas to examine how the allocations made as a result of these formulas differ from the allocations made under the current formulas. Among the alternatives, first we simulated the four discretionary formulas adopted by states. Next, we simulate two alternative formulas for the dislocated worker program, including adopting the standard adult formula and adopting the inter-state dislocated worker formula to make substate allocations. Following this, we examine several alternative using formulas that have been proposed as part of WIA reauthorization.

Although none of the formulas examined as part of this report can be said to be the ideal one, because there are many competing interests and concerns involved in the allocation of funds under WIA, we can identify those formulas that would be best suited to achieve specific goals. For example, although any change to the allocation formulas is bound to create significant shifts in funding at least in the first year, these shifts will benefit certain local areas more than others. To the extent that those which benefit have

more need for WIA funds, as a result of their greater demand, greater numbers of unemployed or disadvantaged individuals, or greater capacity to serve this demand, then these shifts could be considered a temporary but necessary challenge to overcome in the effort to target greater proportions of funds to those areas better suited to receive them. Thus, changes, even dramatic ones, may not be a poor result given that the current allocations do not target the eligible population perfectly.

Among the alternatives considered in this report, we have seen that several of the discretionary formulas currently in use by four states would have the impact, if applied across all states, of targeting greater proportions of funds to those local areas with greater populations and LWIAs that are primarily in cities, while areas with smaller populations, and those in rural or suburban areas, would experience losses. The formulas also tended to shift funds away from areas of low poverty toward areas with moderate, but not very high, poverty levels. Thus, these formulas may be well suited to targeting funds toward areas that have relatively greater numbers of “universal” customers, because the funds are targeted toward areas with greater populations. Further, these formulas tend to target funds to areas that have, in PY 2001, served greater numbers of customers per WIA dollar. Additional funds targeted toward these areas thus would be one way of directing resources to areas in which there is a clear demand.

In contrast, an alternative formula developed by one state for their youth program, is especially well suited to targeting areas with high proportions of youth poverty, because it utilizes poverty above the state average as the discretionary factor, and therefore allocates 30% of the state’s available funds based on this factor. Given that the vast majority of youth must be disadvantaged in order to be eligible for WIA, this is an especially appealing result. Florida’s formula, which relies on unemployment in excess of 1.25% also has the effect of targeting greater proportions of funds toward those local areas with the highest rates of poverty.

As part of this study, we examined the impact of implementing formulas that have been proposed as part of WIA reauthorization. These formulas would significantly overhaul the current allocation formulas by merging the adult and dislocated worker funding streams together with Wagner-Peyser funds, and by removing two of the three factors currently in place for allocating youth funds.

The general result of implementing the proposed formula for adults, at least at the substate level, would be that a sizable percentage of local areas would experience

significant shifts in allocations, and areas with larger populations would tend to benefit, while areas with smaller populations would experience losses. Further, LWIAs that are primarily in cities would experience increases, while those in suburbs and rural areas would experience losses. Finally, the proposed formula would have the somewhat surprising effect of targeting more funds to areas with lower poverty rates, and directing a lower proportion of funds to those areas with higher rates of poverty.

An alternative to this proposed formula is to use this formula to allocate 85% of adult funds, and use a discretionary factor to allocate the remaining 15%. This is consistent with the proposed legislation, and makes somewhat of a difference in the actual allocations obtained. For example, when using unemployment in ASUs as a discretionary factor, relatively fewer areas experience dramatic changes in their allocations. Further, LWIAs with different population sizes are somewhat less differentially impacted and, although those in cities do tend to benefit under this formula, those in rural and suburban areas do not experience dramatic reductions. Further, this formula targets areas in the middle two quartiles in terms of their poverty rates, while directing funds away from areas that have extremely high or low poverty rates. A second alternative, using unemployment above the state average, creates somewhat greater fluctuation from the current allocations, and directs funds toward areas of high population and those with high rates of poverty, but away from areas that have served higher numbers of customers per dollar.

Because two of the three current factors are replaced, the proposed youth formula creates substantial shifts in allocations, with nearly one-third of all LWIAs experiencing shifts of more than 50%. Areas with greater populations, and those in cities and suburbs, tend to benefit the most, while smaller areas and rural areas experience substantial reductions in their allocations. Interestingly, the formula would tend to shift funds away from areas that have high poverty rates. This does not mean it shifts funds away from areas with the greatest numbers of youth in poverty, but that areas that have high rates of poverty do not fare well under this formula. This result is reversed when poverty above the state average is used as the discretionary factor on which 20% of the allocation is based. Doing so targets more funds to areas with the highest poverty rates.

We also examined several ways in which the formulas could be used to reduce fluctuation in local areas' allocations, and the results suggest that there are several plausible ways to do so. Hold-harmless provisions are quite effective in limiting the losses areas will experience from year-to-year, but they have the potential downside of

artificially reducing some areas' allocations simply because others' allocations are lower than their previous levels.

A second means by which one could reduce fluctuation is to eliminate the threshold measures currently in place, and replace them with the conceptually similar measure of the absolute number of unemployed individuals. Because the threshold causes instability due to areas just meeting or just falling below the threshold level, simply replacing these measures with an absolute measure significantly reduces the fluctuation in yearly allocations experienced by local areas. Similarly, by extending the reference period (i.e., taking the average of two or more years of the total number of unemployed, rather than a single year measure), one can also substantially reduce fluctuation.

Additionally, we examined the extent to which incorporating carry-in funds to a subsequent year's allocation pool would help to minimize fluctuations. Although this did serve to minimize the theoretical "gains" experienced by areas that had carry-in funds, and redistribute those funds to areas that did not have trouble spending their funds, there was substantial concern about this, because areas often have obligated these funds even though they have not been spent by the end of the program year. We therefore recommend using great caution, and providing substantial notice of any intent to use carry-in funds in this way.

Finally, we offer several specific recommendations for DOL's consideration as they contemplate modifying the formulas used to allocate funds to substate areas under WIA. Among these recommendations are to:

- Include factors that measure raw counts of individuals.
- Include measures that target the eligible population, specifically:
 - For the adult program, a measure of the number of individuals in the labor force, and measures of underemployment.
 - For the youth program, a measure of the number of youth with any of the barriers that are required for eligibility for WIA services.
- Include measures of growth industries or in-demand jobs as an allocation factor.
- Eliminate the use of threshold measures in the substate allocation formulas.
- To promote organizational and administrative stability, continue use of hold harmless provisions.

Executive Summary

- Exercise great caution if including carry-in funds as a factor in subsequent allocations.
- If the adult and dislocated worker streams of funding are to be merged, enable states to retain a higher proportion of funds to be distributed based on dislocations as they occur.
- Support efforts to develop new data sources that would provide data to be used for substate allocations more quickly.

I. INTRODUCTION

This is the final report of a two-year study of the formulas that states use to allocate funds to local workforce investment areas under the Workforce Investment Act (WIA) Title I adult, dislocated worker, and youth programs. The allocation formulas used under WIA, and, before it, under the Job Training Partnership Act (JTPA), have been the subject of much discussion and scrutiny over the last several decades, largely because small alterations in the formula can produce relatively large shifts in the allocation of funds, and because the amount of funds at stake is very large. For example, in PY 2002 alone, nearly \$3.3 billion was given to states to operate these three programs under WIA, with the largest allocation (more than \$1.2 billion) made to the dislocated worker program, an additional \$1.1 billion allocated for WIA youth programs, and more than \$900 million allocated for WIA adult services.

A further reason for the heavy interest in the allocation of these funds is that changes in the economic conditions of local areas can produce shifts in the level of need for funds in particular areas. Ideally, the allocation formulas would be able to capture these shifts and thus target funds to the areas in greatest need. But over the course of several decades, questions have been raised about the adequacy of the formulas to reach this goal, and this study has examined the degree to which the current allocation formulas, and several potential variants of them, are able to create relative stability in local area funding (thereby enabling areas to offer consistent levels of services from year-to-year) while also shifting funds (based on economic characteristics) to better target changes in the need for these funds.

Attempting to achieve these somewhat competing objectives can be a difficult balancing act. On the one hand, DOL, in its role of providing overall policy guidance and direction to the workforce development system, has a clear interest in ensuring that funds are allocated across states and local areas in a way that ensures that proportionally more funds are made available to areas with demonstrably greater needs. Despite this interest, however, it is not always clear what constitutes a need for areas who receive the funding. For example, it is plausible to identify an area's level of need by identifying the number of individuals within that area who are unemployed (at a given time, or over a given period of time, such as a calendar year). In such cases, it would seem quite logical to allocate greater proportions of the available funds to those designees with higher numbers of unemployed individuals.

On the other hand, changes in the number of unemployed individuals from time to time, or from period to period, could cause significant fluctuations in the specific amount of funds allocated to each local area from one program year to the next. Clearly, any substantial deviations in funding levels from one year to the next will be highly contentious, as, if some areas stand to benefit by receiving greater levels of funding, others will lose funding commensurately and can thereby be expected to argue vociferously against any change. Further, areas would argue so vociferously because some level of consistency is essential to be able to provide a specific level of services across program years. Without such stability in funding, local areas could not be certain whether they will have the staff necessary, or other resources available to offer to customers and, thus, there would be significant hesitance to offer a full array of services within any given program year. Indeed, these competing dynamics were one important reason why the reform of the workforce development system brought about by WIA had been delayed for so long, as the tension between attempting to target funds to areas with greater needs, determining how one could best measure these “needs,” and ensuring enough consistency in funding levels from one year to the next to enable areas to provide a stable set of services to their customers could best be resolved. Examining the impact of the allocation formulas that emerged as a result of these deliberations, therefore, represents an important undertaking that should provide critical additional information on how states are actually allocating their funds, the degree to which the formulas target levels of need and create stability among funding levels, and whether other potential formulas might better meet one or both of these demands.

This report is divided into four chapters, each of which addresses discrete tasks conducted as part of this evaluation. In the remainder of this chapter, we describe the current allocation formulas under WIA and discuss the key issues involved in each of these formulas. Throughout the discussion of key issues, we synthesize the results of previous efforts that have been made to study the allocation formulas, first under JTPA and then, for inter-state allocations only, under WIA. Also, we discuss some of the differences between inter-state formulas used to allocate WIA funds, and substate allocation formulas, and provide an overview of some of the critical issues in allocating funds within states. Finally, we provide an overview of alternative formulas that have been proposed in pending legislation. These formulas would significantly alter both inter- and substate funding under WIA.

Chapter II presents an overview of the findings from a state-level survey conducted as part of this project. This survey was mailed to all 50 states, plus Puerto Rico and Washington, D.C., and focused on how states are currently allocating their WIA funds, whether they feel the formulas accurately target the levels of need within their local areas, and the extent to which they considered alternative formulas to better meet their desire to target funds based on specific indicators of need for WIA allocation.

In Chapter III we present the results from a wide variety of simulations of different funding allocation strategies. We begin this chapter by simulating the current funding mechanisms, using information gleaned from the state survey. Subsequent to this, we present a series of alternative formula allocations and examine how funding levels would change as a result of implementing these alternatives. For each alternative, we consider the extent to which it would more accurately target the levels of need (defined in various ways to capture a range of possible “needs”), the degree to which certain types of local areas receive greater or lesser shares of funding, and whether the alternative has a significant impact upon the year-to-year stability of local areas by dramatically altering their funding levels.

Finally, in Chapter IV, we provide a summary of the earlier chapters, and discuss how proposed changes to the formulas would impact funding levels among local areas. Additionally, we offer several suggestions concerning how formulas could be established to ensure greater targeting of needs within local areas, as well as greater stability of funding across program years.

CURRENT ALLOCATION FORMULAS

WIA specifies the formulas to be used in allocating funds across states for each of the Title I adult, dislocated worker, and youth programs. In each program, three separate factors are taken into consideration when allocating funds to the states, although the specific three factors vary somewhat by program. For adults and youth, two-thirds of the allocation formulas are identical and are based upon unemployment factors using two separate threshold levels, while the remaining third is based on the relative number of disadvantaged adults, or youth, respectively. Funding to states for the dislocated worker program is currently allocated based equally upon three factors, including the relative number of unemployed individuals, the number of excess unemployed individuals, and the number of long-term unemployed individuals within each state. A separate study was funded by DOL to examine the state-level allocation formulas, and thus this level of allocation is not part of the current study. The results from this separate study, as well as

a more detailed description of the inter-state allocation formulas, are described where relevant throughout chapter. In the remainder of this section, we discuss only the substate formulas used to allocate adult, youth, and dislocated funds to local workforce areas, which is the central focus of this study.

These within-state allocations, like the inter-state allocations, typically are made according to a formula set out explicitly in WIA. With respect to the allocation of adult funds, WIA stipulates that the Governor of a state may reserve an amount of not more than 15% of the state's allocation for statewide workforce investment activities. The remainder of the adult funds is to be allocated within each state according to the following provisions:

- Use of the Standard Formula. WIA requires that the Governor use the following formula for allocating funds across local areas:
 - One-third of the funds are to be allocated on the basis of the relative number of unemployed individuals in areas of substantial unemployment, compared to the total number of unemployed individuals in areas of substantial unemployment (ASU).¹
 - One-third of the funds are to be allocated on the basis of the relative excess number of unemployed individuals, compared to the total excess number of unemployed individuals.²
 - One-third of the funds are to be allocated on the basis of the relative number of disadvantaged adults, compared to the total number of disadvantaged adults in the state.³
- Use of Discretionary Allocation. In lieu of making the allocation using the standard formula, the state may distribute:

¹ An area of substantial unemployment (ASU) refers to any area that is of sufficient size and scope to sustain a program of workforce investment activities and that has an average rate of unemployment of at least 6.5% for the most recent 12 months. Although entire local workforce areas, or even states, can be an ASU, ASUs also can be smaller than LWIAs and, thus, are not restricted exclusively to the LWIA boundaries.

² The "excess number" represents the higher of the number of unemployed individuals in excess of 4.5%, or the number in excess of 4.5% in areas of substantial unemployment.

³ For states with at least one local area that is designated as a rural concentrated employment program grant recipient, the allotment is based on the higher of the number of adults in families with an income below the low-income level in such areas, or the number of disadvantaged adults. Disadvantaged adults represent those who received an income, or is a member of a family that received a total family income, that, in relation to family size, does not exceed the higher of the poverty line or 70% of the lower living standard income level. To the extent practical, college students and members of the Armed Forces are to be excluded from the determination of the number of disadvantaged adults.

- At least 70% of the funds using the standard formula.
- Up to 30% of the funds using an alternative formula that relates to the excess poverty or excess unemployment (above the state average) in urban, rural, and suburban local areas, so long as the formula was developed by the state Board and approved by DOL as part of the state plan.
- **Hold-harmless Provisions.** No local area shall receive an allocation percentage for a fiscal year that is less than 90% of the average allocation it received for the two preceding fiscal years. Although this provision takes effect only at the end of the second full fiscal year after the date the local area was designated under WIA, DOL issued a policy ruling that gave the Governors authority to use a hold-harmless during the first two years of WIA operations.⁴
- **Transfer Provisions.** Local areas may transfer up to 20% of their funds between the adult and dislocated worker programs, with the Governor's approval.

Although there are no transfer provisions in the youth program, its allocation methodology is otherwise quite similar. For this program, Governors again may reserve an amount of the state's total youth allocation of not more than 15% for statewide workforce investment activities. The remainder of the youth funds is to be allocated within each state according to the following provisions:

- **Use of the Standard Formula.** With the exception of the third subpart, the standard allocation formula is the same as that used for allocating adult funds. Thus, under the standard youth allocation formula:
 - One-third of the funds are to be allocated on the basis of the relative number of unemployed individuals in areas of substantial unemployment, compared to the total number of unemployed individuals in areas of substantial unemployment.
 - One-third of the funds are to be allocated on the basis of the relative excess number of unemployed individuals, compared to the total excess number of unemployed individuals.
 - One-third of the funds are to be allocated on the basis of the relative number of disadvantaged youth, compared to the total number of disadvantaged youth in the state.

⁴ Fully 33 of the states invoked the hold-harmless provision in their first year of WIA implementation, according to our state survey.

I. Introduction

- Use of Discretionary Allocation. The discretionary allocation formula is also quite similar. According to WIA, in lieu of making the allocation using the standard formula, the state may distribute:
 - At least 70% of the youth funds using the standard formula.
 - Up to 30% of the youth funds using an alternative formula that relates to the excess youth poverty or excess unemployment (above the state average) in urban, rural, and suburban local areas, so long as the formula was developed by the state Board and approved by DOL as part of the state plan.
- Hold-harmless Provisions. As with the adult program, no local area shall receive an allocation percentage for a fiscal year that is less than 90% of the average allocation it received for the two preceding fiscal years. Again, while this provision takes effect only at the end of the second full fiscal year after the date the local area was designated under WIA, Governors have authority to use a hold-harmless during the first two years as well.⁵

Finally, within-state allocation in the dislocated worker program allows for far greater flexibility than that allowed under the adult or youth programs, largely because dislocations are less predictable in incidence than is the number of unemployed or disadvantaged adults and youth within a given state or local area. Although Governors may only hold up to 25% of the funds to be used for statewide rapid response activities, and an additional 15% for other statewide activities, there are no required formulas specified for governors to allocate the remaining funds under the dislocated worker program. Rather, WIA specifies that within-state allocations shall be made “based on the allocation formula prescribed by the Governor of the state.” This formula cannot be modified more than once in any given program year, and is to be based on “the most appropriate information available to the Governor...to address the state’s worker readjustment needs.”⁶ Included among the information to be used are:

- Unemployment data,
- Unemployment concentrations,
- Plant closing and mass layoff data,
- Declining industries data,

⁵ 31 of the states invoked the hold-harmless provision for their youth allocations in the first year of WIA implementation, according to the state survey conducted as part of this study.

⁶ WIA Section 133b(2)B(i).

- Farmer-rancher economic hardship data, and
- Long-term unemployment data.
- Other factors which may be added by the state.

Thus, the within-state formulas used under the dislocated worker program can vary substantially more than those used to allocate adult or youth funds, because states are given nearly entire discretion in their allocation decisions.

Comparison with Allocation Formulas under JTPA

The stipulations regarding the allocation of adult and youth funds are quite similar to those used under JTPA, with several noteworthy exceptions. First, JTPA did not allow a discretionary formula to be used for allocating any part of adult or youth funds across service delivery areas within the state. Thus, the standard allocation formula was used in all cases. Second, state set-asides were somewhat greater under JTPA than WIA. Third, through appropriation act riders and waivers in the last years of the program, JTPA allowed locals to transfer certain funds among all three of the adult, dislocated worker, and youth programs, while fund transfers into and out of the youth program are not allowed under WIA. Fourth, WIA, like JTPA, incorporates a hold-harmless provision to minimize year-to-year fluctuations in funding levels, but, according to the terms of the WIA legislation, this provision takes effect only after two full program years, although under a Governor's authority it can be invoked earlier.⁷ The delay in the hold-harmless provision was intended to facilitate the transition from smaller SDAs to larger LWIAs by removing the potential effects of funding legacies from decisions on how local areas should be formed under WIA. However, the elimination of the hold-harmless provision after so many years of application may have a similar effect to a dam bursting, in that wild swings could be evident in funding to local areas within those states who do not opt to implement the provision early. However, even states that did not substantially change their substate structure could face potentially large changes in their local areas' allocations unless the Governor invokes hold-harmless authority at the outset. As noted above, approximately 70% of all states reported that they invoked the hold-harmless authority even in the first year of WIA implementation, presumably as a means to limit the considerable funding fluctuation that would have occurred in its absence.

⁷ For JTPA, the hold-harmless applied to 90% of the local area's allocation in the previous fiscal year; under WIA, it is 90% of the local area's average allocation in the previous two fiscal years. Thus, the hold-harmless provision under WIA is more conservative and, thereby, ensures greater funding stability than the provision under JTPA.

Because of the similarity of the stipulations regarding the allocation of funds to local areas under both JTPA and WIA, many of the important and contentious issues that emerged under JTPA remain important under WIA. Consistent with the findings from an assessment of the funding allocation under JTPA,⁸ these issues and concerns can be generally classified into three broad categories: (1) financial and organizational stability, (2) inequities in targeting funds to meet the goals of the legislation that result from the formula specification and design, and (3) data quality and access. Additionally, new issues have arisen as a result of the differences in formulas specification between WIA and JTPA, including the use of discretionary formulas, questions about allocations for the dislocated worker program, and whether there is a uniform definition that one can use to identify areas of greater need or demand. Each of these categories, and the various questions they raise, are discussed below.

ISSUES IN THE USE OF THE ALLOCATION FORMULAS

Several key issues of concern have been raised, first under JTPA and subsequently under WIA, concerning the use of these specific formulas to allocate funds, both from the federal government to the states and, in turn, from the states to their local areas.

Financial and Organizational Stability

Among the most prominent issues raised by the allocation formulas is their ability to hold relatively stable the allocation amounts from one program year to the next.⁹ This is of clear concern to local areas because shifts in funding levels may well impact their ability to provide a uniform and consistent level of services. Such instability in the number, types, or consistency of services that is based upon data that are at least a year old may well inhibit local areas' ability to meet the current needs of their customers, especially as these needs, and the number of customers seeking services, can vary substantially from one year to the next. Finally, reductions in funding between program years force local areas to make decisions about whether they will reduce staff,

⁸ "An Assessment of Funding Allocation under the Job Training Partnership Act," (1986), Abt Associates, Cambridge, MA.

⁹ Although exactly half the states initially reported that they expected the allocation formulas to create significant changes to local funding ("Workforce System Information and Evaluation, Volume VI," Social Policy Research Associates, Nov. 2000. This report was produced as part of a national Evaluation of the Implementation of the Workforce Investment Act, begun in 1999), results from our survey indicate that closer to 40% actually observed such changes under WIA. Many of those who did not see significant changes, however, report that this was due to their early invocation of hold-harmless provisions. These data will be discussed in greater detail in Chapter II.

infrastructure investments, or services to their customers. Each of these choices, of course, has consequences for how well the local area will be able to continue its operations and effectively serve a broad range of customers.

The results from earlier investigations of the allocation formulas suggest that these concerns are quite valid. For example, a study of the JTPA allocation formulas found that during the initial two program years of this Act, over 40% of the local areas (then called Service Delivery Areas, or SDAs) experienced at least a ten percent change in funding, and more than one in ten experienced changes in excess of 25%.¹⁰ Those who experienced the most substantial changes were those whose initial allocations were among the smallest, thereby heightening the effect since they have fewer options for accommodating such changes. A more recent study of inter-state allocations demonstrated that over a five-year period (between PY 1993 and PY 1997), several states received dramatically different allocations, with one in ten states receiving at least 30% greater allocations in PY 97 than in PY 93, while a similar one in ten experienced allocation reductions of at least 30%.¹¹

One mechanism for ensuring greater funding stability between program years has been the invocation of the hold-harmless provision. This provision ensures that local areas receive no less than 90% of some previous allocation (the average of their previous two years' allocation, under WIA, or their previous year's allocation, under JTPA), thereby injecting some lower limit on the amount a local area can expect to receive for an upcoming program year.¹² As noted above, however, the hold-harmless provision was only required after two years of WIA implementation. Thus, in the initial two years, local areas were not guaranteed at least the 90% threshold, unless the state specifically chose to invoke their hold-harmless authority during those years. Although approximately 70% of all states did so, a significant number of states did not, thereby potentially throwing their local areas into periods of uncertainty concerning their funding stability. Further, even among the 70% of states who invoked the hold-harmless

¹⁰ "An Assessment of Funding Allocation under the Job Training Partnership Act," (1986).

¹¹ "Analysis of the WIA Allotment Formula for Distributing Funds to the States," (2002), Westat, Rockville, MD.

¹² According to a recent study of inter-state allocations of WIA funds, the hold-harmless provisions for adult program achieved the goal of preventing dramatic and rapid reductions in funding to states. According to this study, sharp drops in funding were fully felt only after three to four years, due to the hold-harmless provisions. *Ibid*, pg. 45.

provision, it is far from clear that 90% is the precise threshold that enables local areas to continue their operations smoothly from one year to the next. Finally, it is conceivable that the admirable quality of hold-harmless to limit the funding losses of any particular local area may also have the negative effect of limiting the amount of funds that can be targeted to areas that have greater need for the funds.¹³

In addition to concerns over dramatic reductions in funding from year-to-year, local areas might also struggle were they to receive a substantial influx of additional money in a given year. Although measures to limit increases, or so-called “stop-gain” provisions, could be implemented, they are not currently included in the substate funding formulas and, thus, there is no limit on the potential increase a given local area can receive from one year to the next. In such cases, they would be forced to significantly increase their staff, service capacity, and perhaps even their infrastructure in order both to expend their resources and to meet the need that was implied from the increased funding level. Given that such increases would need to occur quickly, in response to a suddenly larger budget, rather than as a result of a sustained effort to gradually increase staff and capacity, there would likely be complications and difficulties that arise from this situation. These funds can, according to the legislation, be spent over a two-year period, which could serve to lessen the impact of any such rapid increases in funding.¹⁴ Assuming they were to receive a similarly increased amount of funds in the subsequent year, though, the need to ramp up their operations and services may well be similar despite this provision. Thus, although it seems fairly clear that local areas would be less distraught about dramatic increases in their yearly funding levels than about decreases, the potential impact on their overall financial and organizational stability may well be similar. As a result, considerations surrounding the organizational and financial stability of local areas must factor in the potential instability of increases, as well as of reductions, in year-to-year funding.

In addition to relatively exogenous constraints on allocations, such as hold-harmless or stop gain provisions, the results from earlier studies suggest that one could

¹³ In contrast to the adult and youth formulas, however, there is no hold-harmless provision for the dislocated worker allocations, either at the inter- or substate levels, which likely contributes to the increased volatility in funding under this program, as noted below.

¹⁴ This provision does require that the area obligate at least 80% of its funds in the initial program year.

introduce greater consistency in funding across program years by simply extending the period for which data used in the formulas are calculated. For example, in a study of formula allocation under JTPA, allocations made to local areas when using two-year averages of unemployment reduced the amount of year-to-year fluctuation considerably over single-year measures of unemployment.¹⁵ The theory underlying such allocations is that although single-year indicators of need, such as unemployment, can fluctuate wildly based on the specifics of local area economies, longer-term averages better reflect general trends within the areas and are thus more indicative of broader needs. Further, allocating funds based on a single year's worth of data can be subject to substantial increases for a given local area being allocated for a future program year based on a single anomalous past year, while two-year or longer averages would lessen the likelihood of such anomalies dramatically impacting future funding.

One final means of understanding the organizational stability of local areas, within the context of this study, is by recognizing that some local areas easily expend all their funds in a given program year, while others under expend. As new program year funds are introduced, it is plausible to suggest that those areas with unexpended funds from the prior year should not receive their full new allocation, as it would thereby leave them with greater overall funds than their relative share and, thus, may introduce the problems with sudden increases described above. Perhaps, then, local areas with unexpended funds should have their new allocations reduced such that they are not asked to expend even more resources in the new program year when they could not expend their lower amount of funds in the prior year. In the interests of ensuring or increasing organizational and financial stability, then, one way to do so may be to factor in all "carry-in" funds to each local area's new allocation and ensure that they are not allocated even greater amounts in a new year as a result of being unable to expend funds from the prior year.

Inequities Inherent in Formula Design

In addition to concerns about funding stability, the formulas also raise important questions about whether the factors used in allocating funds, as well as the weight each factor is given, adequately reflect the primary goals of WIA. For example, does the heavy reliance on unemployment factors cause allocations to be overweighted toward areas with particular characteristics, at the expense of similarly needy areas whose customers have different characteristics? By allocating two-thirds of the standard

¹⁵ "An Assessment of Funding Allocation under the Job Training Partnership Act," (1986).

formula using unemployment factors, the allocation is thus heavily weighted toward cyclical factors caused by short-term business downturns, perhaps at the expense of areas with higher concentrations of economically disadvantaged individuals who may have longer term needs for workforce development services. Although the adult program under WIA has removed the explicit eligibility requirement that the individual be economically disadvantaged, this requirement still exists for the youth program.¹⁶ Thus, for the youth program an allocation formula using a two-thirds weight for unemployment factors may be inappropriately targeting areas with high concentrations of people who are not even eligible for the program or its funds.

In addition, both unemployment factors used in the adult and youth formulas are threshold factors, meaning that a local area must exceed the threshold to receive any allocation under that factor. For example, a local area whose unemployment rate is no more than 4.5% cannot receive any funding under the excess unemployed allocation factor. While this may make sense because the funds are targeted to areas with higher concentrations of unemployment, the potential for relatively perverse actual allocations can be demonstrated using an admittedly extreme example. Imagine a state that has two local areas, each of which has exactly 1,000 people. In one of these local areas, 45 people are unemployed, making the area's unemployment rate exactly 4.5%. In the second local area, 46 people are unemployed, making the unemployment rate greater than 4.5%. Because of the cut-off value used in the formula, the second local area would receive the entire one-third of the funds to be allocated for this factor, while the first receives nothing. Thus, a difference of a single unemployed individual in otherwise equal populations can sway the entire one-third of the allocation, though it would be extremely difficult to argue that the second local area has a need for the entire amount while the first local area has no need at all.

A similar argument could be made for the Areas of Substantial Unemployment (ASU) unemployment factor. In this case, the discrepancy can be even greater. Although an entire local area, or even state, can qualify as an ASU and, thus all unemployed persons above an average of 6.5% can count toward this factor, ASUs also can be defined by boundaries smaller than those of local workforce areas. Because an

¹⁶ Technically, the requirement is that youth be low-income, rather than economically disadvantaged. Although we will discuss this difference in some detail below, for the purposes of this section we treat these as interchangeable.

entire local area need not qualify as an ASU to receive some portion of the funds distributed under this factor, it is conceivable that the entire allocation made under this factor could be made based upon a small subsection of a single local area that can be drawn to show an unemployment rate of at least 6.5% (assuming no other are in the state had such an area).

In each of these cases, then, a critical concern arises because of the all-or-nothing aspect of the threshold, which could cause areas that are actually quite similar in their unemployment rates to receive dramatically different allocations depending on whether they fell above or below the threshold. In addition, the actual values used for these thresholds were initially established in the early 1980s, when unemployment hovered near double digits. Although it has increased in recent years, such that it now hovers near 6% overall, for many years in the late 1990s the rate was closer to 4.5%. This may imply that those areas exceeding the threshold values are far needier than those areas that do not, given the lower overall unemployment rates, but it also may suggest that many areas who have *relatively* high unemployment rates currently will receive very little funding because their rates are relatively *low* when compared to the standards of twenty years prior.

An additional concern about using a threshold for these factors is that local areas' funding levels could vary dramatically from year-to-year based on very slight changes in their unemployment rates, should the rates change from just below to just above the threshold, or vice versa. Thus, in addition to overweighting those areas who just meet the threshold at the expense of those who do not, a single local area could experience a dramatic influx or outflow from one year to the next based on similar criteria. This could have significant impacts on the local areas' stability and consistency in service provision.

More broadly, the fact that the standard formula for adult allocations utilizes the same factors that were employed under JTPA raises some concern, given that the eligible population has changed dramatically. Under JTPA, an individual had to be disadvantaged to be eligible to receive services. WIA, however, places a strong emphasis on serving the universal customer. Thus, the formula's heavy reliance on unemployment and disadvantaged populations may well place too much emphasis on areas that are experiencing short-term business downturns or areas of high poverty rather than focusing funds on areas in which there are somewhat different needs for workforce development services. Given the broad definition of serving the universal customer, perhaps, then, adult funds should be targeted explicitly based on the number of individuals in the

I. Introduction

civilian labor force, since any of these individuals would by definition be eligible for program services. Although it is true that many who are employed may have little current need for workforce services, administrative data from the most recent program year suggest that, among adult registrants under WIA, 20% were employed at the time of registration. Thus, targeting funds based heavily on unemployment would discount the employed population, a sizable number of whom may well be interested in receiving workforce services.

One of the critical complaints about the formulas under JTPA was that they had the effect of directing funds away from central cities despite the fact that these areas tend to house the largest concentrations of economically disadvantaged individuals. This complaint was due to the heavy reliance on unemployment data, which is twice as heavily weighted as data identifying disadvantaged individuals. Were the two factors highly correlated, the argument would have little merit. But the results of prior studies of the allocation formulas, first under JTPA and, more recently, under WIA, revealed that the two factors are not highly correlated.¹⁷ Indeed, relying on Census data from 1980, one study concluded that the two populations (the unemployed and the disadvantaged) had very different geographical distributions. Specifically, while more than one-third of those who were economically disadvantaged lived in urban areas, only slightly more than one-fourth of the unemployed lived in such areas. Further, only about one in sixteen of those who were economically disadvantaged were unemployed; the vast majority was considered out of the labor force entirely. Similarly, fewer than one in five unemployed persons were also categorized as economically disadvantaged. Indeed, nearly three-fourths of the unemployed population had family incomes (used to determine economic disadvantage) in excess of 125% of the poverty level. Citing these statistics, the study concluded that “the weight attached to the unemployment-based factors results in...resources being ‘pulled’ away from areas with the highest concentrations of economically disadvantaged residents...,” and recommended that there be a decreased emphasis in the formulas on the unemployed population.¹⁸ A more recent analysis of inter-state allocations similarly concluded that unemployment and poverty measures were poorly correlated, suggesting that although changes in the measures were generally in the

¹⁷ “An Assessment of Funding Allocation Under the Job Training Partnership Act,” (1986); “Analysis of the WIA Allotment Formula for Distributing Funds to the States,” (2002).

¹⁸ “An Assessment of Funding Allocation under the Job Training Partnership Act,” (1986), pg. 5.

same direction from year to year, changes in unemployment typically were much greater than changes in poverty.¹⁹ Given that the highest concentrations of economically disadvantaged residents are in central cities, relying so heavily on unemployment factors thereby redirects funds away from central cities and toward areas with higher unemployment. Given that the formulas for adult and youth programs are very similar under WIA, similar concerns likely exist about the ability of the allocation strategies to target appropriate levels of funds to inner cities.

Finally, significant concern has been raised about the two-tiered distribution process, in which funds are first allocated to the states, then re-pooled and allocated to local areas. The reason for this concern is that the weight of each factor that was primarily responsible for the overall state allocation is not identical to the weight used in the substate allocation. In other words, though a state may have received the vast majority of their funds due to a high number of disadvantaged individuals within the state, once they receive these funds they must allocate them to local areas using the standard formula and, thus, would only allocate one-third of their available funds using this factor. Indeed, earlier studies have shown that nearly every state was forced into some degree of redistribution while allocating funds to their local areas.²⁰ The funding pool based on the economically disadvantaged factor was the most adversely impacted by this two-tiered system. Specifically, in 60% of the states, funds that were initially allocated to states based on their relative share of economically disadvantaged individuals were ultimately redirected in making substate allocations based on the two unemployment factors. Because this is a two-step process, rather than a direct allocation to local areas, the money that actually is allocated to local areas is thus not in direct proportion to these local areas' share of the national pool of funds, despite the fact the formulas are the same for inter- and substate allocations. This creates some concern because, even if the allocation factors were perfectly suited to target the level of need in local areas across the nation, some inequity would result because of the two-tiered process mandating that factors are weighted equally at each step. Indeed, an earlier study of the JTPA allocation formulas recommended eliminating the two-tiered system in favor of a single allocation from the federal government to local areas, arguing that this would

¹⁹ "Analysis of the WIA Allotment Formula for Distributing Funds to the States," (2002).

²⁰ *Ibid.*

promote “a more equitable distribution...[and] would reduce the complexity and enhance the intuitive appeal” of the formulas.²¹

Data Quality and Access

In order to allocate funds using the factors in the standard formulas, or alternative factors, one must have readily available data that can be used to generate each local area’s share of the overall total. Thus, allocating funds to states requires data on each state’s overall number of unemployed individuals as well as their total labor force, the number of disadvantaged adults and youth within each state, and the number of long-term unemployed individuals in each state. While these data, or highly accurate estimates of them, are readily available at the state level using the Current Population Survey, which is conducted yearly, such data cannot be used to draw reliable estimates for substate areas such as local workforce areas or ASUs. Thus, the data necessary for substate allocations are not as widely available and, in many cases, rely upon state-specific data collection. Not all states collect such data and, thus, must rely on whatever is available to them from external sources. As such, it is problematic when factors are used for which there are no available data at the substate level.

One solution to this dilemma is to utilize Census data, which can easily be drawn for even very small areas, such as the level of Census tracts. These data are very complete, and include measures of poverty and unemployment, but there is significant concern about the within-decade shift away from the currency of the data. In other words, while the Census data are extremely reliable and current for the year in which they were collected, over the ten-year period between such data collection efforts, significant shifts occur in the population and economic characteristics that these data measure, and no such shifts can be captured until the next Census.

Although the Census data may not be ideal, given the substantial time lag that occurs between collections, they are one of the few sources of data on economic disadvantage and, thus, traditionally have been used for this factor in the allocation formulas. Thus, data on disadvantaged individuals to be used in the substate allocation formulas for program year 2002 still relied on Census data from 1990.²² The actual

²¹ Ibid, pg. 6.

²² Although data from the 2000 Census were used to make allocations to states for PY 2003, it is unclear that these data were used for substate allocations for this program year. Regardless, as currently

numbers of disadvantaged individuals within a given local area is likely to be dramatically different from the number tabulated in the 1990 Census, but reliable and more up-to-date numbers simply are unavailable at the substate level necessary for LWIA allocations. One possible solution to this problem is to utilize new Census Bureau poverty measures that are calculated yearly,²³ though there is still an approximately three-year time lag before the data are accessible. These measures are available at least at the county level, such that they could largely approximate local area boundaries. Indeed, a recent study of the inter-state allocations under WIA recommended replacing the entire adult and youth formulas with this poverty measure, because it: reduces the need for calculating complex ASU measures; is more closely related to the targeted population, especially for youth; and largely eliminates the effect of hold-harmless provisions.²⁴ While this suggestion may more accurately target those in poverty, given that under WIA services for adults are not exclusive to such individuals, this potential solution may have adverse effects on services to universal customers.

A further concern that emerges under WIA is that, because WIA allows states to target up to 30% of their allocation based on other indicators they believe are important, states may have great interest in utilizing additional factors in their allocation decisions, but the data necessary to make such decisions may be unavailable at the substate level. Thus, it is theoretically possible that if the data were available, states could precisely target their funds based on the exact relative need within each local area. The data necessary to do so, of course, may not exist, thus forcing states to rely on what data they do have available. And given that different states may well have different types of data available for substate allocation, some states would be less able to target funds based on important indicators of need because they simply do not have the necessary data to do so.

Alternatives to the Standard Formulas

As discussed above, WIA enables states to base up to 30% of their adult and youth WIA allocation based on an alternative formula. Although nearly twenty percent of all

arranged, these data from 2000 will remain as the operative measure of the number of individuals living in poverty until data from the 2010 Census become available.

²³ The Small Area Income and Poverty Estimates (SAIPE) Project, which began developing county-level poverty statistics in the mid-1990s.

²⁴ “Analysis of the WIA Allotment Formula for Distributing Funds to the States,” (2002). It should be noted that this elimination of the effect of the hold-harmless provision was shown only at the state level and not at the substate level.

I. Introduction

states initially reported that they were considering adopting a discretionary formula,²⁵ according to the results from our survey only four actually did so. Each of these four states utilized the discretionary formula for fully 30% of their funding allocations. This raises several questions about the extent to which these states were better able to target their funds to meet their local areas' levels of need. Further, these states were forced to obtain the data necessary for measuring the factors included in their discretionary formulas. Such data may not be available to all states and, if so, they could not be used in allocation formulas regardless of whether these other states agree that they more accurately target funds. Related to this, some states may well have considered adopting a discretionary formula but decided against it simply because they lacked access to the data necessary to implement it.

Clearly, allocation decisions in those states that have adopted a discretionary formula will differ from those states that use only the standard formula. Further, their allocation will differ from what it would have been had these states themselves used only the standard formula. Thus, a critical question is just how the allocations differ in states that have adopted discretionary formulas from the levels that would have occurred using the standard formula. If these discretionary formulas help states to target their local areas' levels of need, then questions can be raised as to whether all states should adopt such formulas, or whether states should be allowed to allocate more than 30% of their funds using the discretionary formulas. In so doing, perhaps, states would thus be better able to target the needs of their workforce.

An additional issue is the experience of single workforce-area states. These states need not allocate funds to local areas and, thus, can distribute funds with far more flexibility than can states with multiple workforce areas. Such flexibility may well help them target the needs of their workforce extremely well, enabling them to rapidly distribute money to the subareas shown to be most needy. Understanding how these states distribute funds, and perhaps learning from their experiences in deciding how to do so, could be extremely useful for thinking broadly about how all states might better be able to target funds to their local areas.

Finally, although hold-harmless provisions were included in WIA, as they were in JTPA, some key changes were made to these provisions. These changes, discussed

²⁵ "Workforce System Information and Evaluation, Volume VI," Social Policy Research Associates, Nov. 2000.

above, were intended in part to enable states to restructure their local areas and target funds to them without restrictions due to prior funding levels. Learning about the experiences of states in invoking the hold-harmless provision or not will enable DOL to better understand how such lapses might be beneficial or harmful to local areas in both targeting the needs of customers and ensuring the financial stability of local boards.

Questions Concerning Substate Dislocated Worker Allocations

The flexibility inherent in the substate dislocated worker allocation formula raises even further questions, as there is no standard formula at all for this funding stream. As such, states have substantial freedom to select from a wide variety of possible factors on which to base their funding decisions. This means that there may well be little consistency across states in the way in which they allocate funds for dislocated workers. This, of course, is largely the point of introducing such flexibility, but it decreases the federal government's ability to target funds in any logical way toward local areas. This dilemma is exacerbated due to the two-tiered system of allocating funds, because the two tiers allocate funds using very different criteria. For example, the federal government allocates funds to states using the three factors identified above, each of which employs some measure of the unemployed population. Thus, the total amount of states' funding for the dislocated worker program is determined simply by their relative share on these three unemployment factors. However, when states make their substate allocation decisions, they are encouraged to do so using a much broader set of factors, including plant closing data and mass layoff statistics, declining industries data, and farmer-rancher economic hardship data, as well as other factors the state believes to be useful in targeting funds. While these factors may well be highly related to the need for dislocated worker funds, they are not incorporated in any way into the states' overall funding received from the federal government and, thus, there is opportunity for funds to be redistributed away from local areas that were primarily responsible for the state receiving the funds in the first place. This may be of less concern for the dislocated worker program than it is for the adult and youth programs because by their very nature dislocations are difficult to predict. Thus, although the original allocation to the state was based on that state's share of each of the formula factors, due to the unpredictability of dislocations, this allocation may bear very little resemblance to the actual need for dislocated worker funds within any given local area.

An additional concern surrounding the dislocated worker allocation formula is that the data to be used in making allocations may be unavailable or difficult to obtain.

I. Introduction

Unlike much of the data used in the adult and youth allocation standard formulas, which can be obtained through the Census or the Local Area Unemployment Statistics program, data such as mass layoff statistics must be compiled by the state, or obtained from less readily available sources. As such, the manner in which these data are collected varies from state to state and, thus, even if two states were using the same factors for allocating their dislocated worker funds, they would likely be allocating funds in quite different ways because of these differences.

Finally, recent studies of the inter-state allocation formulas observed that shifts in funding between states were particularly large for the dislocated worker funding stream, as compared to shifts that occurred in the adult and youth funding streams.²⁶ According to these studies, this was in part due to the fact that measures of excess unemployment relied on statewide indices of excess unemployment, rather than smaller concentrations of such employment (such as might be used for ASUs), or relative numbers of unemployed individuals within a state. In other words, because the period included in the study was one of sharply declining unemployment rates, substantial numbers of states received no funding under this factor because they had unemployment rates lower than the 4.5% required for excess unemployment. Such dramatic shifts for dislocated workers could create serious concerns about the ability of particular states whose unemployment rate as a whole is less than 4.5% to meet the needs of their dislocated workers. Given that the formula for substate allocation is discretionary, and thus need not rely on the specific measure of excess unemployed employed in inter-state allocations, the volatility in substate allocations is less clear. In Chapter III, we examine this volatility compared to the fluctuation observed in funding for the adult and youth programs, and offer suggestions for the reasons behind the fluctuations that do exist.

One further concern about this volatility and dependence on unemployment figures is that a recent General Accounting Office (GAO) report suggested that changes in the numbers of workers affected by mass layoffs from year to year was negatively related to the actual state-level dislocated worker allocations for those years.²⁷ This is significant because it implies that the factors used to allocate dislocated worker funds to states may

²⁶ “Analysis of the WIA Allotment Formula for Distributing Funds to the States,” (2002). “Issues Related to Allocation Formulas for Youth, Adults, and Dislocated Workers,” (2003), General Accounting Office Report # GAO-03-636.

²⁷ “Issues Related to Allocation Formulas for Youth, Adults, and Dislocated Workers,” (2003).

be inversely related to the mechanisms by which states then allocate funds to local areas, as mass layoff data are not used in inter-state allocations, but often are a key component for substate allocations. As such, there are significant concerns about how equitable are the local area allocations for dislocated worker funds.

Defining Need

Throughout the preceding sections, we have referred to states' ability to target the level of need within each local area. Yet, developing a single standard definition of the need within a given local area seems difficult at the least, and perhaps impossible given the variety of objectives or goals of WIA. One critical task of this project was to identify a range of potential definitions of need, and model how various allocation formulas fare in targeting funds to meet these needs. In this section, we identify several of the various definitions one might adopt for level of need, and discuss the strengths or weaknesses in adopting each definition. In Chapter III of this report, we implement some of these definitions of need, and compare how alternative formulas used for allocation were able to target funds to meet each definition.

Perhaps the most obvious definition of need is the number of individuals in an area who fit the eligibility criteria for the programs. However, unlike under JTPA, the criteria established for eligibility are not easily modeled quantitatively for each category of funds. For example, although only disadvantaged adults were eligible under JTPA, there are no similar low-income criteria for adults under WIA. Rather, WIA places an emphasis on serving the universal customer. Thus, it is unclear how one would define the eligible adult population in need in any way that would be stricter than simply defining the number of adults in a local area. Another alternative that perhaps more closely targets the potential demand for workforce services would be to utilize each local area's relative share of the adult labor force within a given state. This would ensure that allocations are based not simply on the adult population in an area, but the portion of that population who are actively in the labor force and, thus, who may wish to receive workforce services. A third alternative, which reflects the fact that far more unemployed customers seek services than those who are employed, would be to weigh the number of unemployed individuals within an area more heavily, while allowing some portion of the funding to be based on the overall size of the labor force. This would have the effect of giving greater weight in allocation decisions to those customers who are more likely to utilize workforce and training services, while still recognizing that some employed individuals do seek out such services. We examine the use of each of these potential

indicators of need—the size of the overall population within local areas, as well as the size of the adult labor force, and a weighted balance between the size of the unemployed population and the size of the labor force—in alternative specifications for WIA substate allocation in Chapter III, and detail how their use would alter current funding levels.

Allocations for the youth program under WIA, in contrast, can be targeted somewhat more specifically to the eligible population than they can under the adult program. This is because the low-income eligibility criteria for youth participation in WIA remains largely intact; thus, one could simply calculate the number of youth who fit this definition within each local area and assign appropriate weights to each area based on their proportion of the overall state total, which we do in Chapter III.²⁸ Even for the youth program, in which one can more clearly model the number of youth in an area who would be eligible for the program, it is not certain that this accurately defines the level of need for a particular area. For example, the number of youth who actually access or wish to access services in a given local area may be only weakly correlated with the size of the eligible population. Thus, areas in which there is a relatively small number of eligible youth may, in fact, have much greater demand for services than do areas that have greater numbers of *eligible* youth. But if we were to establish “true” levels of need simply based upon the number of youth eligible for services, we would instead conclude that the larger area has greater need. Thus, even in cases in which the simple number of eligible individuals can be calculated, this may not correspond well to alternative definitions of need.

Related to this, it is conceivable that in some local areas, more money may be available than is required to serve those who wish to receive services. In such circumstances, much of the money may go unspent in some local areas, while others may use all their funds and still have individuals waiting for services. Although there are specific regulations surrounding recapture, it is unlikely that any such redistribution would occur quickly enough in any particular year to impact those waiting for services. Should certain areas consistently evidence their ability to expend their funds by providing services, while others do not, it could be argued that those areas utilizing their full

²⁸ This calculation would still not perfectly fit the eligible population, as youth must both be low-income and have one of several potential barriers to employment, including being: a school dropout; deficient in basic literacy skills; homeless, runaway, or in foster care; pregnant or a parent; an offender; or requiring help completing an educational program or securing and holding a job. Nevertheless, youth who live in poverty could be deemed a reasonable approximation of the eligible youth population.

allocation have greater needs than those with resources remaining. And this fact could be entirely independent of the number of eligible individuals across the local area, generally. Such a definition would suggest that the areas that have the greatest needs are those which consistently expend their funds, as compared to those who routinely have funds remaining at the end of a program year. If this were to be the case, then subsequent allocation decisions may well factor in an area's unexpended funds into the overall total to be allocated, or simply reduce a given local area's recommended allocation amount by the amount left unexpended at the conclusion of the prior program year. We explore such options in Chapter III, examining how these decisions would impact funding compared to current allocation formula results.

It should be noted that the current evaluation takes no *a priori* stance on which of these definitions of need, among other possible definitions, is the correct one to adopt. Indeed, the purpose of this report is to present DOL with potential alternative formulas and to define how such alternatives would alter the overall distribution of funds. Thus, it should be clear that we do not presume that excess funds for a given local area are a sign that there is less need within that area. Nor do we presume the opposite: that shortage of funds in a particular area indicates greater need. Rather, we propose these as potential alternatives to the current formulas, which govern at least 70% of all within-state allocations, and, in Chapter III, we will explore how utilizing such approaches would alter the distribution allocations to local areas.

An important consideration above is that WIA requires only that 70% of within-state allocations be made according to the funding formulas. This provides states with some amount of flexibility in their allocation strategies, which as noted above represents a new development under WIA. Although a very few states (4) indicated they had actually adopted an alternative formula to distribute funds, according to the results of our survey, the alternative factors used by these states suggest further plausible options for defining need. These additional factors, such as unemployment above the state average, or excess poverty, which have been incorporated into the funding formulas of these four states, are intended to more accurately target funds to those local areas most in need. In Chapter III, we explore how these additional factors have altered the funding levels within these states (i.e., how the funding differs from what it would have been under the standard formulas only) and also examine how funding would be altered if all states adopted these potential alternatives for their own use in allocating funds to their local areas.

PROPOSED NEW FORMULAS

Partially in response to the issues cited above, new legislation has been introduced in Congress that, in addition to reauthorizing WIA, overhauls the allocation formulas and streamlines two of the three funding streams discussed in this report. Known as the Workforce Reinvestment and Adult Education Act of 2003,²⁹ this bill would integrate funds under the adult and dislocated worker funding stream, as well as funds directed to states through the Wagner-Peyser Act, and significantly alter the factors used in allocating funds both to and within states. Because this proposal and the formulas laid out in it represent in part a response to the concerns identified above, and because this bill represents a very possible and comprehensive modification to formula allocation under WIA, we describe below the newly proposed formulas.

Adult and Dislocated Worker Formulas

Perhaps the most significant change to the formula allocation in this bill is that the adult and dislocated worker funding streams, as well as Wagner-Peyser funds, would be consolidated into a single funding source. Given this consolidation, there no longer would be separate allocation formulas for adults and dislocated workers. Rather, what had been three pots of money would now be merged into a single stream and funding to states and to local areas would thus be based on this single stream of funds.

In addition to the consolidation of these three programs, there are significant changes to the allocation process, as well. First, the Secretary of Labor would be able to reserve 10% of the overall funds available, mostly to be used for national emergency grants (this figure used to be 20% of the overall dislocated worker funds). Once this amount has been set aside, the remainder is to be allocated to states using the standard formula described below, which differs markedly from the formulas used currently. Once allocations for the adult (and dislocated worker and Wagner-Peyser) program have been made to states using the standard formula (shown below), substate allocations would then be made. First, of the total amount allocated to each state, the Governor can reserve up to 50% of this amount for Rapid Response and other statewide activities, at least fifty percent of which must be used to support the provision of core services. The remainder of the funds is to be allocated in the following manner:

- Use of the Standard Formula. 85% of the amount to be allocated (the state total minus the 50% reserved for Rapid Response and other

²⁹ H.R. 1261

statewide activities) is to be allocated using this standard formula. The factors on which this formula is based are:

- 60% based on the relative number of unemployed individuals within each local area, compared to the total number of unemployed individuals in the state.³⁰
- 25% based on the relative number of excess unemployed individuals within each local area, compared to the total number of excess unemployed individuals in the state.³¹
- 15% based on the relative number of disadvantaged adults within each local area, compared to the total number of disadvantaged adults in the state.³²
- Use of Discretionary Allocation. 15% of substate allocations would be made using a discretionary formula of the state's own choosing.³³
- Hold-harmless/Stop-gain Provisions. No local area shall receive an allocation percentage for a fiscal year that is less than 90% or greater than 130% of its allocation in the prior fiscal year.

If enacted, this formula would make several significant changes to the allocation mechanisms used by states. First, the overall total to be distributed to local areas would be reduced by as much as 50%, due to the allowance of state set-asides for rapid response and other statewide activities. This is not unlike set-asides under the current dislocated worker program, but under the proposed formula it would apply both to adult and dislocated worker funds, as well as Wagner-Peyser funds, since they would be merged into a single stream. The effect of this is somewhat unclear, in part because currently Wagner-Peyser does not have similar restrictions on the amount of funds states can set aside, given that it is a statewide program and, thus, need not allocate funds to substate areas.

Second, the formula eliminates the use of ASUs which, as noted above, have long been a source of confusion and concern. Eliminating this factor removes one of the two

³⁰ This factor does not rely on a threshold and, thus, is calculated simply by taking the overall number of unemployed individuals within a local area.

³¹ Calculated similar to the current factor using excess unemployment.

³² Disadvantaged adults would be calculated in the same manner as they are in the current allocation formula.

³³ This formula is to be developed in consultation with the State and local boards, and is to be objective and geographically equitable and include appropriate demographic and economic factors.

“threshold” factors, thereby making it less likely that there will be dramatic swings in funding from year to year. Additionally, this formula adds an entirely new factor, the relative number of unemployed individuals, which is not coincidentally one of the two factors used to allocate funds to states under the Wagner-Peyser Act. In addition to being a primary basis for current Wagner-Peyser allocations, this factor was described above as a possible mechanism by which WIA funds could be more accurately targeted toward areas with the highest need. By focusing on the raw number of unemployed individuals (rather than exclusively through the use of certain thresholds) those areas with greater numbers of unemployed persons would receive a higher proportion of the available funds. Further, this factor is to be given sixty percent of the weight of the formula which makes clear that this formula still places a premium on those who are actively looking for work.

The remaining two proposed factors are holdovers from the current WIA adult formula, though both receive less weight in this formula than currently. The continued inclusion of the excess unemployed factor maintains at least one threshold factor within the formula, though its 25% weight means that the influence of such thresholds would be slightly reduced (from their current one-third weight) and, perhaps, so too will be the substantial swings in funding from year to year. Similarly, the use of the economic disadvantage factor is a hold over from the current formula, but the weight assigned to this factor would be reduced by more than one half from one-third to only fifteen percent.

In contrast to the similarities between this formula and the current WIA adult formula, there are fewer similarities with the current WIA dislocated worker formula. As noted above, the current dislocated worker formula allows for great state flexibility in allocating funds to local areas, and includes unemployment and unemployment concentration data, which are included in this proposed formula. But in addition to these two factors, several others can currently be included, such as plant closing and mass layoff data, declining industries data, farmer-rancher economic hardship data, and long-term unemployment data; none of these is incorporated into the proposed formula. Thus, allocations made under the current WIA dislocated worker formulas (as defined by the states) are quite likely to vary substantially from any allocations that might be made under this proposed formula.

Yet another difference between the current and the proposed formula is that, while up to 30% of WIA adult funds currently are allowed to be distributed based on a discretionary formula, any such formula was not mandatory (states could, and most did,

use only the standard formula). Further, the current discretionary formula is limited to including only factors that relate to excess poverty or excess unemployment. The proposed formula *requires* that 15% (compared to 30% currently) of the overall amount be allocated using a discretionary formula developed by the state, and no specific limits are placed on the factors to be used in this formula. Thus, depending on what factors states adopt under the proposed discretionary formula, dramatic shifts in allocations between the current and the proposed formulas may well occur.

Even assuming states simply adopt the standard formula, or something close to it, as their discretionary formula, there still are significant differences between the proposed and the current formula. As a result of the changes in the factors used, as well as the significant changes in the weights assigned to the various factors, adoption of the proposed formula for adult, dislocated worker, and Wagner-Peyser funds would likely lead to substantial shifts in allocations from what local areas currently receive. As part of Chapter III, we will examine this possibility quantitatively by modeling the effects of the proposed formula and comparing it to current allocation results.

Youth Formula

The proposed formula to allocate youth funds to local areas is also somewhat different than the current youth formula, and also differs in one specific factor from the formula for adults, as well as in the weights that are assigned to each of the respective factors. For the youth program, first, funds are allocated to states using the standard formula identified below. Once these funds have been distributed to states, Governors can set aside up to 10% of this total for statewide activities (down from 15% currently). The remainder is to be allocated to local areas using the following approach:

- Use of the Standard Formula. 80% of the amount to be allocated is to be allocated using this standard formula. The factors on which this formula is based are:
 - One-third based on the relative number of youth (ages 16-19) in the civilian labor force within each local area, compared to the total number of youth (ages 16-19) in the civilian labor force in the state.³⁴

³⁴ This measure does not rely on a threshold but is, instead, a count of the number of individuals within the civilian (i.e., non-military) labor force.

I. Introduction

- One-third based on the relative number of unemployed individuals within each local area, compared to the total number of unemployed individuals in the state.³⁵
- One-third based on the relative number disadvantaged youth (ages 16 to 21) within each local area, compared to the total number of disadvantaged youth (ages 16 to 21) in the state.³⁶
- Use of Discretionary Allocation. 20% of substate allocations would be made using a discretionary formula of the state's own choosing.³⁷
- Hold-harmless/Stop-gain Provisions. As with the adult allocation, no local area shall receive an allocation percentage for a fiscal year that is less than 90% or greater than 130% of its allocation in the prior fiscal year.

This proposed formula differs markedly from the formula currently being used to allocate youth funds under WIA. Although one of the factors—the number of disadvantaged youth—remains the same, including its weight in the formula, the other two factors are entirely new and would replace the current unemployment threshold variables described at length above. Indeed, no longer would unemployment thresholds play any role in the allocation of youth funds.

Instead, the two new factors seem to address some of the limitations of the current formula, which have been described earlier in this chapter. Specifically, the factor using the number of unemployed individuals was described above as a possible mechanism by which WIA funds could be more accurately targeted toward areas with the highest need. By focusing on the raw number of unemployed individuals (rather than exclusively through the use of certain thresholds) those areas with greater numbers of unemployed persons would receive a higher proportion of the available funds. The proposed formula does not limit this factor only to the number of unemployed youth, however, meaning that allocations would still be made based on a factor that was at least in part unrelated to youth eligibility for WIA services.

³⁵ Note that this factor, like the unemployment factor in the current youth formula is not based on the number of unemployed *youth* but, rather, the number of unemployed individuals.

³⁶ Disadvantaged youth would be calculated in the same manner as they are in the current allocation formula.

³⁷ This formula, similar to the proposed discretionary formula for adults, is to be developed using appropriate demographic and economic factors.

This is mitigated somewhat by the inclusion of the second new factor, the relative number of youth (ages 16 to 19) in the civilian labor force. By limiting this factor to youth, it should focus funds more specifically to areas with higher numbers of youth in need of, or potentially desirous of receiving services. Although the number in the civilian labor force may help to measure some form of “need” within a local area, it, along with factor incorporating the number of unemployed individuals, does little to target funds based on the eligibility of youth for WIA services. Whether this formula is better suited to targeting the eligible youth population than is the current formula remains to be seen. Without question, however, we should expect to see substantial variation between the allotments made under the current formula and those made under the proposed formula. We will examine this variation in Chapter III.

Unlike the adult formula (in which 15% of the allocation must be made using a state-defined discretionary formula), under the proposed youth formula 20% of the substate allocation would be made using a discretionary formula. Unlike the current option for using a discretionary formula, however, this alternative formula would be mandatory and states are not limited in the range of factors they could include in such a formula.

CONCLUSION

In this chapter we have provided an overview of the standard allocation formulas currently used for substate allocations in the adult and youth programs under WIA, as well as the general guidelines for allocating funds for the dislocated worker program. In so doing, we described the differences between the inter- and substate allocation formulas, as well as how the formulas differ from those used under JTPA. Further, we identified several key issues of concern in using these formulas, which represent a summation of several earlier research efforts as well as concerns expressed by states and local areas. These key issues form the context for the remaining chapters of this report. In the next chapter, we describe the results from our state survey, including a description of the number of states who have adopted discretionary formulas for the adult and youth programs, and what these formulas include as factors in allocating funds. The results presented in Chapter II provide a national snapshot of the mechanisms by which states are currently allocating funds to their local areas for their adult, youth, and dislocated worker programs.

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II. STATES' CURRENT ALLOCATION FORMULAS

In the previous chapter, we described the general formulas that states are to use for allocating funds under the WIA adult, youth, and dislocated worker programs. In addition, we described several of the key issues that have arisen from the use of these formulas, including concerns about whether these formulas accurately target funds to local areas most in need of them and whether they can adequately ensure that there is sufficient stability in funding from one year to the next. Although these concerns have been voiced well before the passage of WIA, additional concerns have emerged as a result of changes made under WIA. Specifically, the substate discretionary formulas that are allowed under WIA are of particular interest as such flexibility has never been a part of workforce funding mechanisms. To this point, however, many of the issues and concerns raised from these formulas have been largely anecdotal. There has not been a formal and uniform effort to gauge states' perceptions of the formula and its success in targeting funds to areas most in need of them. Nor has there been an effort to assess whether states are actually exercising their flexibility by utilizing discretionary formulas in allocating funds under the adult and youth programs.

In an effort to obtain these state perceptions and to identify exactly how states are allocating funds under WIA, as part of this project we conducted a mail survey of states. We sent this survey in the fall of 2002 to each state, as well as to the District of Columbia and Puerto Rico. In this chapter, we describe the results from this survey effort, and provide an overview of the current mechanisms by which states are allocating funds to their local areas for the adult, youth, and dislocated worker programs.

We received completed responses from 46 of the 52 possible respondents, for a response rate of 88.5%.¹ Of these respondents, eight (or 17% of the total) were single workforce area states while the remaining 38 were multiple workforce area states. The funding experiences of these single workforce area states is quite different in that they are not bound by the same allocation formulas because they do not have local workforce areas to which they must allocate their funds. As a result, we separate these eight states, and will describe their experiences and views of the WIA allocation process later in this

¹ Despite repeated mailings, reminders, and phone calls, we were unable to obtain completed surveys from Alaska, Idaho, Indiana, Kentucky, Missouri, and Mississippi.

chapter. In the next section, though, we describe the results from the remaining 38 states that do allocate their WIA adult, youth, and dislocated worker funds to local areas using the standard and, in some cases, discretionary formulas. Because many of the questions in the survey concerning adult and youth funding were identical, and many of the responses were highly similar, we describe the results from these two separate streams of funding in a single section. Following this, we describe the results from questions concerning dislocated worker funding allocations.

ADULT AND YOUTH ALLOCATIONS²

The survey contained multiple questions concerning adult and youth allocations, including questions about the use or consideration of alternatives to the standard formulas, as well as respondents' views concerning whether the standard formula accurately targets funds based on local areas' needs or whether it ensures stability in funding from year to year and, if not, why it does not do so. We also asked states to describe the percentage of each stream of funds they held back for statewide activities, and for what these statewide funds were then used. Additionally, we asked states about the extent to which states implemented hold-harmless provisions, and whether they believed such provision had their desired effect. Further, we asked about whether local areas had any unexpended, or "carry-in" funds, and, if so, to what states attributed this fact. Each of these topic areas will be discussed in turn below.

Discretionary Formulas

A primary concern with adult and youth funding under WIA is whether states have adopted the use of discretionary formulas to supplement the required standard formulas in an effort to more accurately target funds to their local areas. Interestingly, despite the flexibility granted under WIA, very few states have opted to implement discretionary formulas. Indeed, only four states, or 10.5% of the multiple area states, reported using a discretionary formula for their adult and youth substate allocations.³ All four states implementing such discretionary formulas did so for both their adult and youth funds, and used this formula to allocate the maximum 30% of their funds. Thus, those states who

² Because single workforce area states need not allocate funds to designated LWIAs, we did not ask questions about the allocation processes of these states. Thus, the numbers reported throughout this section are valid only for the 38 multiple workforce area states from whom we received completed surveys, and percentages are thus based on this total of 38.

³ These four states, each of which used a discretionary formula for both their adult and youth programs, were AL, AZ, FL, and IA.

adopted discretionary formulas did so for the maximum percentage allowable under WIA, suggesting that these states firmly believed that their discretionary formula would help them to target funds to their local areas.

In each case, the allocation process is conceptually very similar to a process of using only the standard formula. In other words, prior to making the allocations, the total pool of funds to be allocated is split into separate pots, based on the percentage assigned to each factor. Because only 70% of the funds are allocated using the standard formula, each of these three factors receives 23.3% of the overall pool of funds (calculated by multiplying the weight given to each factor under the standard formula, .333, by the share of funds to be allocated using this formula, or .7). The three factors in the standard formula therefore comprise 70% of the overall total to be allocated. The remaining 30% of the funds are allocated on the basis of the discretionary factors, described in detail below. In each case, however, a pre-assigned percentage of the funds is to be allocated on the basis of a given factor, and each local area receives their relative share for that factor. Each of the individual shares is then summed to provide an overall total allocation for each local area. Table II-1 shows the weights assigned to each factor, using the standard formula and using the various discretionary formulas.

	Standard Formula	Arizona Formula	Alabama Formula	Florida Formula	Iowa Formula
ASU Unemployment	.333	.233	.233	.233	.233
Excess Unemployment	.333	.233	.233	.233	.233
Disadvantaged	.333	.233	.233	.233	.233
Unemployment Above State Avg.	0.0	.15	.225	0.0	.3*
Unemployment Above 1.25%	0.0	0.0	0.0	.3	
Excess Poverty	0.0	.15	.075	0.0	.3*
Total	1.0	1.0	1.0	1.0	1.0
* All 30% of this state's discretionary funds are allocated based on a single factor, which varies depending on the stream of funding. For adult program funds, the 30% discretionary weight is assigned to the unemployment factor. For youth funds, the 30% is assigned to the excess youth poverty factor.					

II. States' Current Allocated Formulas

As can be seen in Table II-1, the factors the four states used in their discretionary formulas were quite similar, in keeping with WIA's restriction that any discretionary formula be based on excess unemployment or poverty. For example, two states (Alabama and Arizona) divide the weight of their discretionary formulas between excess unemployment and excess poverty (using the relative number of youth and adults living in poverty, respectively, for the two streams of funds). In Arizona, the split between these two factors is even, such that 15% of the overall allocation is based on excess unemployment, and 15% is based on excess poverty. In Alabama, excess poverty receives three-fourths of the discretionary formula weight (or 22.5% of the overall allocation weight) while excess unemployment receives one-fourth (7.5%).

In both of these states, the term "excess" means the local area's share that is above the state average, and each is a threshold measure that local areas either reach or do not. Thus, to calculate "excess" unemployment for this discretionary formula, one first must calculate the state's, and then each local area's, overall unemployment rate. If the local area's unemployment rate is above the state's rate, then the number of unemployed individuals within the area that are in excess of the number necessary to meet the state's unemployment rate is summed. This represents that local area's share of the state's total number of excess unemployed, and this weighted share is then used in determining the amount they receive from the discretionary factor.

Similarly, the excess poverty factor is calculated by determining each local area's poverty rate – the number of individuals (adults or youth, depending on the funding stream) living in poverty divided by the population. If a given local area's rate exceeds that of the state, then the number living in poverty above the state average is summed, and this sum represents that local area's relative share for the excess poverty factor. Both of these factors, then, are threshold measures, although their thresholds are not established, such as the 6.5% for ASUs or the 4.5% excess unemployment figure fixed under WIA. Rather, the threshold value is dependent on the overall state average. Thus, local areas that receive shares under these two discretionary factors can be said to have unemployment or poverty rates that exceed the state average. The result of including such factors in the discretionary formula is to more precisely direct funds toward those local areas whose unemployment, or poverty, is greater than the average of the state overall. Although this is conceptually similar to the standard formulas' use of thresholds for ASUs and excess unemployment, the critical difference is that for these discretionary factors, local areas must exceed the actual

state average, rather than some pre-established baseline, which may be remarkably high or low, depending on the economic conditions within a given state.

A third state, Florida, utilized a measure conceptually similar to the standard excess unemployment factor, but set the threshold level at 1.25% unemployment rate (compared to the 4.5% rate used in the standard formula). In so doing, this state was clearly trying to balance the targeting of funds to ensure that even local areas with lower levels of unemployment received some share of the funds.

Using this factor allows some local areas with relatively low unemployment rates to still receive a share of the funds allocated based on unemployment figures and, in effect, acts somewhat like using the simple number of unemployed individuals because it is highly unlikely that any area would have a lower rate of unemployment than this. Should areas with unemployment rates lower than the 4.5% threshold for excess unemployment but above the 1.25% used as a discretionary factor be large in size, the impact on overall allocation within the state could be quite dramatic. For example, imagine that a single local area in a given state has half of the overall number of individuals in that state, but a relatively low unemployment rate, while remaining areas are generally much smaller but with higher unemployment rates. Using the standard formula, the larger area is unlikely to receive much in funds based on unemployment (though they may receive some share based on the number of disadvantaged individuals in their area), because its unemployment exceeds neither 4.5% nor 6.5%, yet their actual number of unemployed individuals may be greater than the rest of the areas combined. By incorporating a factor in the discretionary formula that allocates funds using a fairly low unemployment rate as the cutoff, this large local area would likely receive a substantial portion of funds, because their absolute number of unemployed individuals is quite high, compared to the smaller areas elsewhere in the state. As a result, this factor is conceptually closer to using the number of unemployed individuals in that it ensures that larger areas with lower relative unemployment rates still receive some share of funding. Of course, there remains a threshold, though it is doubtful that any areas would observe an unemployment rate below 1.25%.

The fourth state, Iowa, uses two separate factors in its discretionary formulas, but one factor is given zero weight in the adult formula, while the other is given zero weight in the youth formula. Specifically, for the adult formula, all of the discretionary 30% is allocated based upon excess unemployment, or the number of unemployed individuals above the state average. This is calculated similar to the other states, described above. In contrast, for youth allocation, this state

II. States' Current Allocated Formulas

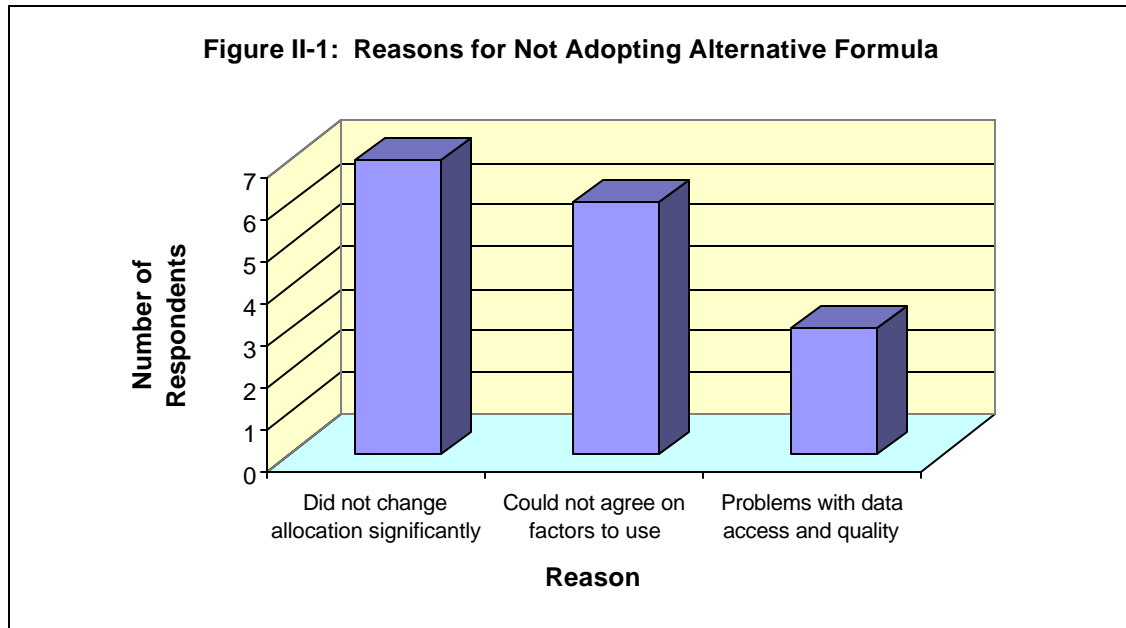
allocates the entire 30% of its discretionary funds using excess youth poverty. By using a different factor for adult funds as compared to youth funds, this state is targeting funds differently for the two streams. For adults, they are placing greater emphasis on the unemployed population than would have been the case under the standard formula, because they are adding an additional unemployment factor on which 30% of the funds are based (and, in so doing, they reduce the percentage of funds being allocated on non-unemployment factors, by 10%, since only the number of disadvantaged adults is a non-unemployment factor in their formula). Similarly, for youth, this state is placing greater weight on youth who are disadvantaged, by placing a 30% weight on youth poverty, in addition to the 23.3% weight assigned as a result of the standard formula. Thus, more than half of all youth funds are targeted based explicitly on the number of low-income youth or those living in poverty.

Despite these four states implementing discretionary formulas for the adult and youth programs, it is perhaps surprising that so few states took advantage of the flexibility offered to them under WIA.⁴ As noted in the previous chapter, however, despite the increased flexibility and the possibility for more accurately targeting funds to local areas, states may well have significant concerns about implementing such formulas, including concerns about data availability and quality, as well as disagreement over which factors should be utilized in these alternative formulas. Many more states, in fact, reported that they considered adopting alternatives to the standard formula, but ultimately did not do so. In fact, more than 40% (N=16) of all multiple workforce area states reported that they considered adopting an alternative formula to allocate adult funds, yet only one-fourth of those contemplating such a formula actually implemented one, as noted above. For youth allocation, approximately one-third of all multiple area states considered adopting an alternative formula, but here, too, only four states ultimately did so. It would seem, then, that many more states gave some thought to adopting an alternative, but most chose to rely on the standard formula to allocate funds.

The reasons cited for not adopting alternative formulas despite considering them focused heavily on three primary concerns, which are shown in Figure II-1. First, and foremost, states reported that the alternative formulas did not make a significant enough impact in the allotments assigned to local areas, either because the factors chosen were not

⁴ None of the six states for whom we have no data reported that they were considering adopting discretionary formulas during their initial start-up under WIA (“Workforce System Information and Evaluation, Volume VI,” Social Policy Research Associates, Nov. 2000). Thus, we are confident that, even though we do not have updated information from these states, only four states have adopted discretionary formulas for the adult and youth programs under WIA.

different enough from those included in the standard formula, or because the desire to implement hold-harmless provisions (discussed below) prevented substantial change from occurring even if it would have as a result of the discretionary formula. Thus, for many states, implementing a discretionary formula did not have the desired effect of targeting funds towards areas in greater need, though often this was because the importance of doing so was apparently outweighed by the necessity of utilizing hold-harmless provisions.



A second, and likely related, reason why states considered but did not adopt alternatives to the standard allocation formulas was that those involved in the consideration could not agree on what factors should be used in the discretionary formula. In general, this inability to agree on the factors to be used reflected a concern that the factors discussed did not substantially change the allocation. Thus, similar to the states that chose not to adopt a discretionary formula because it did not produce meaningful alterations in allocation results, several other states simply could not agree on which factors to use, in part because various factors considered led to little noticeable change in results.

The third reason cited for considering, but not adopting, an alternative formula was that some states did not have access to the necessary data, or they had specific concerns about the reliability or quality of the data they could obtain. This was noted in the previous chapter as a significant concern, and at least three states mentioned this difficulty as a primary reason why they did not adopt an alternative formula to allocate funds for the adult and youth programs under WIA.

Statewide Activities

Nearly all multiple workforce area states reported setting aside the maximum of 15% of total adult and youth funds for statewide activities. Indeed, fully 92% (N=35) of the states reported they set aside the full 15% of adult and youth funds,⁵ while the remaining three states each set aside approximately 10% for statewide activities. This is important for the substate allocations because this percentage of funds is removed from the overall state allocation before it is distributed to substate areas.

For the adult funding stream, these funds were used for a relatively wide variety of purposes, including for: general administration, incentive funds, technical assistance, capacity building, incumbent worker programs, maintaining the eligible training provider (ETP) list, and maintaining/developing MIS. Thus, the statewide activities are used for many different purposes. In general, however, states set aside the maximum allowable under WIA, keeping 15% of their overall state total for both the adult and youth programs, and allocating the remaining 85% using the standard and, in a few cases, discretionary formulas.

Perceptions of Allocation Formulas' Suitability

Respondents' views on the suitability of the standard allocation formulas were quite mixed. Although half of the respondents reported that the formulas either very accurately or at least somewhat accurately target funds according to need, by definition this means that half the respondents did not feel the formulas were very accurate in targeting funds. Indeed, sixteen respondents, or 42% of the multiple workforce area states, reported that the standard adult allocation formula is somewhat inaccurate in targeting funds to local areas based on their need for them. Fully 37% of respondents reported similarly for the youth allocation formula. An additional state or two reported that the formulas were very inaccurate in meeting this objective. Thus, a substantial percentage of states believe the allocation formula is not particularly well-suited to targeting funds under the adult and youth programs to their local areas that are most in need.

⁵ These numbers were identical for both the adult and youth funding streams, so they are reported as one in this section.

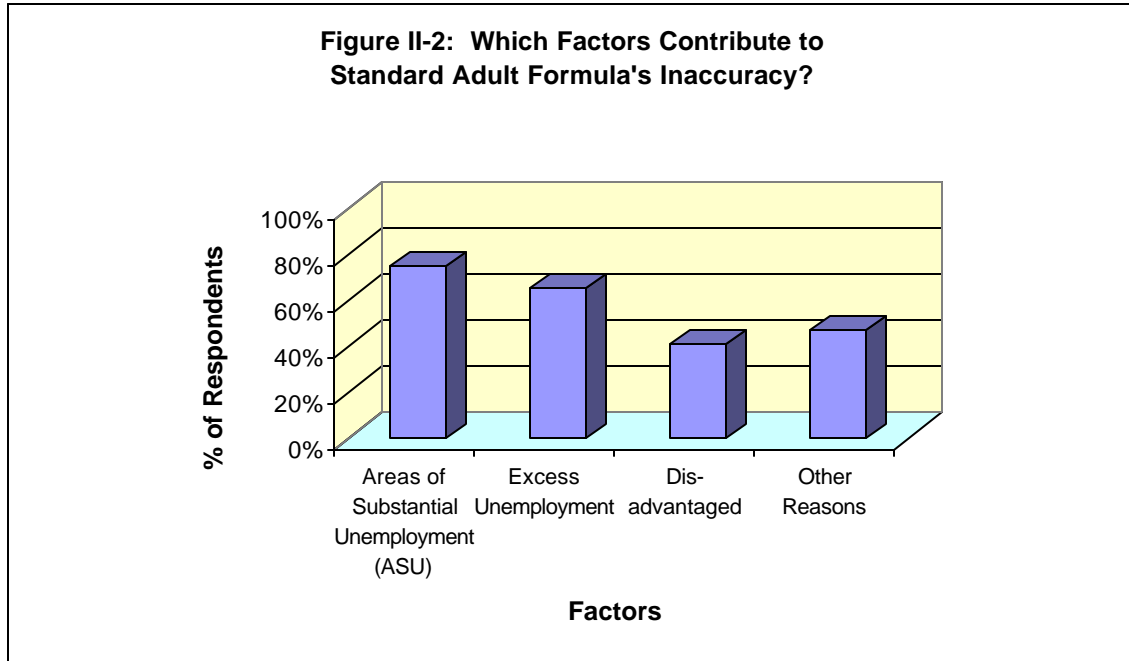


Figure II-2 displays, from among those who believed the formula was at least somewhat inaccurate in targeting funds, the percentage of respondents who believed any of the three formula factors contributes to the inaccuracy. As can be seen in this figure, in general, respondents believed that the two unemployment factors are the primary reasons for this poor ability to target funds more accurately. Specifically, fully three-fourths of those respondents who thought the formulas were not particularly accurate believed that the formula's reliance on ASUs was a contributing factor to this inaccuracy. Similarly, 65% of respondents believed the reliance on excess unemployment led to inability to accurately target funds to areas most in need of them. To a somewhat lesser degree, 41% of respondents believed the reliance on disadvantaged adults leads to the formula being inaccurate in targeting funds based on local area needs. Interestingly, nearly fifty percent of all respondents noted that "other" reasons caused the adult formula's allocation to inaccurately target funds to local areas. The vast majority of these responses were due to the reliance on Census data for data on disadvantaged adults. Many complained that data that are as much as 12 years old and hence are virtually useless in targeting funds, and several voiced hope that new methods of computing such figures could be established. In addition, two respondents noted that reliance on the three factors does not help in targeting WIA's "universal customer," and expressed the hope that a shift could be made toward targeting the adult population, which is a better reflection of WIA's target population. Nearly identical proportions of respondents expressed concerns about these factors for the youth allocation, as well.

II. States' Current Allocated Formulas

Given that we asked respondents to assess how well the allocation formulas target local areas' needs, we also asked them to describe what they meant by the term need. Although this question was an open-ended one, asking respondents to identify their definition of local area need, we coded responses into several categories and present these in Table II-2. As can be seen in this table, very few respondents asserted that the factors used in the current formula were the best definition of need, though approximately half the respondents reported that the number of disadvantaged adults was one indicator of need. Interestingly, just as substantial a percentage of respondents reported that the number of recipients eligible to receive WIA services (29%) or the number of individuals in the labor force (17%) is a key indicator of need within the adult program. Of course, a major factor in the proposed formula is the number of unemployed adults, and this was mentioned by approximately 20% of respondents as a key indicator of local areas' need. Other potential indicators of need, raised by one or two respondents each, were the number of WIA registrants in a given local area, the number of adults overall, the average income level, the number of long-term unemployed, the number of employers in an area, and the number of adults with basic skills levels at less than 9th grade.

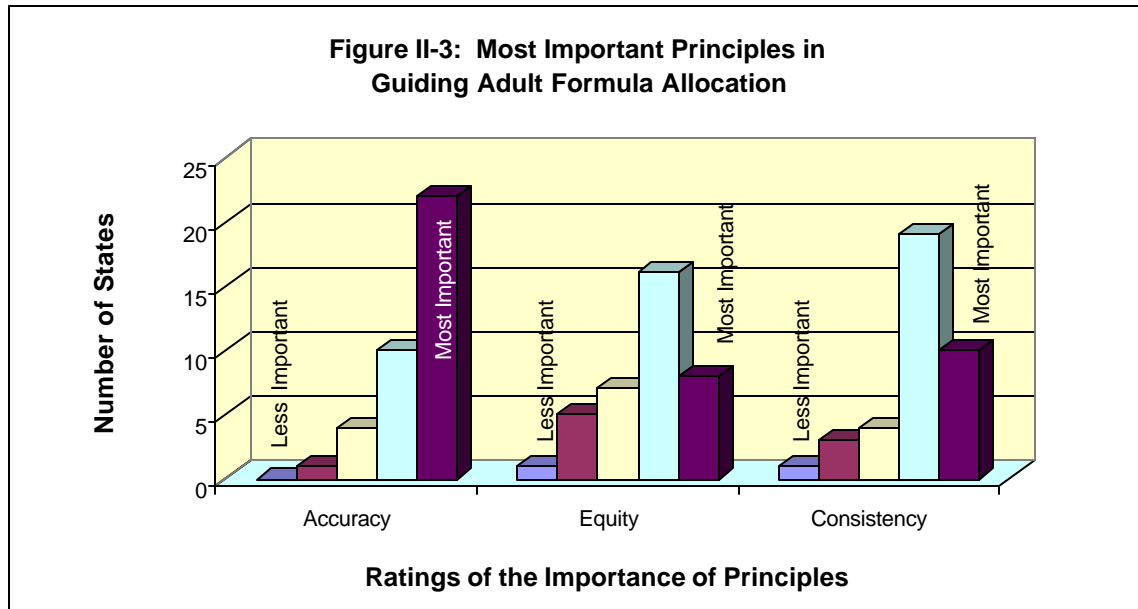
	Adult Formula	Youth Formula
# of Disadvantaged	45%	55%
# of Eligible Recipients	29%	29%
# in Labor Force	17%	
# of Unemployed	21%	8%
# of Adults/Youth	8%	8%
# of WIA Registrants	8%	3%
# of Employers	8%	
Long-Term Unemployed	5%	3%
Average Income Level	5%	
Basic Skills Deficient	3%	5%
Dropouts		12%
Pregnant/Parenting Youth		3%
Youth in Criminal/Juvenile Justice System		5%

Concerning youth program funds, an overwhelming number of respondents reported that the number of disadvantaged youth, or eligible recipients, was a key indicator of local areas' need for funds. Additionally, 12% of respondents reported that

the number of youth in an area who were high school dropouts is a key indicator of need. Eight percent of respondents identified the number of unemployed older youth as a critical indicator of need. This is somewhat similar to one of the new factors in the proposed formula, which focuses on the number of unemployed individuals in an area, though this is not specific to unemployed youth. Additionally, one or two respondents each identified the number of WIA youth registrants in an area, the total youth population, and the number of: pregnant or parenting youth; long-term unemployed youth; youth in the criminal/juvenile justice system; and youth who are basic skills deficient.

In general, then, though there was not broad support for the current allocation formula factors as critical indicators of local areas' needs, especially the ASU measure, there was some support for several of the factors that have been proposed in the pending WIA reauthorization legislation, suggesting perhaps that these proposed formulas might better target funds to local areas more accurately based on the areas' needs. In Chapter III, we will examine how the proposed formulas would distribute funds differently than the current formulas, but here it is important to note that, at the least, the factors included in the proposed formulas are seen by at least some states as more accurately targeting local areas' needs.

Finally, we asked states to assess how important several principles are in guiding substate allocation formulas. For both the adult and the youth program funds, we asked states to rate, on a scale from one to five, with one representing "least important" and 5 representing "most important," their assessments of the importance of accuracy, equity, and consistency in the funding formulas. Results for this question are displayed in Figure II-3. As can be seen in this figure, among these, accuracy was cited as the most important principle. Fully 86% of all respondents asserted that accuracy in targeting adult program funds to areas with the greatest need was very important (defined as "4" or "5" out of 5). All but one of the remaining states reported this was at least somewhat important (defined as a "3" out of 5). Under the youth program, the comparable figures were 92% asserting this was very important, and again all but one of the remainder agreeing it was at least somewhat important. Thus, states foremost consideration in assessing a formula to allocate funds under WIA is that it be accurate in targeting areas with greater levels of need for services.



Although not nearly as uniformly, states also are concerned that the allocation formulas promote consistency in funding levels for local areas from year to year. For example, 76% of states reported that such consistency was very important as a guiding principle for the formulas used to allocate funds to local areas for adult program services, and 83% of states agreed this was very important for youth program allocations. Thus, consistency is seen as a key component that should guide substate allocation formulas, though this component is somewhat less important than ensuring that funds are targeted to where they are most needed. This is interesting, however, in light of the fact that so few states opted to adopt an alternative formula to allocate up to 30% of their funds, as WIA allows. If states truly believed that “need” was the most important principle in allocating funds, one would assume that greater numbers of states would have adopted such a formula, especially given the relatively tepid support given to the factors used in the standard formula. Perhaps, then, states identify need as critical in allocating funds, but ultimately believe that such need is approximated well enough by the standard formula in light of the potential instability caused by introducing new factors.

Still fewer states are heavily concerned that the allocation formulas promote equity across LWIAs to ensure that they can offer consistent levels of services. Specifically, 63% of states identified this as very important in adult program allocations (and 64% for youth program allocations). The remaining states were relatively evenly split, viewing this factor as either somewhat or not very important in guiding substate allocations.

Fluctuations in Funding Under Current Formulas

One of the primary concerns under the current formulas is that there is a high likelihood that local areas' funding allotments will fluctuate substantially from one year to the next. Responses to questions asked about funding fluctuation are displayed in Table II-3. In terms of the adult formula allocation, in only one case did our respondents report that there was no fluctuation from year to year, and an additional 47% indicated that any such fluctuation had been within ten percent of the prior year's funding. But half of all respondents reported that, had a hold-harmless provision not been enacted, their local areas' funding would have fluctuated between ten and twenty percent (36% of respondents) or even more than twenty percent from one year to the next (14% of respondents). Thus, at least half the states in our sample reported local areas would have had greater than 10% changes from one year to the next in the adult program allotments they received. Very similar figures were reported for the youth program formula allocation (i.e., 46% of all respondents reported there would have been changes of greater than 10%). Substantial fluctuations thus would be quite common in both the youth and the adult program allotments in the absence of hold-harmless provisions, and local areas would be forced to adapt to these changes. Even with hold-harmless in place in many states, 41% of all respondents noted that local areas in their state had experienced problems in providing adult services (and 35% in providing youth services) because of funding instability from year to year.

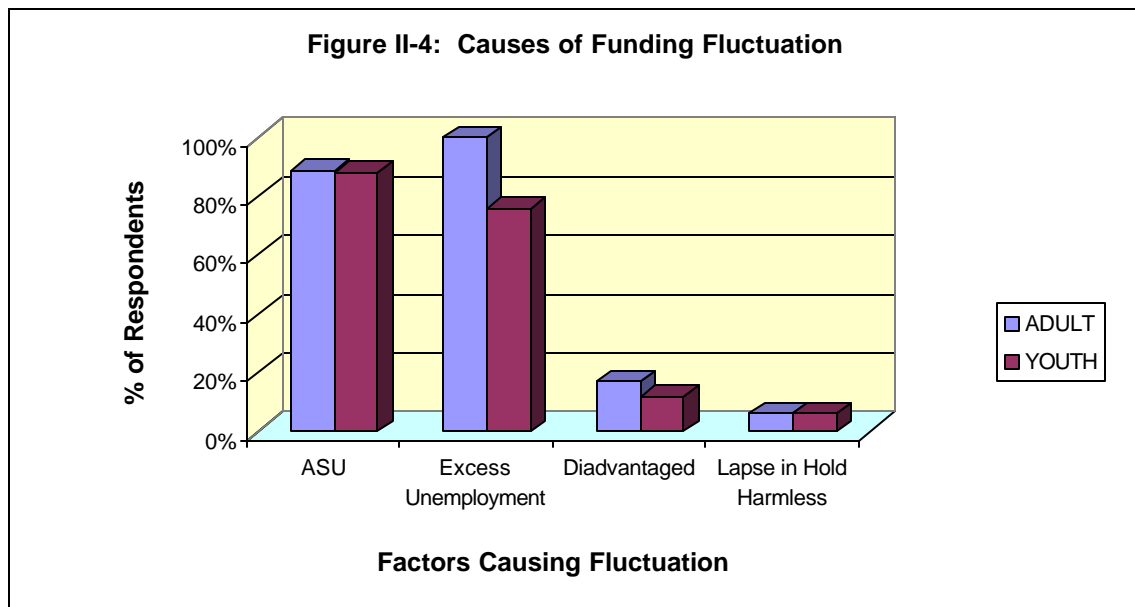
**Table II-3
Fluctuation in Allocations and its Impact on Services**

	Adult	Youth
No Fluctuation	3%	3%
Less than 10%	47%	51%
Between 10 and 20%	36%	37%
Greater than 20%	14%	9%
Experienced Problem Providing Services Because of Fluctuation	41%	35%

Note: Columns in rows 1 through 4 sum to 100%. Row 5 is a separate question asked of all respondents in a yes-no format. The percentage shown reflects the percentage answering affirmatively.

Fluctuations in yearly allotments are clearly a concern, given their impact on services for both the adult and youth programs. Several respondents noted that individuals already receiving services within a given program year expect to continue to receive those services until they complete them, even if that is in a subsequent program

year. Fluctuations in funding create concerns about what services can be paid for, leaving significant concerns about being able to serve customers effectively. In addition to causing problems for local areas in planning and knowing what services they will be able to offer, respondents also noted that fluctuations prevent local areas from being able to enter long-term contracts with providers, because they do not know whether they will have the funds to honor such contracts in the future. This creates greater possibility for turnover among providers; thereby reducing the experience and understanding of WIA among those providers who will be in place in future years.



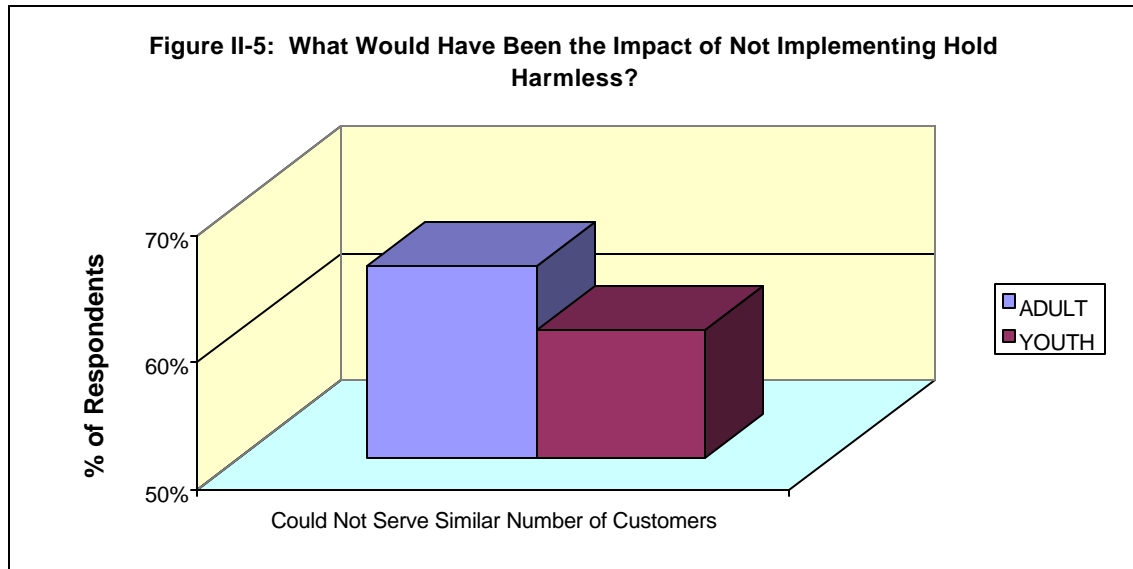
As a means of understanding the roots of these fluctuations, respondents reported what about the formulas caused these shifts. Results for this question are shown in Figure II-4. As with the results concerning the inaccuracies of the formula, most respondents pointed to the two unemployment factors as the primary cause of year-to-year fluctuation. For example, 89% of respondents reported that the adult formula's reliance on ASUs helped to create the fluctuations, while all respondents (100%) cited the reliance on excess unemployment as helping to create funding instability. Similar figures for the youth formula were 88% citing ASUs and 76% citing excess unemployment. In contrast, only 17% of respondents cited the use of the economically disadvantaged factor in creating instability for adult funding (and 12% for youth), likely because the factor relies on Census data that have not changed for local area allocation since the 1990 Census data first became available. Additionally, only 6% of respondents blamed the lapse in hold-harmless for funding instability in either the youth or adult programs,

though many others may have if their state had not invoked this provision through WIA implementation.

Use of Hold-harmless. One mechanism by which states can limit the fluctuations in allotments to local areas is the hold-harmless provision. This provision, described in some detail in Chapter I, enables states to limit any potential funding decreases to local areas to 90% of their average allocation over the previous two years. Although this provision was not mandated in the first two years under WIA, it was required as of the third program year. Further, DOL allowed states to invoke this provision in the first two years if they chose to do so. Two-thirds of state respondents reported their local areas encouraged them to invoke the hold-harmless provisions for adult allocation prior to it becoming mandatory under WIA, and 80% of states reported their local areas encouraged them to do so for the youth program. This makes sense, given that local areas must be concerned with stability in their funding, and the hold-harmless provision is one key way of accomplishing this goal.

Perhaps in response to this encouragement, 76% of all state respondents reported implementing hold-harmless provisions prior to being required to do so for the adult allocation, and 74% for the youth allocation. Thus, states, like their local areas, were quite concerned about ensuring stability in funding to the localities that determine service provision under WIA.

Implementing the hold-harmless provisions was seen as critical in preventing dramatic changes in local area allotments. Results for these questions are shown in Figure II-5. As can be seen in this figure, 65% of all respondents noted that local areas would not have been able to serve about the same number of adult customers from year to year had the hold-harmless provision not been enacted. And more than half of all respondents reported that adult allocations would have been very different for all (9%) or some (48%) of their local areas, while an additional 40% reported these allocations would have been at least somewhat different.



Similarly, 60% of respondents noted their local areas would not have been able to serve similar numbers of youth customers from one year to the next. And similar numbers also reported that youth allocations would have been very different for all (10%) or some (47%) of their local areas had hold-harmless provisions not been invoked, while an additional 40% reported that these allocations would have been at least somewhat different for local areas. Clearly, then, the hold-harmless provisions have achieved the desired effect of reducing fluctuation in local area allocations and, according to these results, in ensuring that local areas can serve similar numbers of adult and youth customers from year to year.

Unexpended Funds. One obvious potential indicator of funds being allocated in disproportion to the level of need within a local area is the extent to which some areas had unexpended funds for a given program year at the conclusion of that year. If areas were unable to expend their allocated funds, while others expended their entire allotment prior to the end of the program year, this would indicate, perhaps, that funds were mismatched based on local areas' needs, or at least their ability to use the available funds. Further, because such "carry-in" funds are not incorporated into subsequent years' formula allocations, those local areas that carry funds from one year to the next simply add these funds to their subsequent allocation. This situation could be seen as doubly troubling in that it is the areas who had trouble spending their full allotment in the previous year who now are asked to spend not only a full year's allotment, but also to spend the remainder from the previous year. Thus, unexpended funds create multiple layers of potential inaccuracy in targeting levels of need within states.

Interestingly, nearly all states (92%) reported that some of their local areas had unexpended adult program funds at the conclusion of a given program year, while a lower but still large percentage of states reported that local areas had unexpended youth program funds (81%). Such sizable percentages suggest that, indeed, the annual allotments made to local areas do not closely mirror the amount they are able, or need to spend in that year.

Most states did not, however, believe that these unexpended funds were the result of inaccuracies in the funding formulas' ability to target funds to local areas in need. Indeed, only 6% of states reported that unexpended adult program funds (and 4% of youth program funds) were the result of the allocation formula being inadequate to target funds to local areas based on their levels of need. Instead, most states (79% for adult funds and 67% for youth funds) believed that the primary reason for the leftover funds was that some local areas were slower to start up under WIA, thereby leaving them with less time to spend their allotments. This would suggest that the formulas were not to blame for the unexpended funds because the problem was not one of demand within a local area but, rather, the local areas' ability to supply the services to meet demand. Similarly, one-third of all states noted that a key reason for unexpended funds was that local areas found it difficult to recruit or enroll individuals into WIA. Although this could suggest limited demand, states noted instead that this difficulty was a pervasive one that affected all or most of their local areas. This suggests that, rather than identifying areas of low demand specifically, the unexpended funds were allocated during a transition from JTPA to WIA, and this transition created temporary gaps between the services offered and the customers who may have wanted access to them. In general, then, states were quick to note that, although many of their local areas had experienced unexpended funds, this was less the result of inaccuracies or inefficiencies in the formulas used to allocate funds than it was the result of difficulties in ramping up or making the transition from JTPA to WIA.

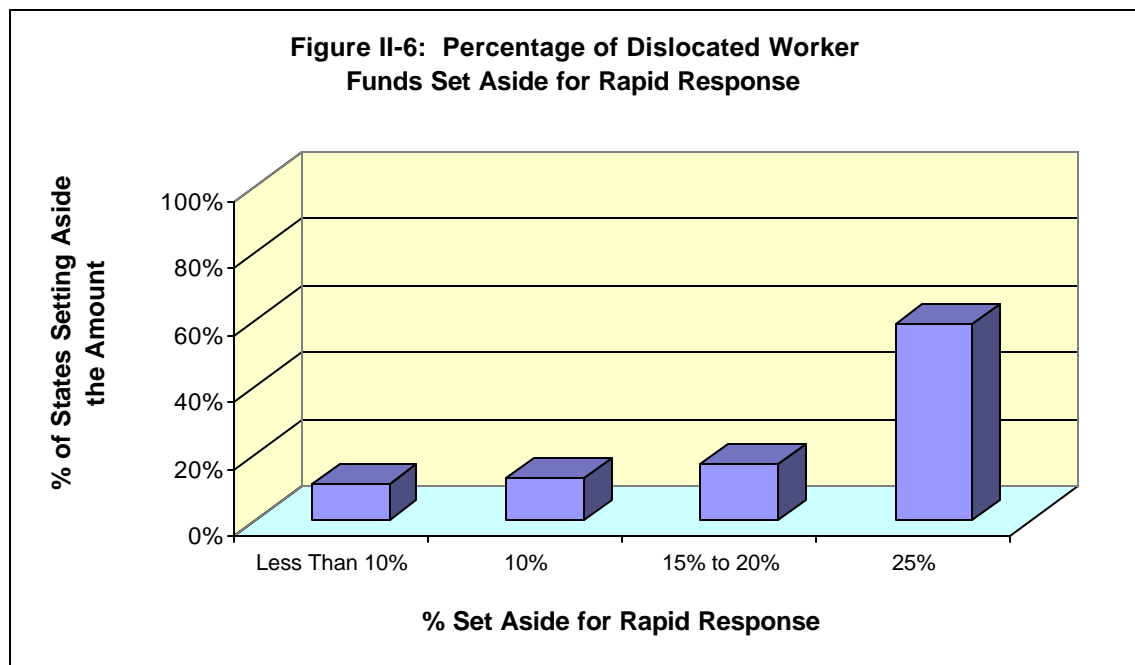
DISLOCATED WORKERS

Given that the allocation formula for the dislocated worker program is substantially different from the adult and youth formulas, and because the amount that the state can set aside differs as well, we asked questions of states separately for this funding stream. In general, it may be expected that formulas to allocate funds under the dislocated worker program will less accurately target the need in a local area, because almost by definition those who are eligible to receive funds under this stream will be unknown until layoffs

II. States' Current Allocated Formulas

actually occur. Unlike under JTPA, in which long-term unemployed individuals were generally eligible to receive such services, under WIA these individuals are not automatically eligible. As a result, no data are available that directly measure the eligible population and, thus, the allocations can be expected to be less accurate in targeting need than formulas for the adult and youth programs.

All states, even those who are single workforce area states, were asked to complete the section on dislocated workers; as a result, the universe for this section is the 46 states from whom we received completed surveys. A majority of states set aside the maximum 25% for rapid response activities, as shown in Figure II-6. Twenty-seven of the forty-six states (59%) reported setting aside this maximum amount, with the remainder setting aside somewhat less. An additional 17% of states set aside between fifteen and twenty percent, while 13% of states set aside ten percent and the remaining 11% set aside less than ten percent. Additionally, all but two states reported setting aside their maximum 15% of dislocated worker funds for statewide activities. The remaining two states reported setting aside 10% for these activities.



States also received substantial additional amounts through the National Emergency funds, which were set aside at the federal level to award based on needs that arise during a given program year, such as large plant closings or mass layoffs. Results for this question are shown in Table II-4. As can be seen in this table, 17% of states (N=8) reported having received no money from this fund, and an additional three states

reported receiving only an average of a few thousand dollars per program year. The remainder of the states received substantially more than this over the previous three program years. For example, nine percent of the states received an average of between \$100,000 and \$750,000 over those three program years. An additional 39% of states reported receiving between \$750,000 and \$5 million per year over that time. Fifteen percent of states received between \$5 and \$10 million, while the remaining thirteen percent of states reported receiving \$10 million or more on average from the National Emergency fund over the previous three program years. Despite these amounts, however, each state reported that the National Emergency fund has no impact on their substate dislocated worker allocation strategy, largely because such funds cannot be anticipated, as they are awarded based on unexpected mass layoffs that occur within a given year. Thus, states make their allocations based on current trends they can identify in advance of a given program year, and reserve specific percentages for rapid response activities. Further, local areas often receive National Emergency funds based on unexpected events that occur during the years, though the state has no control over such funds and, as such, cannot utilize them in any allocation strategy.

Average Amount Received in Previous Three Years	Percentage of States
Zero	17%
Less Than \$10,000	7%
Between \$100,000 and \$750,000	9%
Between \$750,000 and \$5 million	39%
Between \$5 million and \$10 million	15%
More than \$10 million	13%

Allocation Formulas

Five states have adopted the standard adult allocation formula for dispensing funds to local areas for the dislocated worker program. Thus, these five states make allocations for dislocated workers based on the identical factors used in dispensing adult program funds. In effect, then, these states are allocating both the adult program and the dislocated worker program funds using a single formula. As noted in the previous chapter, proposed changes to the allocation formulas would achieve this same effect in

that the adult and dislocated worker program funds would be merged into a single funding stream (along with funds from Wagner-Peyser).

The remaining states (89%), however, have not adopted the standard adult formula to dispense dislocated worker funds. Rather, these states rely on several of the factors identified in WIA (and presented in Chapter I) to allocate dislocated worker funds to their local areas. Indeed, most of these states use many or all of the recommended factors under WIA, including data on unemployment, unemployment concentrations, plant closing and mass layoffs, declining industries, farmer-rancher economic hardship, and long-term unemployment.

The percentage of states that reported using each of the factors, as well as the average weight assigned to each factor, is displayed in Table II-5. The most frequent factor used in allocation formulas for dislocated worker funds is unemployment. Slightly more than three-fourths of all states report using this factor as a key determinant in allocating dislocated worker funds. This is perhaps not surprising, since unemployment does represent two-thirds of the factors that constitute the inter-state allotment formula for dislocated workers. In this sense, states' substate formulas are thus incorporating one of the primary factors that is responsible for their state-level allotment.

	Percentage of States Using Factor	Average Weight
Unemployment	77%	28%
Mass Layoff	72%	10%
Declining Industries	72%	5%
Long-Term Unemployment	69%	24%
Unemployment Concentrations	65%	25%
Plant Closing	52%	3%
Farmer-Rancher Hardship	46%	4%

That unemployment is heavily utilized in the current dislocated worker allocation, as it is in the current adult allocation formula, is important, because unemployment will be the dominant factor in both adult and dislocated worker allocations should the proposed changes to the allocation formulas be enacted. Given the fact that substate

allocations already are often based partly on unemployment, changes in allotments to local areas as a result of the proposed changes to the allocation formulas may not be as severe as they would were unemployment not currently being used. Even though, on average, states reported that unemployment received slightly more than a 50% weight in the allocation, proposed changes to the formulas would significantly increase this percentage. Thus, changes may well still be observed, as we explore in Chapter III.

A similarly high percentage of states reported using mass layoff data and declining industries data in their allocation formulas for the dislocated worker funding stream. Fully 72% of states used these factors in their allocations, though typically the weight they were given was relatively small. For example, most states applied a weight of ten percent or less to these factors, and the average weight applied to these factors was between five and ten percent, respectively. Thus, while they were included in the vast majority of states' allocation formulas, their influence remained somewhat small due to the small weight given them in the formula.

The number of individuals who are long-term unemployed also was utilized widely. Seven in ten states reported using these data in making their allocation, and often they carried a weight of 25% in the formula, though, on average, this factor was weighted slightly less than 25%. Not unlike the unemployment data described above, this is perhaps not surprising as it represents one-third of the weight used in the inter-state allocation formula. Thus, states utilizing these data can be seen as simply replicating in their substate allocation the mechanism by which they were allotted funds for dislocated workers in the first place. Further, unemployment concentrations (generally in the form of areas of substantial unemployment) were used by 65% of states. That these factors and the unemployed factor described above are both widely used, and given heavy weight, in substate formulas means that these formulas relatively closely mimic the inter-state formula which relies on them exclusively.

Somewhat fewer states also incorporated plant closing data and farmer-rancher economic hardship data. Slightly more than half of all states reported using plant closing data, while 46% of states use hardship data. Where these two factors were used, typically they were given relatively little weight. In fact, often these factors were used for 5% or less of the overall dislocated worker allocation and, on average, they were weighted as only three to four percent of the formula.

In general, then, most states used a wide variety of factors in their dislocated worker allocation formula, but the bulk of the weight was given to the three factors that are used in inter-state allocations for this program, namely unemployment, unemployment concentrations, and long-term unemployment. Typically, at least 60%, and often 75% or more, of each state's allocation was made on the basis of these three factors.

Typically, these formulas were developed by a combination of state workforce department officials and representatives from the state WIB. In approximately one-third of the states, a workgroup was composed of state and local officials in the effort to develop a substate allocation formula. In fewer cases, the Governor or representatives from the state legislature were involved in the decision-making. In each of these cases, only 15 to 20% of states reported such involvement

Funding Stability and Recapture of Funds

Slightly more than three-fourths of all states reported that their local areas had already or were planning to invoke their transfer authority to shift funds from the dislocated worker program to the adult program, presumably because the dislocated worker funds were not going to be spent by the conclusion of a given program year. Although this could suggest that the formula used to allocate funds for the dislocated worker program was inaccurate, such inaccuracies are likely more inevitable in this program as compared to the adult or youth programs, because there is no way to predict where layoffs will occur prior to a given program year and, thus, the need for dislocated worker funds can vary dramatically from year to year.

Despite the difficulties in estimating the level of need in a given local area, most states do report that each local area should receive a baseline amount of dislocated worker funds, rather than setting all funds aside for the state to allocate as the need arises. This baseline amount would be used, according to states, to assure that each local area is capable of operating a dislocated worker program and, thus, is equipped to respond when layoffs in their area do occur. Fully sixty percent of states reported that baseline funding for local areas was important. Given that this is the manner in which the program currently operates, perhaps it is unsurprising that the majority of states believe this is the most effective means of operating the program. Interestingly, though, one in four states do not believe such a baseline is necessary (the remainder reported they were unsure whether baseline funds were necessary), suggesting perhaps that some states believe the program might be run more effectively by reserving all funds at the state level until such

time as dislocations occur, at which point funds could be directed toward the area experiencing these layoffs. Despite this, however, most states did believe that allocations should be made to local areas, even when these allocations cannot be targeted to the eligible population due to problems with data availability and variability in the occurrence of dislocations.

When local areas are unable to expend their dislocated worker funds, they typically face recapture of the funds by the state. Nearly eighty percent of states require their local areas to meet an 80% obligation or expenditure rate by a specific date within the program year or they face recapture of their funds to be reallocated to those areas in need of them. This is largely driven by the fact that states themselves must obligate at least 80% of their funds or face national recapture. As a result, states pass this requirement on to their local areas. After recapturing unexpended funds from local areas, the states' reallocation process often mirrors the original allocation, as nearly sixty percent of states use the original allocation formula in reallocating recaptured funds. The remaining states reallocate based on local areas' needs, which are by then known since layoffs have occurred, and on local areas' expenditure rates. Those local areas who have expended their allotments, and can still demonstrate a need for funds are thus given preference in reallocation. In this way, then, recapture and reallocation can be seen as mechanisms by which a state can supplement any shortcomings in the original formula, or more accurately target needs that arise during a given year.

SINGLE WORKFORCE AREA STATES

Eight states⁶ are single workforce area states, meaning that they need not dispense funds to local areas using any allocation formula prescribed by WIA. All eight of these states returned completed surveys, in which we asked a set of questions about whether and how they dispense funds to sub areas within their state.

All states reported setting aside money, both under the youth and the adult programs, for statewide activities. One state set aside 10% of both adult and youth funds, while the remaining states set aside the maximum 15% for statewide activities for both the youth and adult programs. Similarly, one state set aside 10% of dislocated worker funds and the remaining states set aside 15% of dislocated worker funds for state

⁶ Seven of these are states, and the remainder is the District of Columbia. For ease of exposition, we simply refer to all as states.

II. States' Current Allocated Formulas

activities, and all states set aside the maximum of 25% of dislocated worker funds for rapid response activities.

Despite these general set asides, only a few states reported actually allocating money to substate areas. Specifically, three of the eight states allocate funds to substate areas, each by using a formula developed by their state. Indeed, each of these three reported that the ability to develop a discretionary formula, and thus target funds to the substate areas most in need, had an impact on the state's decision to become a single-area state.

One of these states used exactly the same three factors as the standard formula to allocate adult and youth program funds to their substate areas; in this case, although the same factors are used as in the standard formula, the weights are slightly different (with the number of disadvantaged adults/youth receiving more than one-third of the weight). A second state allocates both adult and youth funds based on several factors, including the three used in the standard formula, as well as long-term unemployment data and the number of individuals living in poverty. This state allocates funds to its three counties using these formulas. Finally, the third state that allocates funds to substate areas does so, for adults, by focusing solely on unemployment concentrations (i.e., ASUs). For youth, this state incorporates two factors into its allocation formula: the number of disadvantaged youth and the number of individuals living in poverty. In each case, the state allocates money to substate areas based on the location of the state's One-Stop centers.

SUMMARY

In this chapter, we have described the results from a survey of all states concerning their current allocation formulas under WIA for the adult, youth, and dislocated worker programs. We received completed surveys from 46 of the 52 states to which we sent the survey.⁷ As noted, very few states actually adopted the use of a discretionary formula for their adult and youth programs, even though WIA allows states to do so for up to 30% of their allocated funds. Those four states who did adopt discretionary formulas typically used indices of excess unemployment, or unemployment above the state average, as their discretionary measures.

⁷ In addition to the 50 states, we also mailed surveys to Washington, D.C., and Puerto Rico.

In general, states allocated money under the adult and youth programs very similarly. Each of the four states using discretionary formulas did so for both programs. All remaining states used the standard formula to allocate their entire amount of youth and adult program funds.

Most states were primarily concerned that the formula used to allocate funds under WIA target those funds to areas with the greatest need. Additionally, states believed that consistent funding levels were important so that local areas could rely on sufficient funds to provide a stable set of services from one year to the next. Though the survey results would suggest that states' concern for targeting need is paramount, the fact that only four states opted to adopt a discretionary formula in allocating funds for the adult and youth program suggests that perhaps stability in funding among local areas may instead be the critical factor in this allocation. In an effort to ensure this stability, the vast majority of states invoked their authority to implement a hold-harmless provision in substate funding, even though WIA did not mandate one until two years after WIA implementation.

Substate funding for the dislocated worker program relied primarily on several factors, including most prominently unemployment, unemployment concentrations, and long-term unemployment, which are similar to the factors used in inter-state allocations. Several other factors often were used in substate allocations, though typically these other factors received less weight in the allocation formula. A few states used the standard WIA adult formula to allocate funds under the dislocated worker program, thereby foreshadowing to some degree proposed changes to the allocation formulas under WIA that would integrate adult and dislocated worker funds (as well as those under Wagner-Peyser).

Finally, eight of the states in our sample were single workforce area states. Of these, three reported allocating funds to substate areas, often using the standard WIA adult and youth formulas, or slight variants of them, as the mechanism by which to make these allocations. The remaining five states did not allocate funds to substate areas and, instead, directed funds as needed from the state level.

In the subsequent chapter, we utilize the information gleaned from our state survey to simulate current allocation strategies. In addition, we again draw on results from the survey to model alternative funding strategies and compare how these alternatives create different allotments than the current formulas. In each case, we refer back to the results gathered through the survey to describe the results of the simulated allocation strategies.

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III. COMPARISONS OF CURRENT ALLOCATIONS WITH ALTERNATIVE MODELS

In the previous chapters, we have provided an introduction to the formula allocation process used to allocate WIA funds to substate areas, and described the results from a survey of states conducted as part of this evaluation. In so doing, we have identified several of the key concerns that have been expressed about the allocation formulas, and discussed why these concerns have arisen. Additionally, in presenting the results from our state survey, we have detailed how states currently are allocating their WIA funds, and the problems they have experienced in doing so. In this chapter, we use the knowledge gleaned from the survey to reproduce the actual allocations made to local areas by states by mimicking the allocation formulas they are using. Next, we develop alternative formulas, utilizing the discretionary formulas used by states implementing such formulas, as well as other plausible alternatives, in an effort to examine how the actual allocations made under such alternatives would differ from the current allocation. Such comparisons enable us to examine whether one or more of these alternatives is better able to target the level of need existing within local areas by focusing more funds to those areas with higher levels of need.

This chapter is divided into several key parts. First, we describe how we replicated states' allocation formulas for adults and youth, and discuss our approach to reproducing actual allocations, including the development of Areas of Substantial Unemployment (ASUs) and the collection of all the data required to reproduce these allocations. In the next section, we make comparisons between the current allocations for these two programs and the results that would be obtained by using one of several alternative formulas both without and then with specific exogenous constraints such as a hold harmless provision. Additionally, we detail how the various alternatives presented in the chapter impact local areas with differing levels of need, such as those with high rates of poverty or high numbers of unemployed individuals. In this section, we describe how local areas of different types are impacted by each of the alternatives presented in this chapter, by detailing, for example, how cities are impacted by each alternative as compared to suburbs and rural areas. Next, we present a similar, though somewhat shorter, discussion of the dislocated worker allocation formulas and alternatives to them. Finally, we discuss several ways in which the formulas could be used to ensure organizational and financial stability for local boards. In this section, we discuss the

utility of various exogenous factors, such as stop-gain and hold-harmless provisions, as well as factoring in carry-in funds into local areas' subsequent year allocations, in promoting greater stability in local area funding levels from one year to the next.

REPLICATING CURRENT ALLOCATION FORMULAS

Our first step in examining the impact of alternative formulas was to replicate the existing formula, using the information gathered from the state survey. Because single area states do not allocate funds directly to local areas whose boundaries could be replicated through Census or other data, we exclude these eight states from our efforts to replicate allocations. Thus, the discussion that follows holds for all 44 multiple-area states. For each of the three funding streams (adult, youth, and dislocated worker), we asked states to identify the specific factors they use in the allocation formula, and the weights they assign to each of these factors.¹ Using these data, then, we could construct a funding formula for each state that replicates their actual funding formulas simply by utilizing the specific factors and weights identified in their survey. Thus, if a state reported using solely the standard formula for adult allocation, we constructed a formula for that state relying on the three standard factors and applying to each of them a weight of one-third. In other words, local areas in states using the standard formula would be assigned an allocation formula as follows:

$$\text{Allocation Share} = .333*(\text{ASU share}) + .333*(\text{Excess Unemployed Share}) + .333*(\text{Disadvantaged Share})^2$$

For states that relied on discretionary formulas in addition to the standard formula, we assigned a weight of .233 to each of the standard factors (i.e., one-third times .7, which represents the 70% weight the standard formula must receive even when using a discretionary formula), and the appropriate weights assigned to the discretionary factors (i.e., if a state used two factors in the discretionary formula and weighted them equally, each received a weight of .15 in the formula. This is derived by dividing the 30% weight

¹ Although we did not receive responses from six of the states, each of these states reported as part of a separate study that they planned on using the standard formula for adult and youth allocation. Thus, for adult and youth allocations replicated in this chapter, we simply used the standard formula for these states.

² In this equation, the disadvantaged share is either for youth or adults, depending on the formula being examined. The calculation of each LWIA's share, shown in parentheses, is described in detail below.

given to a discretionary formula by the two factors weighted equally). This is denoted below:

$$\text{Allocation Share} = .233*(\text{ASU share}) + .233*(\text{Excess Unemployed Share}) + .233*(\text{Disadvantaged Share}) + .x*(\text{Discretionary Factor 1 Share}) + .y*(\text{Discretionary Factor 2 Share}),$$

where *x* equals the weight assigned to the first discretionary factor, and *y* equals the weight assigned to the second discretionary factor, and so on.

Combining the various formulas across states, we can thus replicate the allocations made to each local area under these funding streams.

Results obtained from these formulas do not exactly mirror the actual allocations made in a given program year, because they do not account for exogenous constraints such as hold-harmless provisions which, as noted in the previous chapter, most states implemented even before being required to under WIA. But we were interested in producing the results that would be obtained in the absence of such external constraints so that we could more properly examine how allocations would differ under alternative formulas. After we discuss the impact of alternative formulas in comparison to the current formula being used by each state in the absence of such constraints, we then describe these impacts when coupled with a hold-harmless provision. In this way, we can better explicate how simply changing the formula would have an impact on allocations, as well as how this impact may be mitigated through the use of hold-harmless provisions.

Thus, our initial goal was to develop a formula for each state that mimics their current formula, and to produce allocations to local areas using this formula. Having already accomplished the construction of the requisite formulas, we next needed to acquire the data upon which the formulas are based. In general, as noted in the previous chapter, the adult and youth formulas were based largely upon the standard formulas, as well as a few highly similar factors. Thus, we needed to compile unemployment figures and tallies of the number of disadvantaged adults or youth within local areas. For these, we relied upon two primary data sources, the 2000 Census and the yearly Local Area Unemployment Statistics (LAUS) series. These are the same data sources states rely on for their own allocations and, thus, we are able to mimic their allocations with our own.

For each of these data sources, we had to develop configuration files so that we could aggregate the data grouped by Census tract, for the Census, or by county, city, or

other geographic region, in the LAUS, into the LWIA boundaries necessary for allocating funds under WIA. This required sorting through each LWIA's boundaries to determine which counties, cities, or other regions were included in the LWIA. We then used this information to group data from the two data sources into the respective LWIA's, thereby providing us with aggregate counts for each LWIA of the total number of people, the number of unemployed individuals, the number of disadvantaged individuals, and several other critical measures on which our analyses are based.

Excess Unemployed

For each factor to be used in our calculations, we computed each local area's share by comparing its relative amount on that factor to the overall state total. Thus, for example, to compute a local area's share of the excess unemployed population, we first had to determine the number of unemployed individuals necessary for the local area to have an unemployment rate of 4.5% (by simply multiplying the total number of individuals within the labor force by .045). We then subtracted this number from the total number of unemployed individuals within the local area. This difference represented the absolute number of excess unemployed individuals within the local area.³ Summing across all local areas within a state, we then computed the total number of excess unemployed within the state. Any given local area's share for this factor, then, was simply their own number of excess unemployed divided by the state total of excess unemployed.⁴ This share could then be attached to its appropriate formula weight (i.e., .333 for states using the standard formula; .233 for states using a discretionary formula) to determine each local area's allocation based upon this factor.

Areas of Substantial Unemployment

Although the description of calculating each local area's share of the excess unemployed is relatively straightforward, the remaining calculations are not as simple. For example, the ASU calculation is quite tricky, in that entire local areas need not meet the definition of an ASU in order for them to receive a share of the funds allocated based on this factor. As noted in Chapter 1, all that is necessary for an area to receive some share on this factor is for some part of the area (required only to be large enough to carry

³ If this difference was negative, meaning the local area's unemployment rate was less than 4.5%, we simply set the number of excess unemployed within this local area equal to zero.

⁴ From this calculation, it should be clear that summing all the shares across local areas will total one, representing one hundred percent of the total number of excess unemployed for the state.

out workforce activities) to have an unemployment rate of at least 6.5%. Thus, computing the unemployment rate only for the local area as a whole may well miss some portions of the area that qualify as an ASU. Further complicating matters, local areas have a vested interest in having as much of their unemployed population as possible within ASUs, so that if the entire LWIA has an unemployment rate of at least 6.5%, all unemployed individuals within that area are counted in tallying the local area's share on the ASU factor. And, one step further removed, if an entire state has an unemployment rate above 6.5%, it is considered an ASU and, thus, all local areas in the state also receive this designation.

Thus, to calculate this factor appropriately for each local area, one must first examine the state unemployment rate to determine if the state qualifies as an ASU.⁵ If so, all LWIAs also qualify and, thus, each LWIA's share for the ASU factor is simply their total number of unemployed individuals. If the state itself does not qualify as an ASU, the second step is to examine whether an entire LWIA qualifies as an ASU. In such cases, all unemployed individuals within the LWIAs that qualify as ASUs are counted toward their share on this factor. Finally, if neither the state nor the LWIA is an ASU, one must examine the individual sub-areas that combine to form an LWIA. If any of these sub-areas has an unemployment rate of at least 6.5%, it counts as an ASU, and the total number of unemployed individuals within that sub-area counts toward that LWIA's share on the ASU factor. But, because local areas have a vested interest in maximizing the number of unemployed individuals within ASUs (because they will receive a higher share of the funding allocated based on this factor), it is critical that the total ASU population for a local area be calculated by finding the largest contiguous population that qualifies as an ASU.⁶ We accomplished this by first identifying ASUs among the various counties, cities, or parts of cities that comprise each LWIA, and then expanding outward to areas contiguous to this in order to maximize the unemployed population within the sub-area that still maintains an unemployment rate of at least 6.5%.

⁵ States reported in their survey responses that they have adopted the DOL definition of an ASU as a contiguous area with a population of 10,000 or more. Additionally, they noted that they follow the DOL procedure for identifying ASUs, as detailed in this section.

⁶ Of course, it is possible for more than one ASU to be defined within a single local area, because two non-contiguous areas within the LWIA could each have an unemployment rate of at least 6.5%. In such cases, the number of unemployed individuals within all the ASUs within the local area is summed to provide the total number of unemployed individuals within ASUs for that local area.

Once all the ASUs have been identified, by designating the state as an ASU, entire LWIAs as ASUs, or sub-areas within the LWIAs as ASUs, each local area's share for this factor is calculated as described for the excess unemployed variable above, by first summing the total number of unemployed individuals in ASUs across LWIAs, and then dividing each LWIA's total by the state total. This relative share can then be multiplied by the weight assigned to the share to produce each LWIA's share of the funds to be allocated under the ASU factor.

Disadvantaged Adults/Youth

Calculating the number of disadvantaged adults or youth also is less straightforward than calculating the number of excess unemployed. Because an individual is classified as disadvantaged if they have a household income that is less than the higher of the poverty level or 70% of the lower level standard of living (LLSIL), one must know both the household income of all individuals, as well as their family size, because these two levels vary depending on one's family size. Although the Census, from which the disadvantaged factor traditionally has been obtained, does provide in its summary files an indicator of poverty status for all individuals, to calculate an individual's LLSIL status one needs access to individual-level data. Unfortunately, such data were unavailable to us for this study, because the individual-level data had not yet been released for the 2000 Census. As a result, our disadvantaged measure used throughout this report relies solely on the poverty status of individuals, as recorded by the Census. As such, it may reflect an undercount of the total number of disadvantaged individuals within any given local area, because some individuals who are not defined as living in poverty may well be defined as having a household income less than 70% of the LLSIL. These individuals would not be counted in the analyses in this report. Although the implications of this omission are not certain, we can speculate as to the likely effect it will have on our results. LLSIL values are typically calculated at the regional level (or, in some cases, at the metropolitan area level), while poverty levels often are calculated for smaller geographic regions. This means that LLSIL values are often applied uniformly across a state, while poverty levels can vary significantly within that state. As a result, not including LLSIL in our measure of disadvantaged individuals may systematically benefit local areas whose poverty level is high, as compared to those whose levels are low. This is because areas with low poverty levels would have more room between their poverty level and the 70% cutoff for LLSIL than areas with high poverty levels (because they would be compared to the same LLSIL in both cases), thereby yielding a greater possibility of having more of the area's residents fall under the

LLSIL cutoff. Thus, not being able to include LLSIL as a factor in our measure of disadvantaged individuals may systematically favor areas with high poverty levels.

In addition, the fact that we had to rely upon aggregate-level data from the Summary Files of the Census also meant that we were constrained by the breakdowns included in these files. Thus, although the number of disadvantaged youth is intended to be calculated for ages 16 to 21, we were able to extract only the number for ages 16 to 20. Those ages 21 were grouped with a much larger set of ages in the Summary Files and, as such, we are unable to include them in this calculation. Given these caveats, however, the calculation of each LWIA's share of disadvantaged individuals proceeds exactly as described for the two factors above.

Although the calculation of the three factors described above would enable us to reproduce adult and youth allocations for the vast majority of states, it would not enable us to reproduce allocations for the four states who adopted a discretionary formula to allocate 30% of their funds. For these states, we need to calculate each LWIA's share of the three factors described above, but also must calculate shares for the additional factors the state includes in their discretionary formula. In the subsequent section, then, we describe these factors and their calculation.

Factors Used in Current Discretionary Formulas

There are several additional factors that are used currently by states that have adopted a discretionary formula. Although they may help to create markedly different allocations as compared to using the standard formula alone, calculating each local area's share for a particular factor is conceptually similar to those described above. The four factors to be described in this section are unemployment above 1.25%, unemployment above the state average, and excess poverty.

Calculating the factor measuring unemployment above 1.25%, which is used by the state of Florida and is assigned the full 30% weight allowable for a discretionary formula, is very similar to calculating the number of excess unemployed, described above, except that instead of the threshold being 4.5%, the lower value of 1.25% is used instead.

Unemployment above the state average is assigned a 15% weight in Arizona's allocation formulas, a 22.5% weight in Alabama's formulas, and the full 30% weight in Iowa's adult allocation (though it receives no weight in the youth formula). This is calculated similar to the factors described previously, with the exception that the threshold used in this calculation is the statewide average of unemployment.

III. Comparisons of Current Allocations with Alternative Models

Finally, excess poverty is assigned a 15% weight in Arizona's allocation formulas, a 7.5% weight in Alabama's formulas, and the full 30% weight in Iowa's youth allocation (but receives no weight in the adult formula). Excess poverty is defined by the states that use it as poverty above the state average; thus its calculation is very similar to that of previous measures. In this case, however, the threshold is the statewide average poverty level, rather than any form of unemployment.

Although when comparing alternative formulas, we utilize several additional factors in our analyses, we describe each of these factors as we introduce them into our simulations. The factors described above are those necessary to replicate current allocation mechanisms for the adult and youth formulas and, thus, to produce current funding allocations for each LWIA. In the next section, we compare the allocations derived from these models to several alternative models, exploring how the alternatives impact local areas' funding, and the extent to which they create significant shifts in allocations. Further, we examine how these alternative allocation formulas impact local areas of different types, including those that have high versus low rates of poverty, those that are located primarily in cities versus suburbs or rural areas, and other factors, and discuss what these impacts mean in terms of targeting levels of need within LWIAs.

COMPARISONS OF ALTERNATIVES TO CURRENT ADULT AND YOUTH FORMULAS

In this section, we compare a series of alternative funding formulas for the WIA adult and youth program to the current formulas, examining their impact on the allocations made to local areas both generally, and with a specific focus on how local areas of different types are impacted. We begin by using the discretionary models developed by several states, and applying these models to all states to gauge how the adoption of such formulas would impact allocations across all states. Next, we examine how the incorporation of several alternative factors not currently in place impact the allocations made to local areas. These additional factors were raised, by either our survey respondents or by one of several interested stakeholders consulted as part of this project, as intriguing possibilities for producing better allocation results than are currently produced. Following this discussion, we then present results for the formulas that have been proposed under pending H.R. 1261, described in Chapter I. In this discussion, we merge funding allocations from the WIA adult and dislocated worker funds, as well as Wagner-Peyser, to mimic the funding strategy that is proposed under this impending legislation.

For each of the alternative formulas presented below, we discuss how its implementation would impact the allocations received by local areas by comparing the results of the alternative formula to those of the current formulas. In many cases, we present the results for adult and youth formulas together, as many of the alternative formulas have similar effects on these two funding streams because the formulas are quite similar. In those cases in which the two sets of formulas differ substantially, however, we present results separately for adult and youth allocations, and describe the differential impact the alternative formula has on each funding stream. Unless otherwise noted, the comparisons made between alternative and current formula allocations use data for PY 2002. Although we replicated the allocations made to local areas for each of PYs 2000, 2001, and 2002, we primarily use the earlier two years' data to assist in calculating the average allocation level for the two-year period prior to PY 2002, which is used in the hold-harmless calculations below. Thus, in the subsequent sections, we compare how alternative allocations made using PY 2002 data compare to actual allocations made in PY 2002 using the current allocation formulas.

Applying Discretionary Formulas to All States

Formulas Using Unemployment and Poverty Above the State Average. The first set of alternative formulas we examined were those that used two factors in addition to the three used in the standard formula. In each case, these two factors were unemployment and poverty above the state average, but the weights assigned to each was different depending on the state adopting the formula. Each will be discussed in turn.

Alabama's Formula. First, we examine the discretionary formula adopted by Alabama. This formula relies on the standard adult and youth formula for the minimum 70% of its allocation, but incorporates the two additional factors, according to its survey responses, to produce a more equitable allocation of funds. For the remaining 30% of its allocation. This formula applies a 7.5% weight to the unemployment above the statewide average measure and a 22.5% weight to the poverty above the statewide average measure. Thus, the formula is calculated as follows:

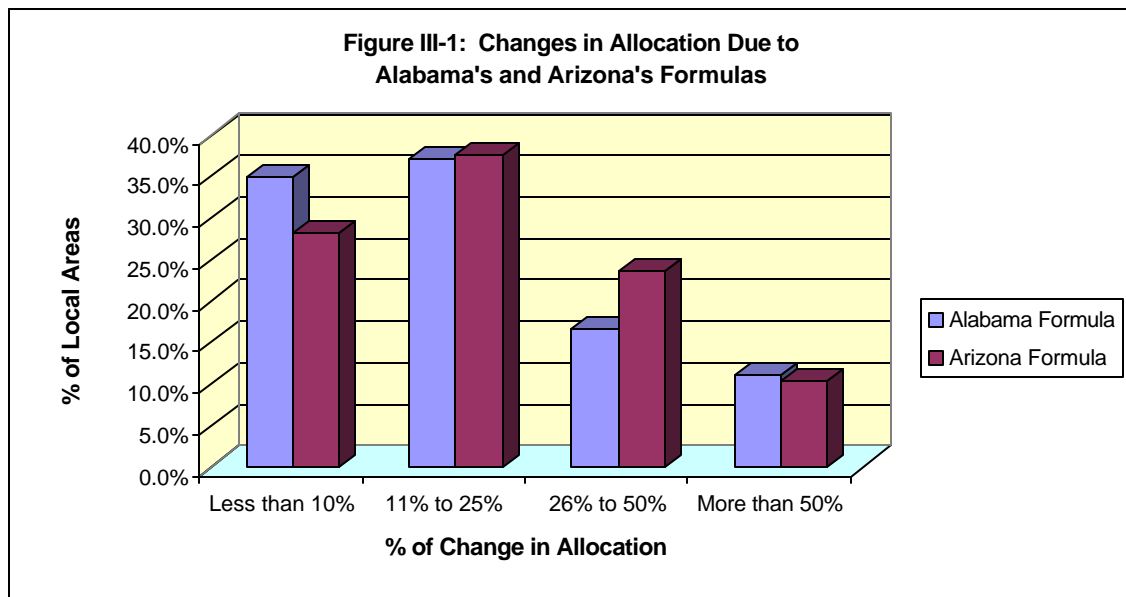
$$\begin{aligned} \text{Allocation} = & .233*(\text{ASU Share}) + .233*(\text{Excess Unemployed Share}) + \\ & .233*(\text{Disadvantaged Share}) + .075*(\text{Unemployment Above State} \\ & \text{Average Share}) + .225*(\text{Number in Poverty Above State Average Share}) \end{aligned}$$

As can be seen, this formula applies greater weight to those areas with high rates of poverty, and substitutes the threshold of the state average of unemployment in place of a

III. Comparisons of Current Allocations with Alternative Models

small percentage of the two standard formula threshold measures (i.e., ASU, Excess Unemployed).

Applying this formula to all states, even this relatively straightforward change has significant impacts on the allocations to local areas. Specifically, as shown in Figure III-1, nearly eleven percent of all local areas observe a change in excess of 50% to their WIA adult funding levels when using this formula as compared to the standard formula, and nearly twelve percent of local areas observe similar changes in their youth allocation. Keep in mind that in these and subsequent comparisons, we are comparing how the allocations would change by implementing the alternative formula *in the absence of any exogenous constraints*, such as hold-harmless provisions. Thus, changes of more than 50% are possible because no local area is ensured that it will receive at least 90% of its prior allocation. Later in this chapter we discuss how the implementation of hold harmless provisions would mitigate the changes evident in this section.



In addition to the fairly sizable percentage of local areas whose allocation would be changed dramatically (i.e., by more than 50%), a substantial percentage of local areas would observe changes to their adult allocations of somewhat smaller amounts. For example, as shown in Figure III-1, the adult allocations of nearly one in six local areas would change between 25% and 50%, and an additional 37% of local areas would observe fluctuations in their adult allocations of between 10% and 25%. Slightly more than one in three local areas would receive an adult allocation within 10% of their current allocation, using this alternative formula.

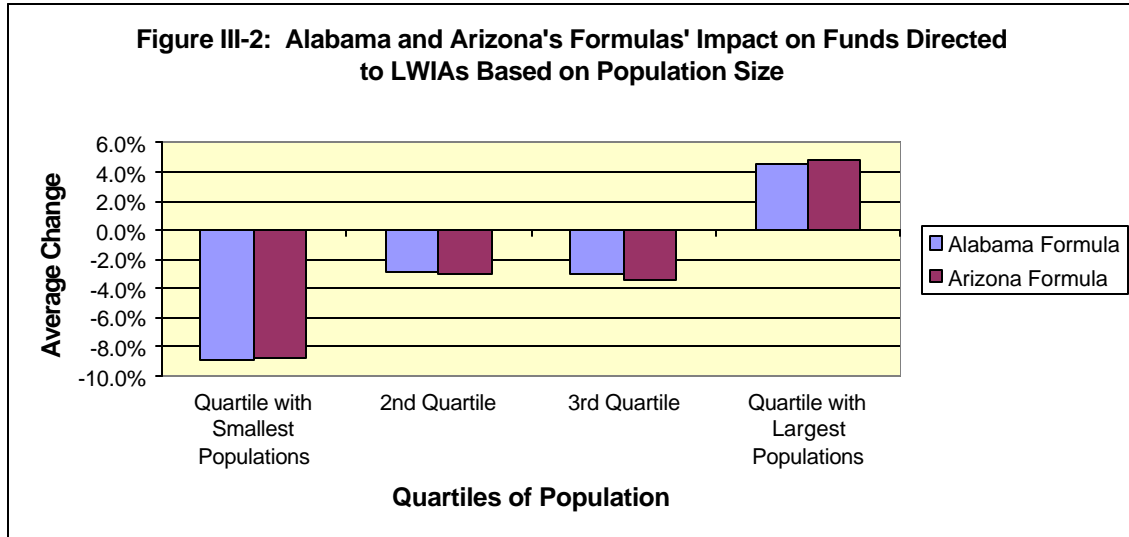
Similar, although slightly larger, changes would occur in youth allocations. Specifically, nearly one in four local areas' youth allocation would change between 25 and 50%, while 39% of local areas would see changes of between 10% and 25%. Only one in four local areas' youth allocation would change by less than 10% if this alternative formula was adopted across all states.

These changes would impact local areas of different types quite differently. For example, local areas with greater population bases would, on average, see an increase in their allocations, while local areas with smaller populations would generally lose funds under this formula. These figures are nearly identical for the youth and the adult allocations. In Figure III-2, we show this effect in adult allocations by breaking local areas into one of four quartiles, based on their population size. For this and similar calculations below, we divide LWIAs into quartiles based on a given characteristic, in this case population size. For each quartile of LWIAs, we compute the average percentage change experienced as a result of a particular formula or set of assumptions. Thus, LWIAs in, for example, the lowest quartile, each experience a specific percentage change in their allocation. These percentage changes are averaged over all the LWIAs in the quartile, which produces the average percentage change for the quartile.

As can be seen in this figure, local areas in the highest quartile of population size (i.e., the top 25% of local areas in terms of their population size) see an average increase of nearly 5% under this alternative formula, while those in the lowest quartile, on average, lose nearly 9% of their allocations. Further, local areas in the middle two quartiles also lose money, on average, using this alternative formula.⁷ Thus, the effect of this formula, when applied across all states, is to divert money away from areas of smaller population and toward areas with larger populations. These trends reflect the average allocation across the various LWIA population quartiles; any individual LWIA may receive more or less in funding as a result of this formula, no matter its rank in population size. But the pattern is clear: on average, larger (in terms of population)

⁷ It is possible for three of the four quartiles to be negatively impacted, with only one gaining in allocation, because the highest quartile receives a greater proportion of current funds than do the smaller areas. Thus, although the actual dollars gained by the larger quartile must be exactly equal to the number of dollars lost by the others, a 5% gain for the larger LWIAs allocation represents a much larger percentage loss for the smaller areas, because of the differing dollar amounts in current allocations.

III. Comparisons of Current Allocations with Alternative Models



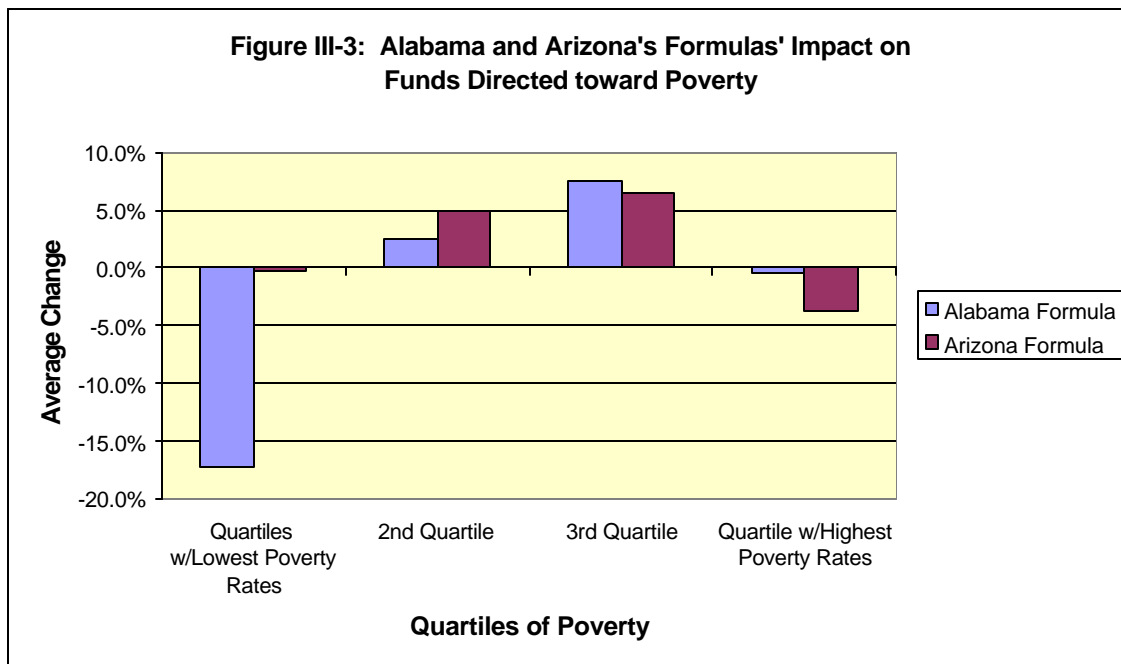
LWIAs are the beneficiaries of this alternative formula while smaller ones tend to lose funds, both for adult and for youth allocations.

Similarly, cities tend to be the beneficiaries of this alternative formula for adults, rather than suburbs or rural areas. This is not surprising given the above findings, since cities tend to have higher populations than do these other areas. But the effect of this alternative formula is to direct nearly 8% more funds toward LWIAs that have heavy concentrations of their population in cities, and to direct less of the funds toward LWIAs in suburbs and rural areas. Specifically, LWIAs that are primarily suburban receive nearly 4% less in funds, while rural areas receive just over 5% less when applying this formula. Although youth allocations show a similar pattern, for these funds, both cities (3.9%) and suburban areas (1.8%) receive slightly more, on average, when applying this alternative formula, while only rural areas (-6%) lose funds.

As noted above, one of the primary features of this alternative formula is to weight more heavily those areas with higher numbers of people living in poverty. What the above results suggest is that poverty concentrations tend to occur more in LWIAs with larger populations and in cities than in other areas. This is consistent with prior research conducted on formula allocations, which have showed that the large percentage of the allocation that is based on unemployment, rather than poverty, tends to direct money

away from central cities.⁸ One effect of this alternative formula, then, may well be to direct money toward those areas with greater poverty.

We can examine this possibility by looking at the effect this formula has on LWIAs with greater rates of poverty. Results of this analysis for adult allocations are shown in Figure III-3, which breaks LWIAs down into quartiles based on their rates of poverty. Interestingly, this figure suggests that it is not the areas with the highest rates of poverty that benefit from this alternative formula. Rather, it is areas that have somewhat higher rates of poverty that benefit the most. Specifically, on average, LWIAs in the quartile with the highest rate of poverty receive nearly the same amount of adult funds as they do under the current formula. However, LWIAs in the next two quartiles receive substantially more, on average, using this alternative formula. For example, LWIAs in the third quartile (the 50th to the 75th percentile) receives nearly 8% more in adult funds, on average, than they do under the current formula. In contrast,



those LWIAs with the lowest rates of poverty would receive, on average, 17% less in adult allocations using the alternative formula than they do in the current formula. Thus, this formula does target areas with higher poverty, although the areas with the highest

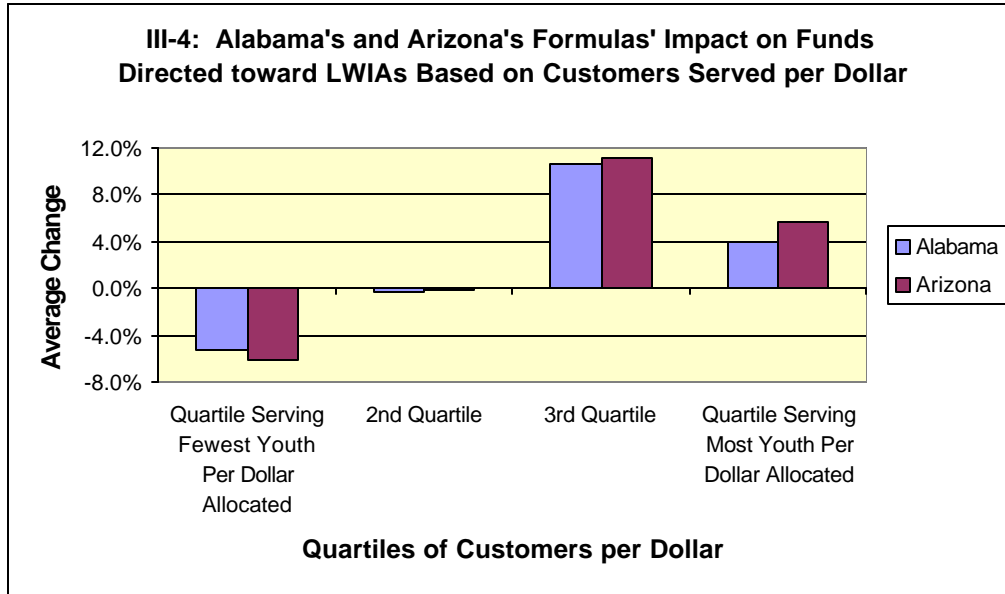
⁸ "An Assessment of Funding Allocation under the Job Training Partnership Act," (1986), Abt Associates, Cambridge, MA.

*III. Comparisons of Current Allocations with
Alternative Models*

poverty change very little. Coupled with the findings concerning cities and rural areas, this suggests that some rural areas with very high rates of poverty receive less under this alternative formula, perhaps because the absolute number of individuals within these areas pales in comparison to areas with poverty rates that are not as high, but whose absolute numbers of individuals in poverty is substantial.

Another consideration in targeting funds to local areas is to do so based on the LWIAs' ability to serve customers. As noted in Chapter I, one might wish to target funds to those local areas who serve greater numbers of customers per WIA dollar, on the notion that these areas are serving customers somewhat more efficiently than areas serving fewer customers per dollar. Such a measure could be used, albeit relatively crudely, to represent the demand for services relative to the overall allocation made to the local area. This is, of course, not the only way in which one could assess efficiency, and it does not assess the quality of WIA services provided. Rather, it is intended as a potentially useful way to categorize LWIAs on a dimension that captures demand for LWIAs' services in relation to the amount they are given to provide them. As such, it should not be taken as the benchmark of quality but, rather, as one way by which LWIAs can be categorized while standardizing for the size of their allocation.

As a means of examining this, we obtained from the WIASRD data files information on the number of customers enrolled in WIA for each local area in PY 2001 (the latest year for which data are available), and divided this number by the total allocation the LWIA was allocated in our simulation for PY 2001, to provide a rough estimate of the number of individuals served per WIA dollar. In Figure III-4, we group LWIAs into four quartiles from lowest to highest, with the higher quartiles serving greater numbers of adults per WIA dollar. As can be seen in this figure, this alternative formula does a very good job of targeting more adult funds toward those LWIAs with higher numbers of customers served per dollar, while also diverting funds away from those local areas serving fewer customers per WIA dollar. Indeed, the LWIAs in the top quartile would receive, on average, 4% greater adult allocations than under the current formula, while LWIAs in the next highest quartile would receive nearly 11% more, on average. In contrast, LWIAs below the median in customers served per dollar would lose money under the alternative funding, with those in the lowest quartile losing, on average, more than 5% of their adult allocation.



Thus, this alternative formula, which uses the standard formula for 70% of adult and youth allocations, and employs two additional factors, including unemployment and poverty above the state average, for the remaining 30%, would substantially alter the allocations made to LWIAs under both the adult and youth programs. Primarily, it would direct money toward areas with greater populations and areas that are or include cities, and away from LWIAs with smaller populations and which are primarily rural. Although this alternative would direct more funds toward areas that are higher in poverty, it would not direct them toward those areas highest in poverty, likely because the areas with highest poverty often tend to be rural areas with smaller populations. Thus, their relative amount of individuals living in poverty, or who are unemployed, is likely to be small in comparison to areas with larger populations, even though their rates of poverty or unemployment may be higher. Additionally, this formula would have the effect of directing more funds toward areas that serve more individuals per WIA dollar, while directing funds away from those areas that serve fewer customers per dollar.

Arizona's Formula. The next alternative formula we examined was the discretionary formula adopted by Arizona. Similar to the formula described above, this relies on the standard adult and youth formula for the minimum 70% of its allocation, and incorporates unemployment and high poverty (both of which are defined as rates that exceed the state average), to make up the remaining 30% of the allocation. In its survey responses, Arizona reported that this formula was intended to produce a more equitable allocation of funds, as well as produce the least negative impact on its local areas. To accomplish this, Arizona gives equal weight to these two additional measures, thereby

*III. Comparisons of Current Allocations with
Alternative Models*

applying a 15% weight to both the unemployment measure and the poverty measure. Thus, the formula is calculated as follows:

$$\text{Allocation} = .233*(\text{ASU Share}) + .233*(\text{Excess Unemployed Share}) + \\ .233*(\text{Disadvantaged Share}) + .15*(\text{Unemployment Above State Average Share}) + .15*(\text{Number in Poverty Above State Average Share})$$

Due to its similarity, it is not surprising that the impact of this formula is highly similar to that described above. Results for this formula are shown alongside the results for Alabama's formula, in the figures above. As can be seen in Figure III-1, similar to the formula used by Alabama, just over 10% of local areas would observe a change of at least 50% in their adult allocation. Greater percentages, however, would experience changes of between 25% and 50% (i.e., 24% of all LWIAs) as well as between 10% and 25% (i.e., 38%). Slightly more than one-fourth of all LWIAs would experience a change of less than 10% in their adult allocation, even in the absence of hold-harmless provisions. Very similar percentages occur for the youth formula as well. These results are very similar to those shown for Alabama, precisely because the two formulas rely upon very similar factors. The sole difference is the amount of weight attached to unemployment and poverty above the state average. Arizona's formula attaches greater weight to unemployment, while Alabama's attaches greater weight to poverty.

Given this disparity, we would expect that the impact of applying Arizona's formula to all states would be that specific types of local areas are affected somewhat differentially than by Alabama's formula. This impact should be most evident when examining LWIAs based on their poverty rates, because it is the weight of this factor that is primarily responsible for differences in the allocations between the two alternative formulas. The results displayed in Figures III-2 and III-3 largely confirm this hypothesis. As seen in Figure III-2, the impact on targeting funds based on population of applying Arizona's formula across all states is remarkably similar to the impact of Alabama's formula – areas with the largest populations receive, on average, more funds, while smaller areas receive fewer funds. In each case, the direction is identical, and the actual percentage is extremely similar as well. Not shown in this figure are results when examining the impact of Arizona's formula on cities, suburbs, and rural areas. These results, too, are quite similar to those presented for Alabama's formula. Cities would receive, on average, just over 5% more, while suburbs would experience very small reductions, and rural areas would experience losses of about 5%.

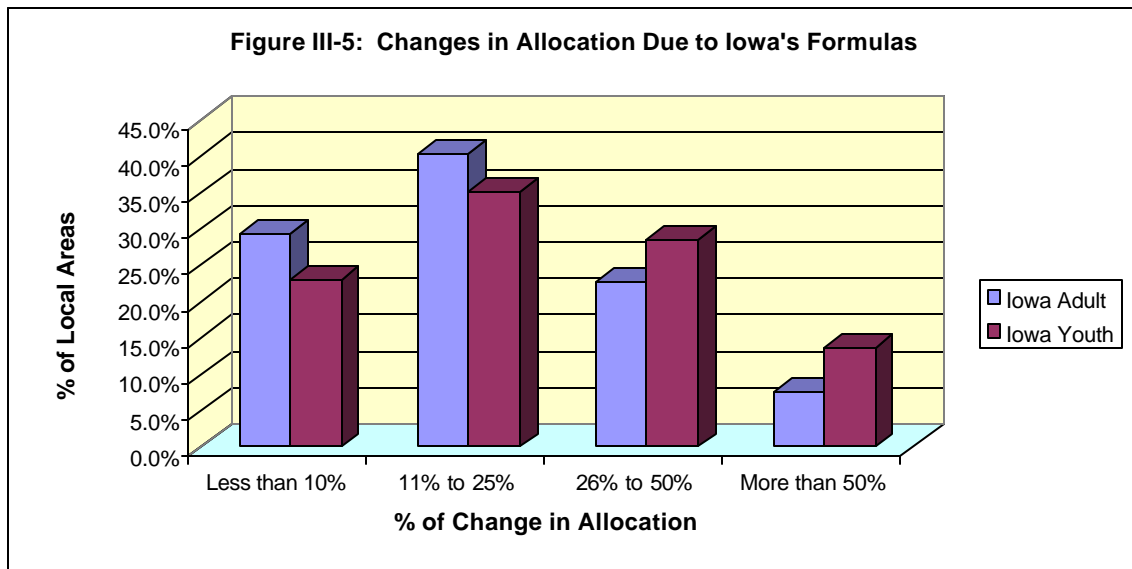
In contrast, though, Figure III-3 shows that the impact of the two formulas differs significantly when considering the poverty rates within the LWIAs. Specifically, the Arizona formula, which applies a lower weight to the poverty measure, has a lesser effect on LWIAs with different poverty rates than does the Alabama formula. For example, the Alabama formula impacts LWIAs with low poverty rates very negatively, as the lowest quartile receives over 17% less than when using the current formula. In contrast, using the Arizona formula, this lowest quartile receives approximately the same amount as they do under the current formula. Similarly, the Alabama formula targets approximately the same amount of funds toward the highest quartile of LWIAs, while the Arizona formula directs nearly 4% less toward LWIAs in this quartile. In general, then, this second alternative formula is quite similar to the first, but is less effective at directing funds away from areas with low poverty rates, largely because it gives less weight in the formula to poverty factors.

Finally, applying Arizona's formula to all states has a similar effect on our measure of WIA efficiency. As can be seen in Figure III-4, generally speaking areas that serve a greater number of WIA customers per dollar would experience increases in their allocation, while those areas serving fewer customers per dollar would experience reductions in their allocations.

Iowa's Formula. The third discretionary formula that uses these same two factors is Iowa's. In this case, however, only one of the two factors is used, depending on which program funds are being allocated. For the adult program, the poverty measure is assigned a zero weight so that unemployment above the state average is assigned the maximum 30% weight. In contrast, for the youth program, unemployment is assigned a zero weight and, thus, poverty is given the maximum 30% weight in the formula. These formulas are, then, conceptually similar, and because 70% of the allocation is exactly identical, they should be expected to produce results relatively similar to that of the first two alternative formulas described above. Yet, because the adult formula assigns no additional weight to the poverty measure, one might expect that it would be less suited for targeting areas of poverty than the formulas presented above. Indeed, because more than three-fourths of the allocation is made entirely based upon unemployment, one would expect that this formula would target the unemployed almost exclusively. In contrast, for youth allocation, more than 50% of the formula is based on poverty factors and, thus, this formula should be best suited for targeting areas of high poverty, at least among the alternatives and current formulas discussed thus far.

III. Comparisons of Current Allocations with Alternative Models

Results for these formulas are displayed in Figures III-5 and III-6. The results shown in Figure III-5 suggest that applying Iowa's adult and youth formulas across all states would have a substantial impact on the allocations received by local areas, though the impact would be greater for youth funds than for adult funds. For example, while only 8% of LWIAs would experience a change of at least 50% in their adult allocations, nearly fourteen percent of LWIAs would experience similar shifts in their youth funding. Continuing this trend, while 23% of LWIAs would see a change of between 25% and 50% in their adult funds, were Iowa's adult formula to be applied across all states, slightly less than 29% of LWIAs would see similar fluctuation under the youth program. Across the board, then, shifts produced by applying Iowa's formulas to all states are greater for youth allocations than for adults. This is readily explainable because the discretionary formula used by Iowa for its adult allocation is not dramatically different than the current standard formula. Although it reduces the share allocated based on poverty from one-third to .2333, and increases the share of unemployment from two-thirds to just over three-fourths, the overweighting of unemployment as compared to poverty remains. In contrast, Iowa's youth allocation switches this balance such that poverty is given more weight in the formula than the two unemployment factors

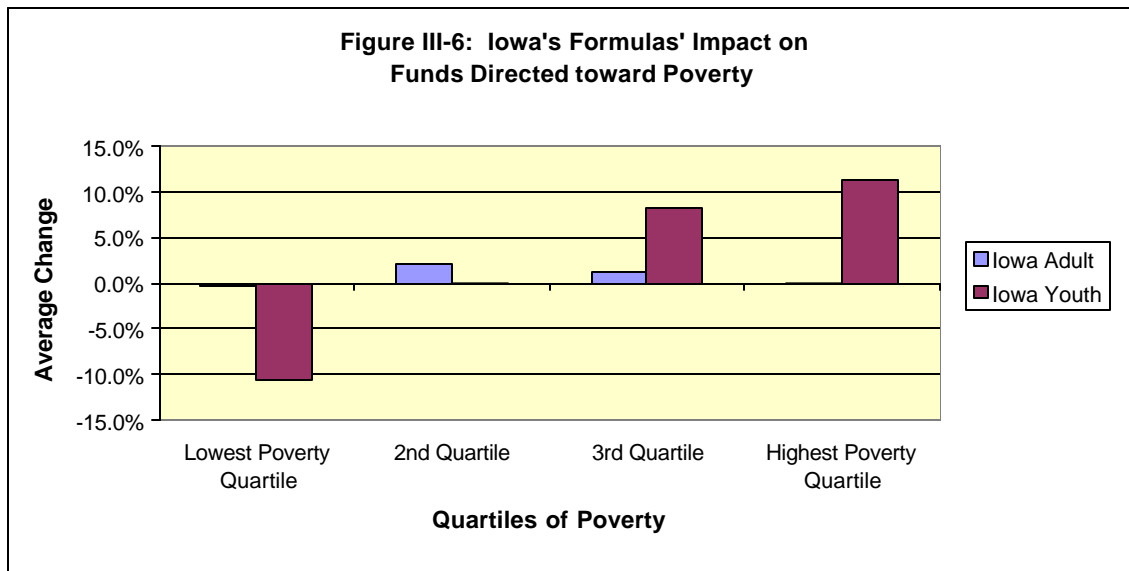


combined. As a result, one might expect there to be greater fluctuation among youth allocations to LWIAs, and less among adult allocations, just as is shown in Figure III-5.

The impacts of Iowa's formula on LWIAs of different populations and different regions is quite similar to those seen for the prior two formulas. Specifically, more funds are targeted toward LWIAs with greater populations while fewer funds are directed

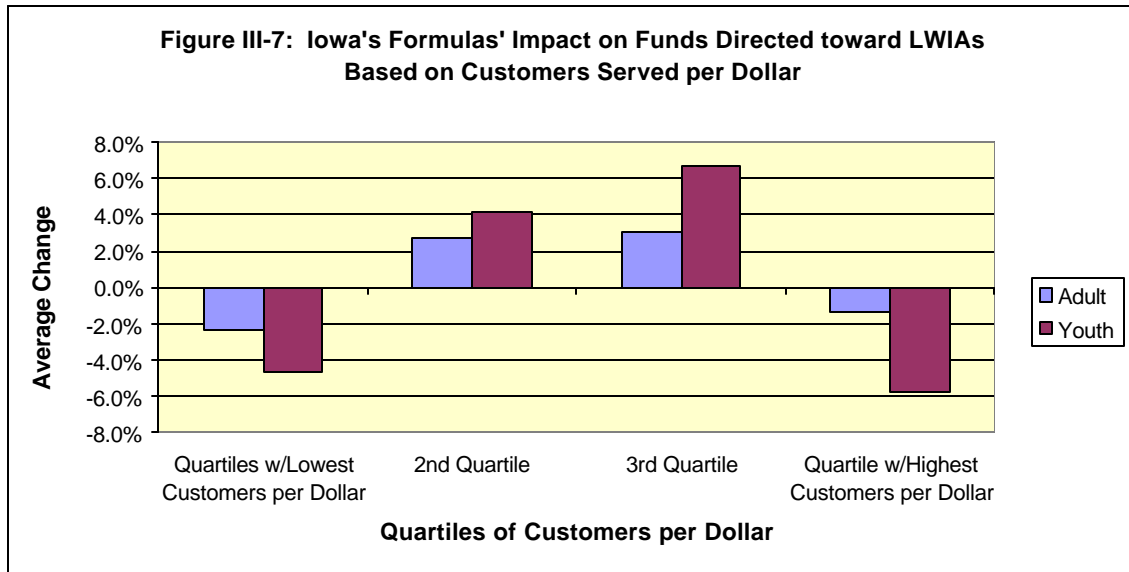
toward suburban and rural areas. The impact is particularly pronounced for the youth formula, in which cities would expect to receive nearly nine percent more on average, while suburbs and rural areas each would lose between four and five percent.

Given the above discussion, one would certainly expect that Iowa's youth formula would better target areas with high poverty than would its adult formula. Figure III-6 shows that this is, indeed, true. Specifically, applying Iowa's adult formula across all states has little impact on LWIAs based on their rates of poverty. What little fluctuation does exist likely does so because of the fact that the weight assigned to poverty is reduced from one-third to .233 in this formula. In contrast, however, applying the youth formula across all states has substantial impact on LWIA's youth allocation, depending on the poverty rates within the LWIAs. For example, the quartile of local areas with the lowest poverty rates loses just over 10% of its funds when applying this alternative formula. The next lowest quartile similarly loses portions of their funds, though only about 6.5% on average. LWIAs in the top two quartiles, on the other hand, gain substantially when applying this formula. Indeed, LWIAs in the highest quartile, meaning those with the highest rates of poverty, would experience an increase of just over 11% in their youth allocation were Iowa's formula adopted across all states. Thus, this formula does a very good job of targeting youth



funds toward those local areas with higher rates of poverty. Figure III-7 shows that this formula has somewhat less ability to target funds toward those areas that are serving a greater number of customers per dollar. For both adults and youth, this formula directs

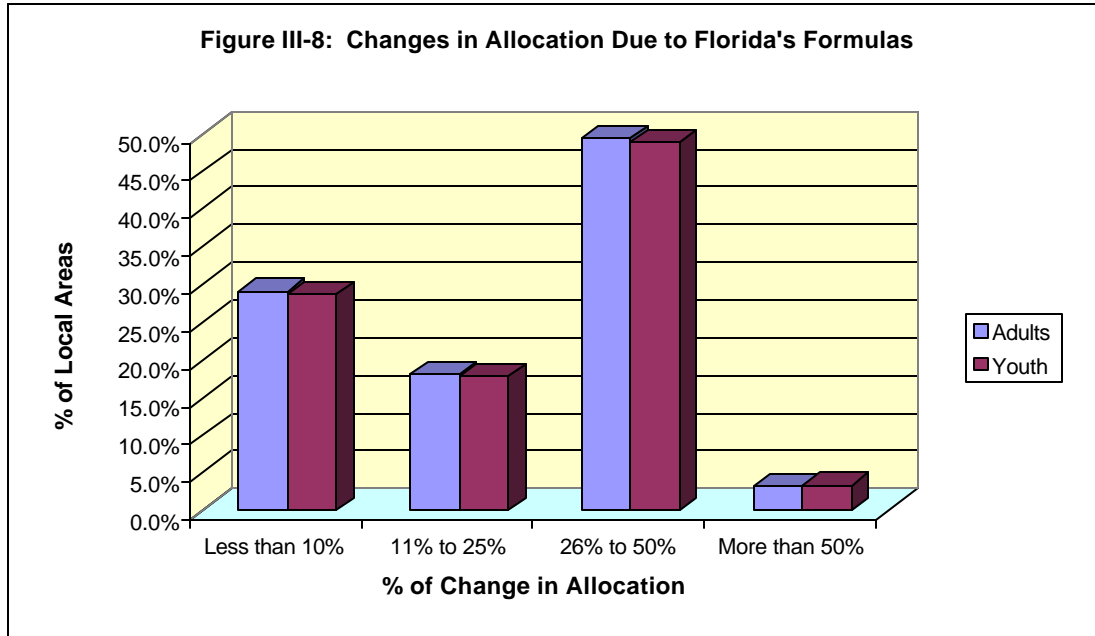
less money to the lowest and highest quartiles in terms of efficiency, while directing more money toward the middle two quartiles.



Florida's Formula. The fourth formula currently being used as a discretionary formula allocates funds somewhat differently than those discussed above. Florida uses the standard formula for the minimum 70% of its allocation for both youth and adult. The remaining 30% is allocated on the basis of the number of unemployed in excess of 1.25% unemployment within the local area. Thus, for both youth and adult allocations, the formula is calculated as follows:

$$\text{Allocation} = .233*(\text{ASU Share}) + .233*(\text{Excess Unemployed Share}) + .233*(\text{Disadvantaged Share}) + .3*(\text{Unemployment Above 1.25\% Share})$$

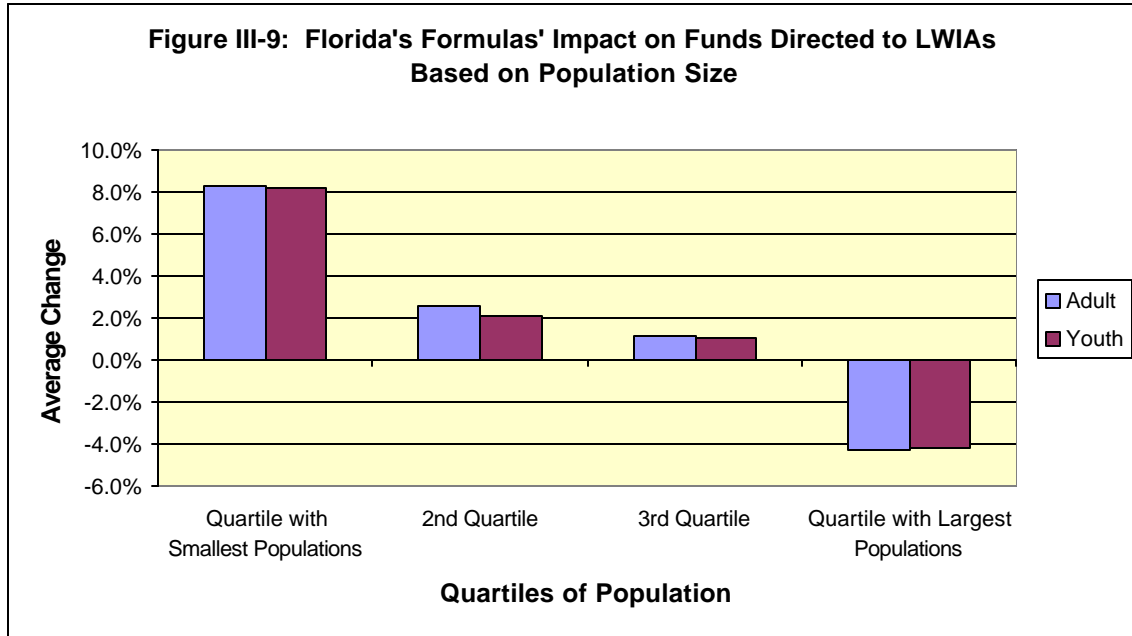
Similar to the formulas described above, implementing this alternative across all states would result in substantial changes to both adult and youth allocations. Results for these two sets of allocations are shown in Figure III-8. As can be seen in this figure, although only a very small percentage of local areas would see either their youth or adult allocations change by at least 50% under this formula, nearly half would experience changes of between 25% and 50%. An additional eighteen percent would experience changes of between 10% and 25%, with the remaining 29% experiencing changes of less than 10%, even in the absence of a hold harmless provision. Thus, although fewer LWIAs would experience dramatic shifts in funding (of more than 50%), the vast majority of local areas would experience shifts of at least 10 percent, with most experiencing changes of at least 25% for both their adult and youth allocations.



Given these sizable shifts in funding across all LWIAs, it is critical to identify how areas of different types would be impacted by implementing this formula. Interestingly, relying on the lower threshold of unemployment, as this formula does, has significantly different effects than those produced by the alternative formulas described above. Figure III-9 displays how implementing Florida's formula across all states would impact LWIAs based on their population size. As can be seen in this figure, unlike the alternative formulas described above, which targeted more funds toward areas with larger populations, this formula does just the opposite. Indeed, LWIAs in the highest quartile in population would lose 4% of their adult allocations, on average, were this formula to be implemented. In contrast, LWIAs in all remaining quartiles stand to gain from implementation of this formula, with those in the lowest quartile (the smallest LWIAs, based on population) experiencing gains in adult allocation of just over 8%. The figures are nearly identical for youth allocations as well, which is unsurprising given that the formulas used for the two sets of allocations are virtually identical.⁹

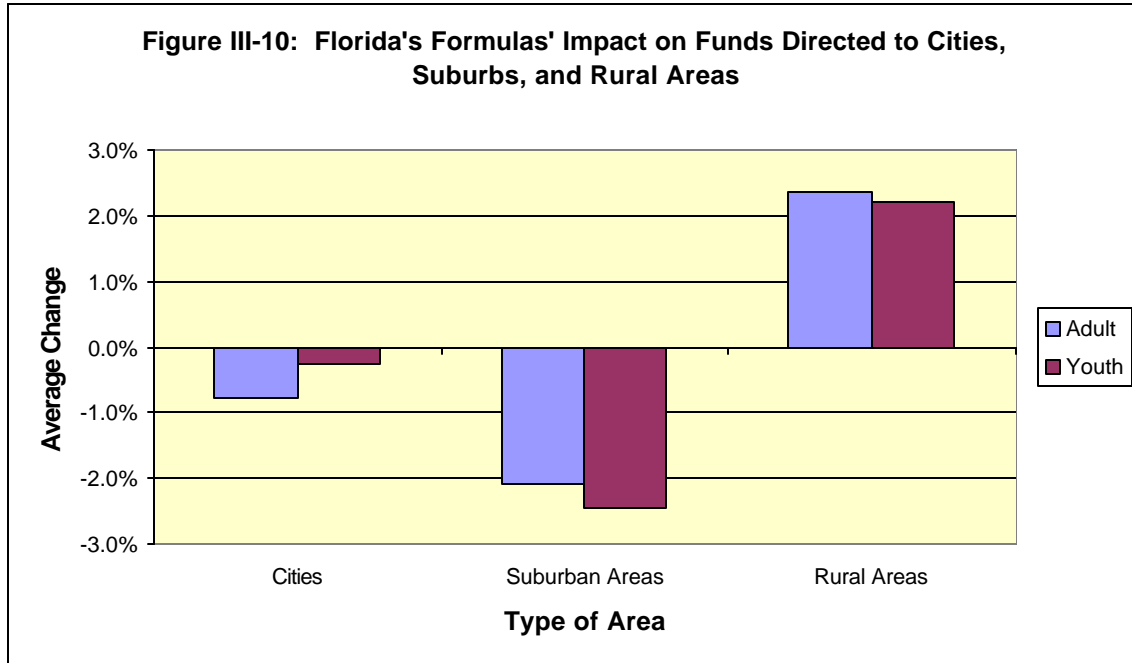
⁹ The sole difference between them is that the disadvantaged factor is calculated for the number of disadvantaged adults for adult allocation, and youth for the youth allocations. Because Florida uses a discretionary formula for 30% of its allocation, this sole difference receives a weight of only .233, or less than one-fourth of the overall total allocation. Further, this difference is already accounted for because we are comparing the impacts of the alternative formula, across all states, to the current formula, in which the initial difference between the two allocations was the one-third weight assigned to the disadvantaged factors. As a result, the "true" difference between the two sets of allocations is actually only ten percent (or .333-.233). Given that the number of disadvantaged youth in a given LWIA is highly correlated with the

III. Comparisons of Current Allocations with Alternative Models



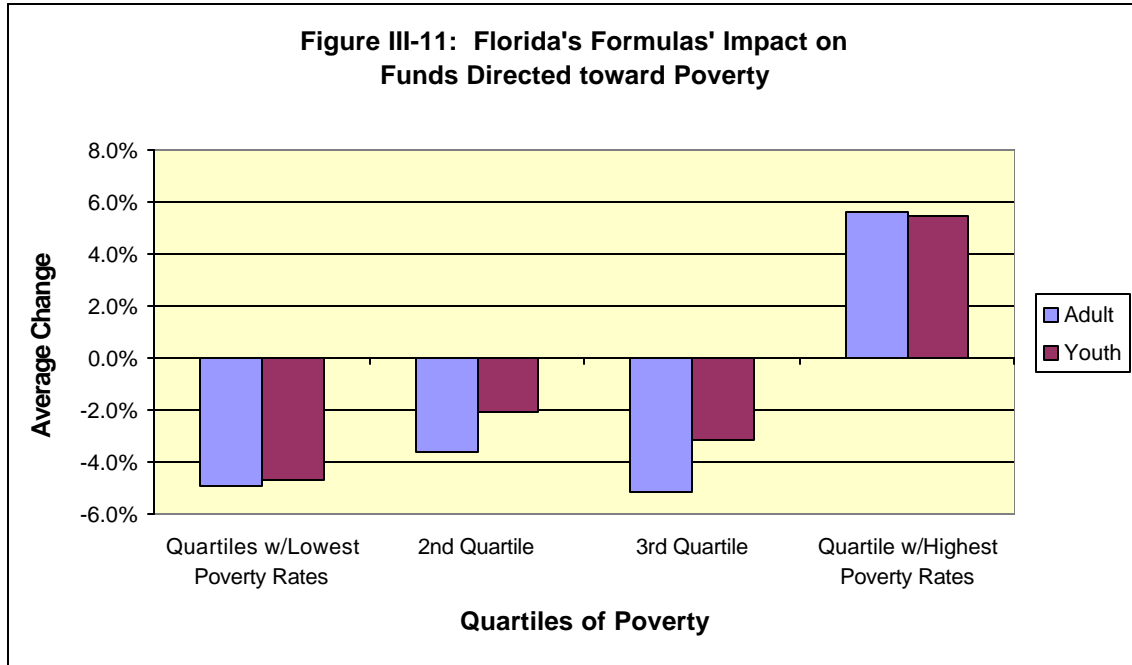
These findings are echoed by the results shown in Figure III-10, which depict how implementation of Florida's formula would impact LWIAs that are primarily in central cities, suburbs, and rural areas. As can be seen in this figure, LWIAs that are primarily located in central cities and suburbs either experience very little change as a result of the implementation of this formula, or would experience small decreases in their funding. LWIAs in rural areas, on the other hand, experience gains of slightly more than 2% as a result of this formula. This is due to the fact that there are substantial numbers of such LWIAs who do not meet the threshold for either excess unemployment (4.5%) or ASUs (6.5%), but do meet the lower threshold used in this formula. Thus, incorporating this factor into the allocation formula increases the allocation shares targeted to these areas.

number of disadvantaged adults, this difference in 10% of the allocation would be expected to result in an even smaller difference in actual allocations.



Interestingly, this alternative formula also targets funds well to areas of high poverty. Despite the fact that the formula differs from the standard formula only in that it reduces the weight assigned to poverty and increases the weight assigned to unemployment, the impact of the formula is to allocate more funds toward areas with the highest levels of poverty, and away from areas with low poverty. These results are displayed in Figure III-11. As can be seen in this figure, only LWIAs in the highest quartile of poverty rates experience an increase in both their adult and youth funds. In each case, this average gain is approximately 5.5%. The remaining LWIAs experience decreases in their allocations, with LWIAs in the lowest quartile of poverty experiencing an average reduction of almost 5% in their adult and youth allocations.

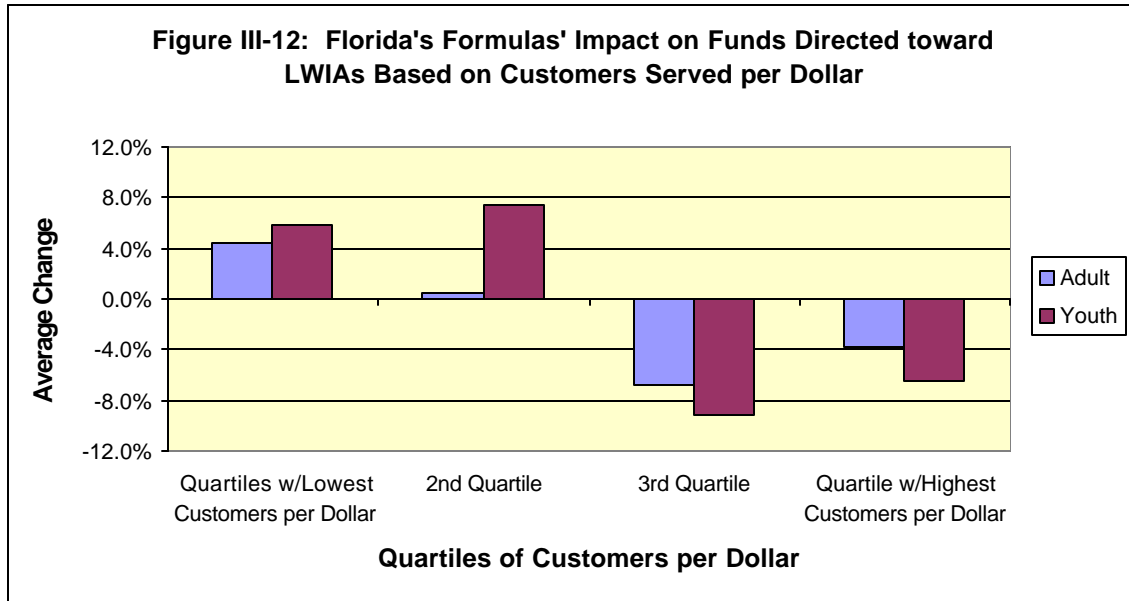
III. Comparisons of Current Allocations with Alternative Models



To understand why this happens, it is important to note the opposite results took place when using the three previous formulas. Each of those targeted more funds toward areas with greater populations (and, hence, cities) and toward poverty, but not specifically the areas with the absolute highest rates of poverty. When discussing those results, we hypothesized that the reason for this was that the formulas were directing allocations toward areas with reasonably high *rates* of poverty, but that had high absolute *numbers* of individuals in poverty, while the areas with the highest rates of poverty were likely to have lower numbers of individuals within them because they were rural. The results from Florida's formula provide the remaining evidence for this argument. Although Florida's formula specifically targets unemployment above the threshold value of 1.25%, in doing so it has the effect nationwide of allocating greater shares of funds toward rural areas. These areas tend to be those with the highest rates of poverty, even if they do not have the largest numbers of individuals living within poverty. Thus, Florida's formula happens to greatly benefit areas with very high poverty rates, though it actually directs funds away from areas that have the greatest number of people living in poverty, as evidenced both by the reduction in weight given in the formula to the number of disadvantaged people in an area, as well as by the fact that the majority of areas with high numbers of people in poverty, despite not having the highest rates of poverty, receive lower allocations using this formula.

Interestingly, Florida's formula has the effect of targeting money away from areas that serve more customers per dollar and toward areas serving fewer customers per dollar.

As shown in Figure III-12, both the top two quartiles in efficiency experience losses under this formula, while the bottom two quartiles experience gains. Thus, one effect of adopting this formula nationwide is that areas that tend to serve fewer customers per WIA dollar would receive a greater proportion of the funds than they do currently.



ADDITIONAL ALTERNATIVE FORMULAS

Adult Formulas

In addition to the discretionary formulas described above, we also conducted numerous other alternative formulas in an effort to gauge how well these formulas could target funds toward local areas with particular characteristics. Although we do not present a series of graphs to depict the results of these additional simulations, so as not to overwhelm the reader with too many figures, in this section we provide a brief summary of some of our findings. For a complete list of the alternative factors that we used in simulations as part of this project, please see Appendix A.

As noted above, one key alternative to the unemployed population that currently is targeted in the adult and youth formulas is the relative size of a local area's civilian labor force. The reasoning behind this is that since WIA aims to serve the universal customer, one cannot assume that only unemployed individuals would have a need for workforce services. Indeed, nearly 20% of adult WIA registrants in PY 2001 were employed at the time of registration. Whether they are looking to upgrade their skills to obtain a promotion with their current employer, or whether they would like to look for other employment while they are currently employed, often those interested in workforce

III. Comparisons of Current Allocations with Alternative Models

services are not unemployed. As a result, allocating funds on the basis of the unemployed alone can perhaps direct funds away from employed individuals that would very much like to access workforce services.

In an effort to assess what formulas might best target funds to areas with relatively greater numbers of individuals in the civilian labor force, we began by simulating a model that used only this factor in allocating adult funds. Although this was quite successful in targeting funds to areas with greater numbers in the labor force, for obvious reasons, we could then examine how variants of this “pure” formula were able to replicate the targeting of funds to this population. Among models that might plausibly be implemented, one in which the total number of unemployed individuals, the relative size of the civilian labor force, and the number of disadvantaged adults, each weighted equally, was able to still target areas with high numbers of unemployed individuals while also better targeting areas with large civilian labor force populations. Additionally, similar models employing the population of a given LWIA in place of the civilian labor force performed nearly as well. Not surprisingly, these formulas tend to benefit areas that have larger populations and LWIAs that are in cities, and while rural areas and those with small populations experience reductions in their allocations.

In contrast to the notion of the universal customer, we devised a formula to simulate the number of adults in poverty who were also unemployed. We created this simulation because these individuals represent the combination of the two current types of factors employed in the standard adult formula. Although there is no requirement under WIA that adult customers be disadvantaged, most states acknowledge giving such customers priority when funds are scarce. Thus, disadvantaged individuals can be seen to be a target for WIA services. Of course, not all disadvantaged individuals will want to use workforce services. Many have become discouraged by their employment prospects and simply dropped out of the workforce. Others are caretakers, for children or other family members, and these individuals, too, are unlikely to be looking for employment. Thus, the combination of being disadvantaged and unemployed would seem a likely indicator of both a need for and a desire to receive workforce services. As a result, we created several formulas that used the relative number of unemployed and disadvantaged individuals as the target population.

One significant problem with modeling such formulas is that substate measurement of poverty can only be done every so often. Poverty data typically are obtained through the Census, which occurs only every ten years. Although there are ways of estimating

these data between Census collections, often these data are not available or accessible to state to be used for substate allocation. Thus, the factors included in our efforts to target the unemployed disadvantaged population all are reliant on Census data.

The simulation model which best targets this population incorporates the total number of unemployed individuals, the number of individuals in poverty, and the number of individuals in poverty who also are unemployed. The unemployment factor is weighted at 50%, while the remaining two factors are each weighted at 25%. A similar model using the number of excess unemployed in areas of excess unemployment produces very similar results,¹⁰ but is likely to be subject to greater fluctuation due to the use of the threshold factor. These models have the effect of shifting money toward cities, though LWIAs in rural areas do not experience substantial losses. Instead, LWIAs in suburbs experience marked declines in their allocations. Areas with larger populations stand to benefit under the scenario, while those LWIAs with smaller populations tend to experience reductions.

Youth Formulas

We also simulated several additional youth models, including substituting unemployment rates for youth in the standard formula, the number of high school dropouts, and the number of jobless and unemployed out-of-school youth. Several of these will be described more fully below when we discuss the results from our simulations of formulas proposed as part of WIA reauthorization legislation.

Because the specific eligibility requirements for youth include being disadvantaged and having one or more of a specified set of barriers, identified in Chapter I, there are no data that enable us to accurately target the eligible population at the substate level. We can, of course, calculate the relative number of youth in poverty in each local area, but there are no individual-level data available that would allow us to determine which of these youth have the additional barrier that would make them eligible for WIA services. Instead, then, we must simulate models that target these characteristics separately.

The single best formula to target the number of disadvantaged youth is to use a single factor in the allocation formula: the number of youth living in poverty in each LWIA. This factor is readily available, but because this number is calculated only when

¹⁰ In this model, we define areas of excess unemployment exactly as they are defined in the current standard formula model, described above.

III. Comparisons of Current Allocations with Alternative Models

each Census is tallied, there would be no variation in allocations for a ten-year period, even as the actual numbers of individuals living in poverty changes substantially during that period. This simulation produces substantial increases in funds directed toward cities, and also toward areas that have larger populations.

In addition to this model, we also simulated models that examined the inclusion of high school dropouts in place of the unemployment in ASUs. This model had the interesting impact of directing funds away from areas of poverty, and toward areas with lower rates of poverty. It also directed money toward areas with larger populations, though the impact on cities was somewhat less than other models examined in this paper.

We also simulated models that incorporated out-of-school youth as a key factor. In one model we substituted this factor for unemployment in ASUs, while leaving the remaining two factors in the model. The result of this simulation was to direct more money to areas with larger populations and to cities, with a lower percentage of resources being directed toward rural and suburban areas. Interestingly, this formula also had the effect of targeting areas with lower rates of poverty, although the negative impact on areas with very high rates of poverty was relatively minimal.

DISLOCATED WORKER FORMULA

We also simulated the current dislocated worker formula for several states.¹¹ These simulations were somewhat more complex than those for the adult and youth programs, because there are significantly more factors included in many states' formulas, there is no standard formula upon which most states' models are based, and the weights assigned to each factor vary dramatically across states. For example, most states applied a weight of 25% or more to unemployment factors, but some states applied only a 5% or 10% weight to this factor. Similarly, many states utilized farmer-rancher economic hardship data, but the definitions of these data varied across states. Further, several states did not include any such data as a factor in their formulas.

¹¹ Because WIA allows states to select from a wide variety of factors to include in their dislocated worker formulas, some states included to incorporate factors for which only they had access to data. We contacted several states in an effort to obtain all relevant data for the dislocated worker formula, but were successful in only some cases. As a result, the data presented for dislocated workers is applicable to 23 of the 38 multiple-area states from whom we received survey responses (and, thus, could model their dislocated worker formulas).

Nevertheless, we simulated current allocations for the dislocated worker program much as we did for the adult and youth programs. Although there was no standard formula that could be used to simulate current allocations, we simply included all potential factors—including unemployment data, unemployment concentrations, plant closing data, mass layoff data, declining industries data, farmer-rancher economic hardship data, long-term unemployment data, and the three factors included in the standard adult formula—into a single simulation model, and assigned the appropriate weights to each factor (assigning a zero weight when a state had opted not to use this factor in their formula).

In an effort to simulate alternative models, we did not apply any single state's current formula to all other states because the variation was so great in the specific weights and factors used, and the possibilities virtually endless in the specific formula that could be applied. Rather, we simulated three primary alternatives. The first of these was to simulate funding using the standard formula for adults; because it is acknowledged that dislocations are by their nature very hard to predict, we examined what the effect would be of not attempting to target funds based on an elaborate formula that takes into account seven or eight factors but, rather, to include the relatively straightforward formula used to allocate funds to the adult program. The second alternative was to apply the inter-state dislocated worker formula to substate areas. This formula, which is based equally on three factors, the relative number of unemployed individuals within each state, the number of excess unemployed, and the number of long-term unemployed (defined as unemployed for 15 weeks or more), could be used to allocate funds to local areas. This formula would thus mitigate the fact that the factors producing a state's dislocated worker allotment are quite different from the factors producing each local area's allocation. Further, in the subsequent section, we simulate the effects of three additional models that apply to all adult funds, including current WIA adult and dislocated worker funds, as well as Wagner-Peyser funds, and compare the allocations made under these alternative formulas to those made by the combined total of current allocations for the three formulas.

Our first alternative to the current formulas used by states was to apply the standard adult allocation formula to the dislocated worker program. Doing so should have fairly substantial effects on the allocations, though it is unclear that they would be in any way less effective in targeting levels of need, because such need is so unpredictable across program years. Thus, the first alternative model is calculated as:

III. Comparisons of Current Allocations with
Alternative Models

$$\text{Allocation Share} = .333*(\text{ASU share}) + .333*(\text{Excess Unemployed Share}) + .333*(\text{Disadvantaged Share})$$

Results for this model are displayed in Table III-1. As can be seen in this table, the impacts upon the dislocated worker allocation are quite substantial.

Table III-1	
Percent Funding Changes Between Current Dislocated Worker and Standard Adult Formula	
	Percentage
Absolute Value of Percentage Change	
0-5%	18.7
5-10%	14.9
10-15%	17.6
15-25%	24.3
More than 25%	24.5
Size of Population	
Lowest Quartile	-12.7
2 nd Quartile	11.9
3 rd Quartile	-3.8
Highest Quartile	7.1
Type of Area	
City	3.2
Suburb	-5.8
Rural	-14.6

Nearly two-thirds of all local areas would experience a shift of more than 10%, and more than one-third would lose at least 10%. Nearly one in four areas would experience changes of greater than 25%, were no hold-harmless provision enacted. Further, these reductions would hit hardest on smaller areas and rural areas, while benefiting areas with larger populations and those in cities.

Our second alternative model was to apply the inter-state formula to substate allocations. As such, this model is calculated as follows:

$$\text{Allocation Share} = .333*(\text{Unemployed share}) + .333*(\text{Excess Unemployed Share}) + .333*(\text{Long-Term Unemployed Share})$$

The advantage of this formula is that the local area allocation, which ultimately is the destination of the majority of funds, would be made in the same fashion as the allotments are made to states. Thus, the factors for which states actually receive their allotments would be used to allocate funds to their local areas, which implies that the funds are being targeted more consistently throughout the process. Of course, as noted in Chapter I, the use of a two-tier process introduces some bias because the funds are originally allocated to states, and are then re-pooled and allocated to local areas. Despite this bias, however, utilizing the inter-state formula for substate allocations would make the two distribution processes more similar than is currently the case and, thus, should target the resulting allocations more accurately, assuming of course that the inter-state formula represents an accurate indicator of WIA's, or DOL's, target. Results for this model are shown in Table III-2.

Table III-2	
Percent Funding Changes Between Current Dislocated Worker and Inter-State Formula	
	Percentage Change
Absolute Change	
0-5%	23.3
5-10%	24.7
10-15%	16.5
15-25%	21.9
More than 25%	13.6
Size of Population	
Lowest Quartile	6.9
2 nd Quartile	-10.2
3 rd Quartile	-8.1
Highest Quartile	5.0
Type of Area	
City	4.1
Suburb	-3.2
Rural	-5.6

As can be seen in this table, the impact of this alternative formula is substantially less dramatic than applying the standard adult allocation formula, shown above. This is likely because the three factors incorporated into this formula are used by many of the states in their current substate allocation formula. Thus, slightly more than half of all

LWIAs would experience shifts in funding of more than 10%, but this means that nearly half would experience shifts of less than 10%, even in the absence of hold-harmless provisions. Further, the impacts on areas of different types are not as great as under the standard adult formula. Both the smallest and the largest group of LWIAs, in terms of population size, would stand to gain under this formula, and while cities would stand to gain and rural areas to lose under this formula, the size of the shifts is not particularly substantial.

IMPLEMENTING PROPOSED FORMULAS

In addition to the discretionary formulas already in use by several states, we also sought to examine the potential impact of formulas proposed under recent legislation as a modification of the WIA allocation formulas. These formulas, described more fully in Chapter I, represent a substantial overhaul of the current allocation mechanisms for several reasons. First, rather than allocating funds separately under adult, dislocated worker, and youth funding streams, they replace this with only two separate streams of funds: youth and adult. The youth allocation remains largely the same in its target, though the actual allocation mechanism differs significantly, as described below.

Adult Allocations

The adult allocation, however, combines the current WIA adult and dislocated worker funding streams with that from Wagner-Peyser, and creates a single source of funds for these three historically separate programs. Because of this change, in order to examine how the allocations would change as a result of the proposed formulas, we first needed to combine the three streams of funding and mimic the current funding formula. To do so, we had to integrate the total current allocation to local areas for each of the three sources of funding. While this is relatively straightforward for the adult and dislocated worker allocations, including Wagner-Peyser creates unique difficulties because this program currently is a state-run program that has no substate allocation formula. Rather, funds are distributed to states, which subsequently distribute funds to their employment offices throughout the state in whatever way they deem most appropriate. These employment offices need not correspond to current LWIA boundaries and, thus, creating allocations for LWIAs using Wagner-Peyser funds must rely on reasonable hypotheses rather than actual formulas.

To estimate current Wagner-Peyser allocations, we had to estimate the amount of funds that would be withheld for statewide activities, and, for the remainder, we needed to develop a formula to allocate funds to local areas. The first of these tasks is made

especially difficult in that there is no current estimate for state set-aside funds, as the program is a statewide program. We estimated 10% for this percentage, because this is the sum allotted to each state that can be reserved for use by the state for specified statewide activities, such as performance incentives, services for groups with special needs, and extra costs of exemplary models for delivering services.¹² Thus, for both the current allocation estimate, and the estimate derived from the proposed formulas, we set aside 10% of the funds to be held for statewide activities, with the remaining 90% to be allocated to local areas. To develop a formula for allocating this remaining 90% of Wagner-Peyser funds, we simply relied upon the formula used to allocate funds to the states. This formula includes two factors. The first, which is given two-thirds of the weight, is the number of individuals within the civilian labor force. The second, given the remaining one-third weight, is the number of unemployed individuals within a state. Similar to the federal disbursement to states, in order to estimate current Wagner-Peyser allocations to LWIAs we assumed states would allocate funds using this same formula. Thus, for each local area, we calculated the number of unemployed individuals as well as the number in the civilian labor force. The specific formula is thus calculated as:

$$\text{Allocation} = .667 * (\text{Civilian Labor Force Share}) + .333 * (\text{Unemployment Share})$$

By summing each local area's values across LWIAs to receive the state total, and then dividing each LWIA's number by the state total, we are able to develop proxies for current Wagner-Peyser allocations to LWIAs. We could then combine these allocations with those for dislocated workers and adults to obtain a reasonable estimate of the current allocation, against which we can compare the alternative formulas that have been proposed under H.R. 1261.

The proposed adult formula represents an amalgamation of the current adult and Wagner-Peyser allocations, combining the number of unemployed and the number in the civilian labor force from the state-level Wagner-Peyser formula with the excess

¹² Given that the Wagner-Peyser program is a statewide program, this ten percent figure cannot be taken to mean this is the sole set-aside for states. Indeed, the remaining 90% of funds are to be used by states for a broad variety of purposes which include services to job-seekers and employers, but also include evaluation, developing linkages with other service agencies, developing and providing labor market information, developing management information systems, and administering the work test for the unemployment compensation system, many of which could also accurately be described as statewide activities. Thus, in addition to setting aside 10% for statewide activities, we also conducted similar simulations using a set-aside of 25%, and achieved highly similar results.

*III. Comparisons of Current Allocations with
Alternative Models*

unemployed and disadvantaged adult factors from the current WIA adult formula. Specifically, this formula is calculated as follows:

$$\text{Allocation} = .6 * (\text{Number of Unemployed Share}) + .25 * (\text{Excess Unemployed Share}) + .15 * (\text{Disadvantaged Share})$$

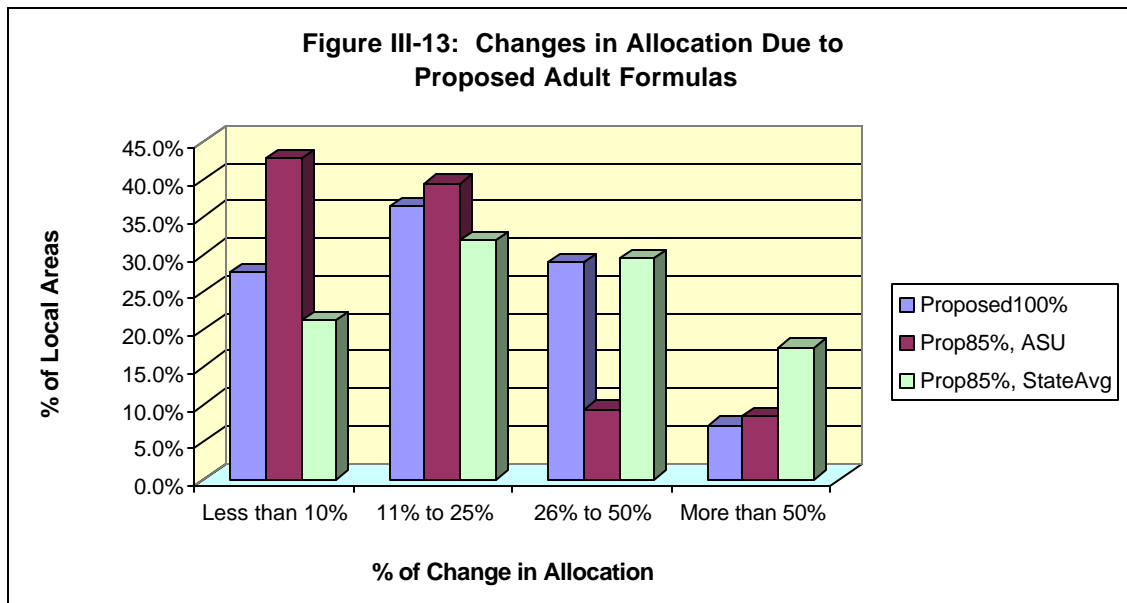
Though it includes no specific factors currently being used by the dislocated worker formula, much of the inter-state and substate allocations for this program depend on unemployment factors. Thus, despite the fact that several different funding streams with different allocation formulas are merged together, the proposed formula may not create dramatic differences in allocations because many of the factors from the current formulas are included in the proposed formula, and other factors not included are conceptually similar to those factors included in the present formulas.

H.R. 1261 proposes that inter-state allotments be made using this standard formula, and that, for substate allocations, 85% of the allocation for adult funds be made using this formula, and the remaining 15% be allocated using a formula of the state's choosing. One critical aspect of our simulations is that we only examine the impact of substate allocations, rather than incorporating changes in inter-state allotments as well. There are two reasons for this. First, our charge was only to examine substate allocations rather than inter-state allotments; thus incorporating such changes would have expanded the scope of the study beyond what we had been asked to do. Second, and more important, however, is that incorporating changes in inter-state allotments would create far more substantial changes between current and proposed allocations, which would thus reduce our ability to examine the specific impact of the formulas. By this, we mean that by holding the state allotments constant, while examining changes produced by the substate allocations, the changes due to the differing substate formulas can be isolated. In so doing, we gain a better perspective on how the proposed changes impact the substate allocations that are the focus of this study. To understand the full impact of implementing proposed changes, one must begin with inter-state allotments, and follow the allocations through to local areas.

Although the proposed formula suggests that 15% of the substate allocations would be made using a discretionary formula, we have no information on exactly what states would choose when implementing this formula. As a result, we examine the effects of the formula when calculated in two separate ways. First, we discuss how the allocations change when applying this formula for 100% of the allocation, to assess how substantial

would be the change were states to adopt the formula wholesale. Following this, we discuss how the allocations would change if states used the proposed formula to allocate 85% of their available funds and, for the remaining 15%, used some discretionary factor, as described below.

Results for the analysis using the proposed formula to allocate 100% of the adult funds are shown in Figure III-13. As can be seen in this table, the proposed formula actually produces results that are somewhat more similar to the current allocation mechanisms than do many of the alternative formulas discussed above. Only 7.1% of LWIAs would experience shifts in their funding of more than 50%. And slightly more than one in four would experience shifts of between 25% and 50%. Approximately one-third of LWIAs would experience a change of between 10 and 25% in their adult allocations, and about one in four local areas would experience a change of less than 10% in their adult allocation under this proposed formula. This relative stability, at least in comparison to some of the alternative formulas discussed above, is due primarily to the fact that the Wagner-Peyser funding mechanism remains somewhat intact. Fully 60% of the proposed formula uses one of the the two primary factors used in the current Wagner-Peyser formula. This overlap creates a consistency within the allocations that limits the change that would be experienced if such a formula was adopted.



As noted above, the proposed legislation actually would mandate that only 85% of the allocation be made using this formula. The remaining 15% would be allocated using

*III. Comparisons of Current Allocations with
Alternative Models*

a formula of the state's choosing. Because we do not know exactly what factor(s) states would choose to allocate this remaining 15%, in an attempt to simulate the effects of this proposed formula, we estimated two different models, each using a different factor for the 15% of the allocation that would be left to the state's choosing. In the first model, we use unemployment in ASUs as the discretionary factor. Given that this is the only factor from the current adult allocation mechanism not included in the proposed formula, it is quite likely that states, in the interest of preserving stability in funding to their local areas, would choose to include this factor to allocate their discretionary 15%. For this formula, then, the formula is calculated as follows:

$$\text{Allocation} = .51 * (\text{Number of Unemployed Share}) + .2125 * (\text{Excess Unemployed Share}) + .1275 * (\text{Disadvantaged Share}) + .15 * (\text{ASU share})$$

Results for this formula are also shown in Figure III-13. As can be seen in this figure, this formula also produces relative consistency in LWIA funding, which is perhaps not surprising because it includes only factors that currently are a significant portion of the formulas. The shifts in funding that do occur are relatively small, in comparison to those noted for several of the other alternative formulas identified above; less than ten percent of local areas would experience changes in their funding of over 50%, and an additional ten percent would experience changes of between 25% and 50%. But nearly forty percent of LWIAs would experience a shift of between 10% and 25% under this alternative of the proposed formula, and slightly more than forty percent of the local areas experience less than a 10% shift in funding even with no hold-harmless provision in place.

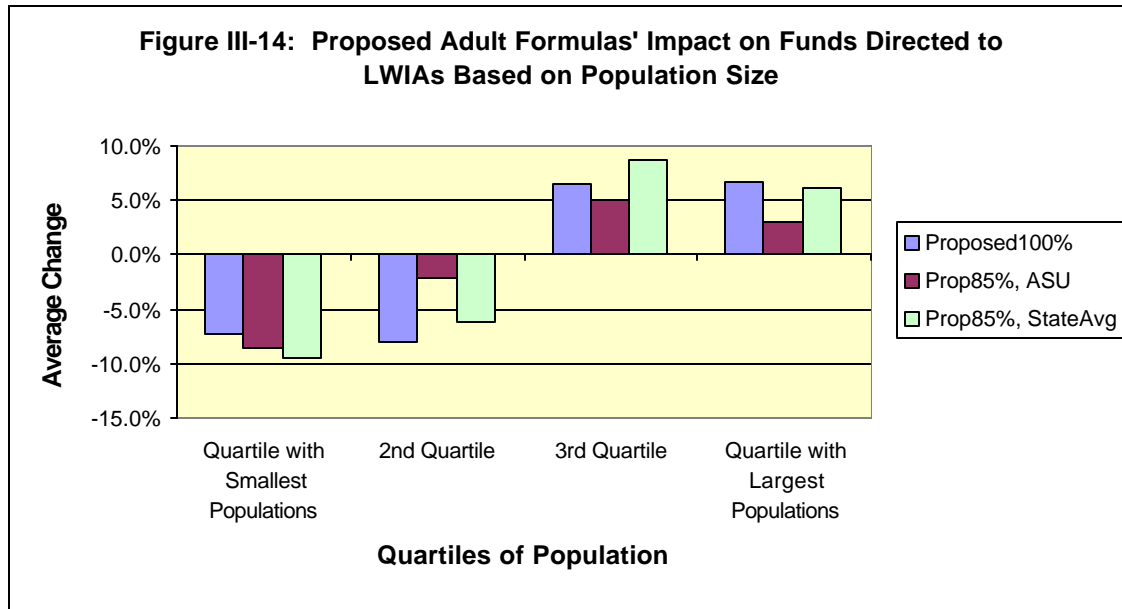
The second model simulated uses the proposed formula for 85% of the allocation and unemployment above the state average as the discretionary 15%. The reasoning behind such a model is that three of the four states that currently have adopted a discretionary formula used unemployment above the state average as a critical factor in their adult formulas. Thus, it is plausible that other states would be interested in adopting this factor as a critical feature in their own discretionary allocations. As a result, the formula for this estimation is identical to the one just presented, with the sole exception that unemployment above the state average is substituted for the ASU factor as the discretionary factor with a 15% weight. Results for this formula are shown alongside the previous two formulas in Figure III-13. As can be seen, this formula creates much larger shifts in funding than either of the previous two formulas. This is perhaps unsurprising, given that the discretionary factor chosen is not included in any of the current funding

formulas being integrated into the single stream of funds. Further, we have already seen how including unemployment above the state average can help to create sizable shifts in funding to LWIAs, and this proposed formula adds further evidence to that theme.

Thus, using either the proposed formula to allocate 100% of the funds, or using it in conjunction with unemployment in ASUs would not appear to cause dramatic shifts in allocations experienced by the vast majority of LWIAs. Still, however, several local areas would experience significant shifts in funds, in the absence of a hold-harmless or similar provision. Further, as the model utilizing unemployment above the state average shows, some discretionary factors used in concert with the standard proposed formula create much more substantial shifts in funding from the current formula. This raises the question of how local areas of different types would be affected by these formulas: what types of local areas stand to gain from the implementation of these formulas, and which stand to lose funds? We present several aspects of this in Figures III-14 through III-16.

In the first of these figures, we examine how the three variants of the proposed formula impact LWIAs of different population sizes. As can be seen in Figure III-14, the impact of adopting this proposed formula to allocate 100% of the funds is greatest on those LWIAs that have the largest populations. LWIAs in the each population quartile stand to gain or lose between 5 and 10 percent relative to their current allocation. For example, LWIAs in the highest quartile of population stand to gain slightly less than 7% under this proposed alternative formula. LWIAs in the next highest quartile stands to gain an almost identical percentage. In contrast, LWIAs in the bottom half in terms of population could expect to lose funds under this allocation approach. For example, LWIAs in the lowest population quartile would lose 8.1 percent, on average, were this formula adopted, while LWIAs in the next lowest quartile could expect to lose approximately 7.5% of their funds.

III. Comparisons of Current Allocations with Alternative Models

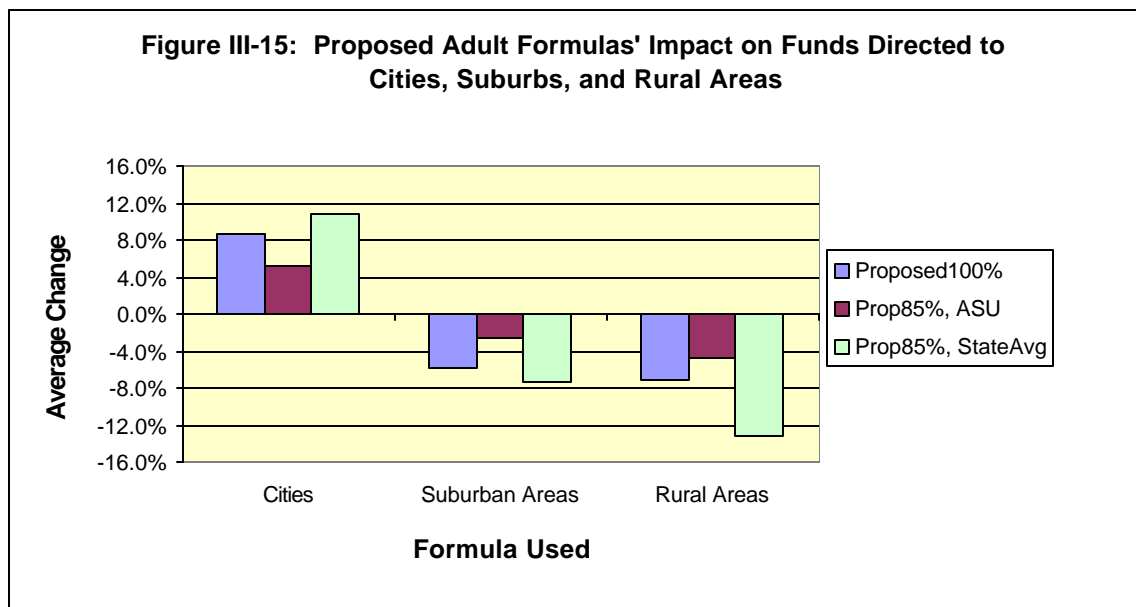


In the second formula simulated, in which the proposed formula accounts for 85% of the allocation, and unemployment in ASUs accounts for the remaining 15%, the results look fairly similar to those presented above. LWIAs in the highest population quartile would stand to gain about three percent, and those in the next highest quartile would gain 5 percent. In contrast,, LWIAs in the lowest quartiles would lose funds. LWIAs in the lowest quartile would lose nearly 9 percent of their funds, while those in the next highest quartile would lose a more modest 2 percent. These changes are consistent with what was shown above, that the proposed formula with unemployment in ASUs as a discretionary factor would cause some shifts in funding among most LWIAs, but that these shifts are relatively minimal compared to some of the alternatives described above.

The third formula we estimated shows quite different impacts on local areas. Indeed, this formula, which uses unemployment above the state average for the discretionary 15% factor, tends to direct greater percentages of funds toward LWIAs in the highest population quartile, and directs funds away from those in the lower quartiles. And the disparity between the highest and lowest quartiles is relatively great, as LWIAs in the highest quartile would experience gains of just more than 6%, while those in the lowest quartile would experience losses of nearly 10%. Clearly, then, this third formula creates greater disparities between larger and smaller LWIAs, which could be expected given the greater instability the formula creates in general.

In Figure III-15, we display the impacts of these three formulas on LWIAs that are primarily in cities versus those in suburbs and rural areas. As can be seen in this figure,

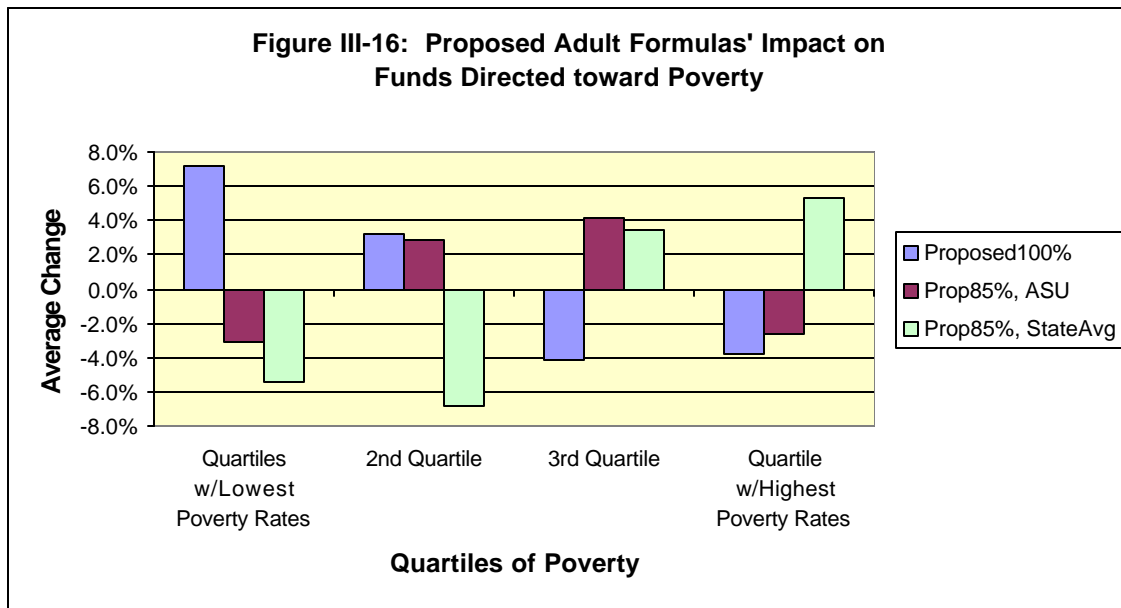
the estimation that uses only the proposed formula tends to direct more funds toward cities, while directing significantly fewer funds toward suburbs and rural areas. A similar, though somewhat more muted result is observed when using the proposed formula and unemployment in ASUs as the discretionary factor given a 15% weight. LWIAs in cities stand to gain under this formula, while those in suburbs and rural areas would experience small reductions in their allocation. In contrast, however, using unemployment above the state average has very different impacts on LWIAs in these different categories. LWIAs that are primarily in cities stand to gain nearly 11% under such a formula, while those that are primarily suburban would lose 7.3% and rural areas would, on average, lose over 13%.



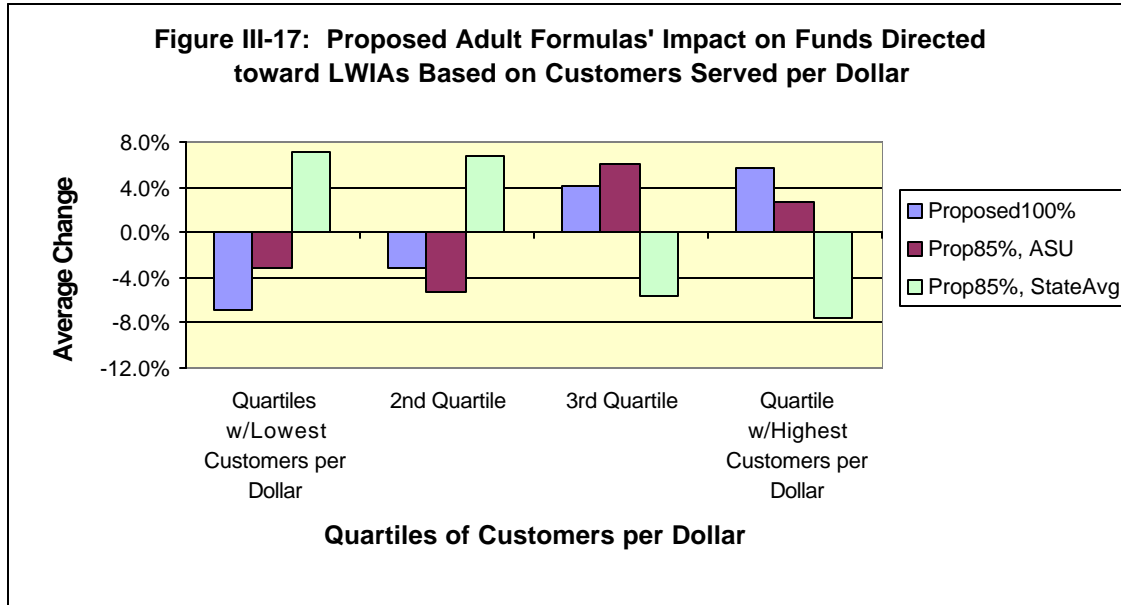
Next, we examine these three alternative formulas in their impact upon LWIAs with high versus low poverty. These results are shown in Figure III-16. In this figure, it is clear that the three formulas produce substantially different results. For example, under the alternative in which the proposed formula is used to allocate 100% of funds, LWIAs in the top two quartiles in poverty rates (i.e., have the highest rates of poverty) would experience losses in their funds, while LWIAs in the lower two quartiles would experience gains. In contrast, using the formula in which 85% of funds are allocated using the proposed formula and 15% are allocated using the number of unemployed in ASUs, the lowest and highest poverty quartiles of LWIAs experience losses, while LWIAs in the middle two poverty quartiles experience gains in their allocations. In each case, the gains and losses are relatively small, which is consistent with our general

III. Comparisons of Current Allocations with Alternative Models

finding that this formula creates relative little shifting in funding among local areas. Finally, the alternative in which the proposed formula is used to allocate 85% of funds, and unemployment above the state average is used to allocate the remaining 15%, produces still different allocations. Under this formula, LWIAs in the lowest two quartiles experience reductions in their funding, while those in the highest two quartiles experience gains. On average, LWIAs experience larger shifts in funding under this formula as compared to the other two alternatives presented in this figure.



Finally, we examine the effect of adopting these formulas on LWIAs based on their relative efficiency in serving WIA customers. These results are shown in Figure III-17. As can be seen in this figure, the impact of the three formulas is somewhat different in each case. Using the proposed formula to allocate 100% of the funds would direct money toward those in the highest two quartiles in terms of customers served per WIA dollar, while directing funds away from the lowest two quartiles. Using unemployment in ASUs as a discretionary factor would create a quite similar effect, directing money toward the highest two quartiles, and away from the lowest two quartiles. Finally, using unemployment above the state average has much the opposite effect; in such an alternative model, more funds are directed toward those LWIAs that are low in the number of customers they serve per WIA dollar.



In general, then, the proposed formula has several positive features that may well enhance its attractiveness to both DOL and LWIAs. When applying the formula exclusively, or in combination with unemployment in ASUs, a majority of LWIAs stand to benefit in their allocations. This is because the areas that would experience increases are, on average, smaller areas with lower initial allocations. As a result, many such areas can experience significant changes in their allocations at the expense of a few, relatively small reductions for larger areas with much larger initial WIA allocations. Thus, in cases in which LWIAs experience losses, these reductions are generally relatively small. In contrast, implementing the proposed formula in combination with unemployment above the state average, a factor many of the states currently using a discretionary formula have chosen to include in their models, would produce much more substantial shifts in funding from the current allocation, with the general result that larger LWIAs would experience increases in allocation, while smaller and more suburban or rural LWIAs would experience losses. Effects are less clear for targeting money toward local areas that serve higher numbers of customers per dollar, as the formulas create broadly varying results. What is clear from these results, however, is that using unemployment in ASUs as a discretionary factor in addition to the proposed formula, or simply using the proposed formula to allocate 100% of the funds available, would create relatively similar allocations as currently exist.

Youth Allocations

In contrast to the proposed adult formula, which streamlines programs and services by merging three separate programs into a single one, the proposed youth formula would remain targeted toward the same single program it currently is, though the actual formula would be altered significantly. For example, neither of the two threshold unemployment factors, which constitute two-thirds of the current youth allocation formula, would be included under the proposed formula. Instead, these formulas would be replaced by two new factors, including the number of unemployed individuals within an area (not limited to specific ages) and the number of youth (ages 16 to 19) in the civilian labor force. Although the number of unemployed individuals involves unemployment, this factor is quite different from the previous factors in that it is not based on a threshold measure but, rather, a raw count of the number of unemployed individuals. Indeed, the proposed youth formula eliminates threshold measures, and instead relies on simple counts of the number of individuals falling into any one of the three categories. Both the number of unemployed individuals and the number of youth in the civilian labor force would receive one-third of the weight under the proposed formula. The final one-third of the allocation would be made using the same factor currently in place – the number of disadvantaged youth.

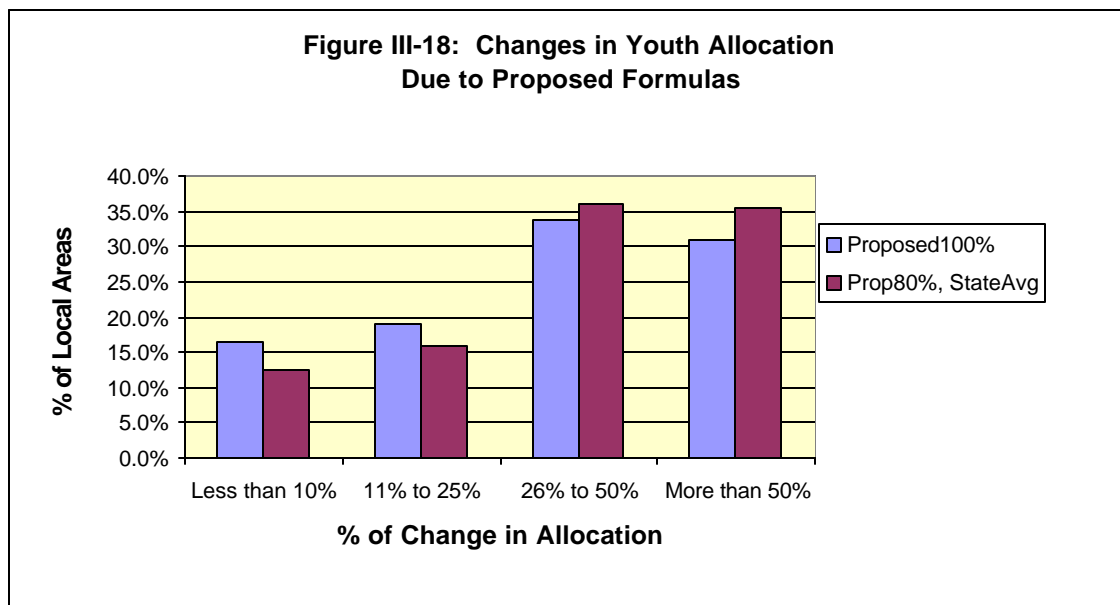
Because the targeted population remains the same, making comparisons between the current formula and the proposed formula is relatively straightforward. To calculate results for the proposed formula, we used the standard formula, which is identified in H.R. 1261. Specifically, this formula is calculated as follows:

$$\text{Allocation} = .333 * (\text{Number of Youth in Labor Force Share}) + .333 * (\text{Number of Unemployed Share}) + .333 * (\text{Number of Disadvantaged Youth Share})$$

In a slight difference from the adult formula, H.R. 1261 proposes that 80% of the allocation for youth funds be made using this formula (as compared to 85% of adult funds), and the remaining 20% be allocated using a formula of the state's choosing (as compared to 15% of the adult funds). Our analysis is parallel to that presented above for adults. First, we discuss how the allocations change when applying this formula for 100% of the allocation, to assess how substantial would be the change were states to adopt the formula wholesale. Following this, we discuss how the allocations would change if states used the proposed formula to allocate 80% of their available funds and, for the remaining 20%, used some discretionary factor, as described below.

Changes produced by the proposed formula are shown in Figure III-18. As can be seen in this figure, if states were to adopt the proposed formula to allocate 100% of their youth funds to local areas, there would be some significant changes in the allocations produced. For example, nearly one-third of all local areas would experience changes of greater than 50%. An additional one-third would experience changes of between 25% and 50%. Another 19% would experience changes of between 10% and 25%, and only 1 in 6 LWIAs would experience changes of less than 10 percent. These changes would only occur, of course, in the absence of hold-harmless provisions, but it is clear that the effect of the proposed youth formula would be to create sizable shifts in allocation to LWIAs.

Also shown in Figure III-18 are results from a second simulation, which uses the proposed formula to allocate 80% of the funds under the youth program, and uses youth poverty above the state average to allocate the remaining 20%. Because we do not know exactly what states would select to include in their formulas for the discretionary 20%, we opted to include youth poverty above the state average because three of the four states that have currently adopted a discretionary formula have included this measure. Thus, it is plausible that other states would be interested in adopting such a measure, especially given that the focus of the youth program would remain on serving disadvantaged youth and, as a result, including this measure

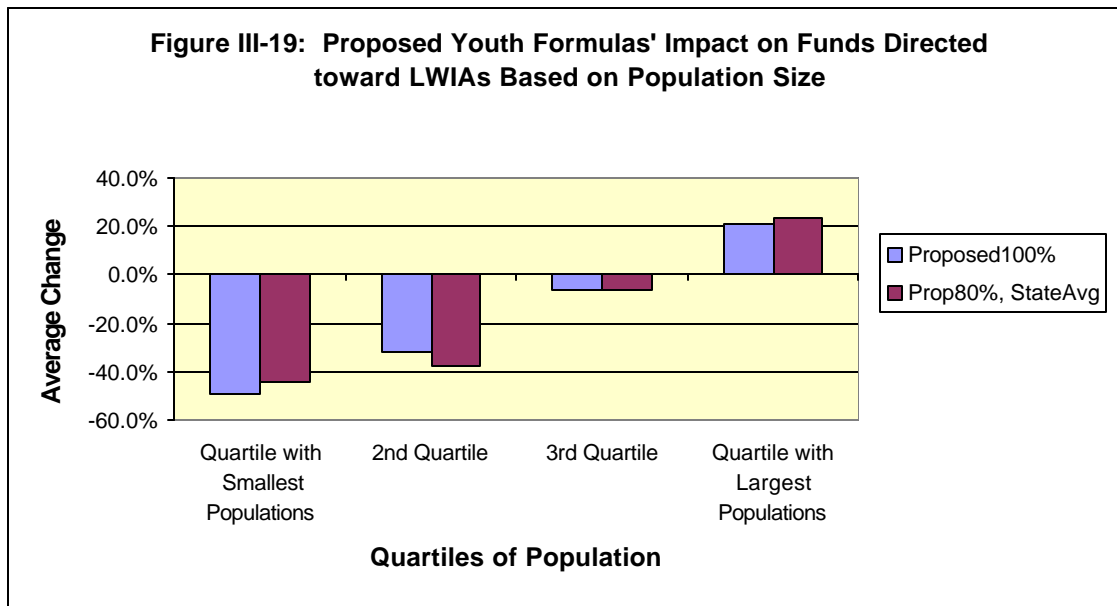


would further target funds to those local areas with higher rates of youth poverty. The specific calculation of this formula is as follows:

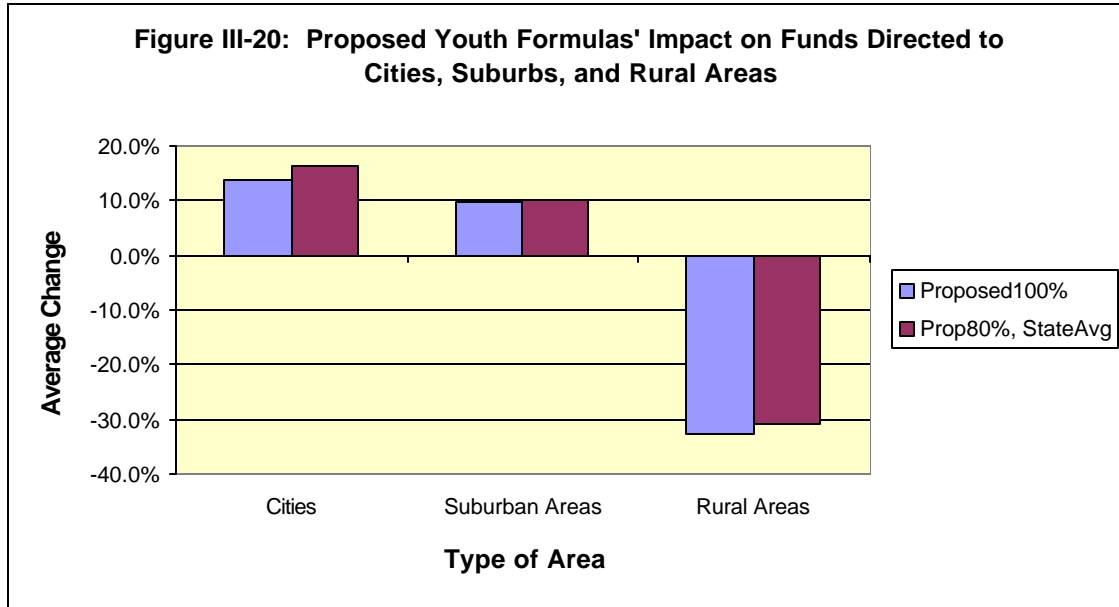
III. Comparisons of Current Allocations with Alternative Models

$$\text{Allocation} = .233 * (\text{Number of Youth in Labor Force Share}) + .233 * (\text{Number of Unemployed Share}) + .233 * (\text{Number of Disadvantaged Youth Share}) + .2 * (\text{Number in Poverty Above State Average Share})$$

The results shown in Figure III-18 are similarly striking in the amount of change they would produce in allocations to LWIAs. More than one-third of all LWIAs would experience shifts in funding of more than 50%, while an additional one-third would experience changes of between 25% and 50%. Far smaller percentages would experience less dramatic shifts in their funding.



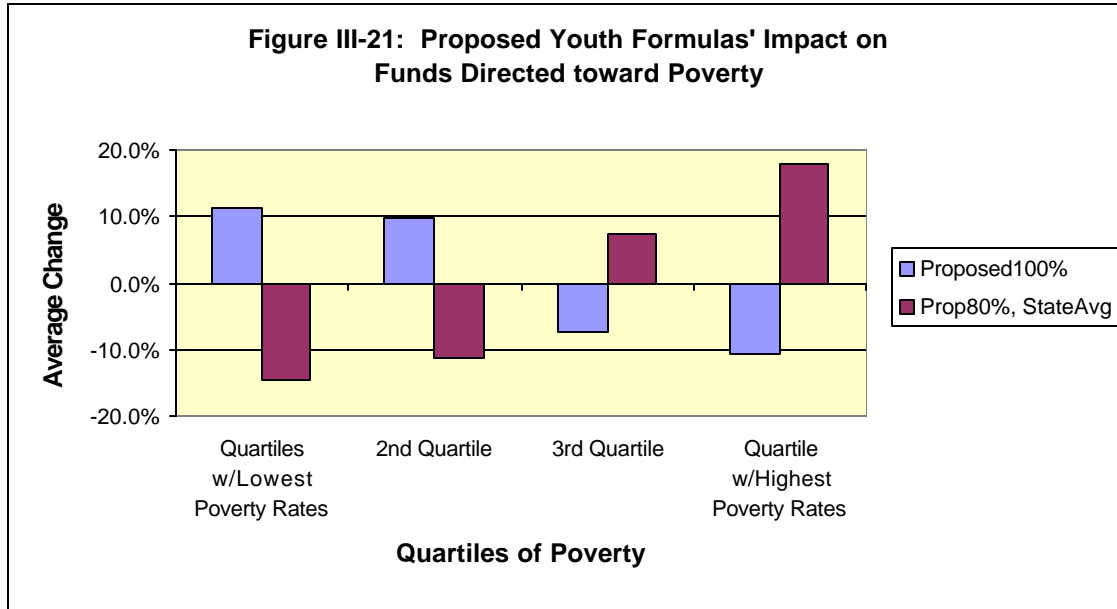
In Figure III-19 and III-20, we show the impacts of these proposed youth formulas on LWIAs with different characteristics. As can be seen in this figure, the impacts of these proposed youth formulas on LWIAs are also quite dramatic. For example, both formulas direct far greater proportions of funds toward local areas with



the largest populations (as much as 24% more toward areas with the highest population), while directing substantially less funds toward areas with smaller populations. Not surprisingly, given this finding, each formula also directs significantly more funds to cities and suburban areas (between 10% and 16% more in each case), and away from rural areas (which would experience reductions of between 30% and 33%).

Further, in Figure III-21, we show the impact of these formulas on areas with different poverty rates. As can be seen in this figure, the proposed formula would have the effect of directing money away from areas of poverty, with the highest poverty quartile of LWIAs experiencing reductions of nearly 11%, while increasing funds in areas that are lower in poverty. The alternative formula, which uses poverty above the state average to allocate 20% of the funds, reverses this effect, such that areas highest in poverty would experience gains of eighteen percent, while areas lower in poverty would experience losses of up to fifteen percent.

III. Comparisons of Current Allocations with Alternative Models



Finally, although we do not display the results in a figure, both formulas would serve to direct somewhat less money toward those local areas that serve higher numbers of youth customers per WIA dollar. In both formulas, the top two quartiles on this measure would receive slightly less in funds. The highest quartile would experience losses of up to 9%, while the lowest quartile would experience gains of 8 to 13%. Thus, the significant shifts caused by these proposed youth formulas would tend to favor LWIAs that serve fewer youth customers per dollar.

MECHANISMS TO PROMOTE ORGANIZATIONAL AND FINANCIAL STABILITY

As has been made clear in the previous sections, many of the alternatives to the current formula create substantial shifts in allocations. While these shifts represent the area’s “true” allocation, depending on the specific formula being implemented, they do not take into account that local areas must have some amount of stability in their year-to-year funding in order to provide services to those in need of them. Indeed, many have suggested that changes in excess of 10% are significant enough that local areas would be unable to function effectively were they to experience funding shifts of more than this amount. These arguments have been at the core of the hold harmless provisions that were put into place in the later years of JTPA, and were continued (albeit with an allowable two-year hiatus) under WIA.

Before concerning ourselves with such fluctuations, however, it is critical that we examine the extent to which they occur with regularity from one year to the next. As we discussed above, shifts in excess of 25%, not to mention those in excess of 50%, were quite common in many of

the alternatives described above, but these were brought about through comparisons of the current formula to some alternative that could be adopted, within the same funding year, rather than comparisons of the same formula across program years. One would expect that inter-year allocations made under the same formula would exhibit somewhat less fluctuation, as the factors on which the allocation is based do not vary, and some of the values for those factors (i.e., the number of disadvantaged individuals) rarely change as well.

Our first task in this section, then, will be to examine the extent to which local areas' allocations do fluctuate substantially from year-to-year. In Table III-3, we display the changes in allocations between PY 2001 and 2002. We calculated these changes by using the simulation procedures described in detail earlier in this chapter for both PY 2001 and 2002 funds, and then comparing the two allocations. For PY 2001, we used unemployment data from PY 2000, while for PY 2002, we used unemployment data for PY 2001. In both cases, we used counts of the number of disadvantaged individuals from the 2000 Census.

One of the first points to be noted from this table is that we do not show shifts in the dislocated worker funds, largely because such funds are not currently subject to hold harmless provisions. The reason for this is discussed in detail above; the nature of dislocations and layoffs make them highly difficult to predict. As a result, invoking a hold-harmless provision would prevent states from directing funds toward those areas that experienced sudden layoffs. Of course, by the very nature of the program, allocations for a given year are based on data from a prior year, but the flexibility of targeting funds to areas with rapidly changing economic and employment climates means that hold-harmless provisions are less useful in the context of the dislocated worker program than they may be for adult and youth allocations.

Table III-3
Percent Funding Changes under Current Formula, PY2001-2002

	Change Between 2001 & 2002	
	Adult	Youth
Absolute Value of Percentage Change		
0-5%	26.9	24.7
5-10%	27.2	29.1
10-15%	18.4	16.5
15-25%	10.7	12.1
More than 25%	16.8	17.6
Mean	12.5	12.9
Percentage Change		
Less than -10%	27.7	26.1
Between -10% and -.1%	27.8	25.7
Between 0-10%	26.3	28.1
More than 10%	18.2	20.1
Mean	-.4	-.2

Note: Absolute change reflects the absolute value of the percentage changes experienced by LWIAs across program years. Percentage change shows the actual gains or losses experienced by these LWIAs. These data were constructed using our simulation model and, thus, the actual changes in allocations for LWIAs in these program years may vary slightly.

As can be seen in Table III-3, although the shifts in allocation from year-to-year using the current formula are not as dramatic as many we saw when applying alternative formulas, there are a sizable number of LWIAs who would experience shifts of more than 10%. And approximately one in six LWIAs experience shifts in their adult and youth allocations of greater than 25% with no hold harmless provision in place. The lower rows in the table display the actual changes experienced by these same LWIAs. In these rows, one can see that although just over half the areas receive relatively stable allocations (i.e., no more than a 10% gain or loss) from one year to the next, the remaining 45% experience more substantial changes. And approximately one in four local areas would experience losses from one year to the next of more than ten percent in their adult and/or youth allocations. Thus, significant fluctuation is not an isolated occurrence but, rather, a relatively common issue that either will upset local areas' general stability, or must be dealt with in some way to ensure that programs and services can continue largely uninterrupted across program years. Such instability may cause local areas significant problems because they would be

unable to offer a stable set of services, or to promise registering customers that the services they wish to receive will be available across different program years begin.

Of course, these changes reflect only short-term changes between two program years. But it is the year-to-year changes that create the instability that is difficult to manage organizationally and financially. As a result, an additional consideration in examining these fluctuations is the extent to which LWIAs of a certain type are impacted more often than others. If, for example, LWIAs that have smaller populations were systematically more likely to be among the areas that experience sizable losses, having no mechanism by which to limit these losses would guarantee that these local areas would be more subject to programmatic interruptions or challenges in meeting the needs of their customers. Any such systematic relationship between LWIAs of a given type and funding instability would therefore create a situation in which LWIAs were being disproportionately impacted based on characteristics that are not under their own control.

Table III-4 displays how various types of LWIAs are impacted by the short-term fluctuations presented above. As is apparent in this table, the LWIAs experiencing the largest losses due to fluctuation in allocations are those that have smaller populations and those with smaller allocations to begin with. Additionally, suburban areas tend to experience losses, while urban areas tend to experience greater increases. Further, LWIAs with lower rates of poverty also experience losses, on average. Given that the poverty measure used in the current formula does not change between the allocations, since it is based on Census data, this suggests that the proportion of unemployed individuals shifted away from areas of low poverty during these program years, because the allocations made based on unemployment shift away from these low poverty areas.

Table III-4
Percentage Changes for Different Types of LWIAs

	Change Between 2001-2002	
	Adults	Youth
Size of Population		
Lowest Quartile	-1.9	-2.3
2 nd Quartile	-2.0	-1.4
3 rd Quartile	2.4	3.6
Highest Quartile	0.7	0.9
Type of Area		
City	5.3	5.4
Suburb	-4.7	-4.2
Rural	0.2	-1.6
Poverty Rate		
Lowest Quartile	-1.4	-2.0
2 nd Quartile	-0.6	1.1
3 rd Quartile	1.9	0.5
Highest Quartile	2.3	-0.6
# of Customers Served per Dollar		
Lowest Quartile	3.2	1.2
2 nd Quartile	-2.4	-2.9
3 rd Quartile	3.1	-1.8
Highest Quartile	-1.4	3.1
LWIA Allocation		
Lowest Quartile	-7.5	-6.3
2 nd Quartile	-3.0	-3.7
3 rd Quartile	4.2	5.6
Highest Quartile	2.2	2.4

Thus, not only is there a significant amount of fluctuation in year-to-year funding, this fluctuation hits most heavily on those areas that may be least well-equipped to handle it. LWIAs with smaller initial allocations, and those with generally smaller populations, tend to be those with fewer staff and services available. Experiencing substantial percentage losses from one year to the next may be more crippling for these LWIAs than it would be for very large areas, since the larger areas have a broader base from which they can help to minimize the impact of funding reductions. Further, that an area's allocation decreases from one year to the next in no way implies that the level of need in that area has declined, even if one was to accept that the current formulas precisely target need through the factors included in

the formulas. Rather, it is just as likely that the level of need has remained the same in the given local area, or even increased, but that the level of need has increased more substantially in other areas. This is especially likely given that smaller areas are the ones most adversely impacted by funding fluctuations, because any increases in need within these areas would pale in comparison to increases in larger areas. Thus, a local area may well be faced with the situation of increasing demand for their services while simultaneously receiving significantly less funding to provide these services. One key component of the allocation formulas, therefore, may be to ensure that local areas have the stability necessary to provide services that remain needed even as the areas' relative share of funding is decreasing.

In the remainder of this section, then, we examine various ways in which the formulas used to allocate funds under WIA could be designed to promote organizational and financial stability among local areas. Primarily, we do this by exploring the impact of implementing the hold harmless provisions. We also, however, examine how replacing the factors in the current formula that help to create instability of funding impacts the allocations received by LWIAs, and discuss how the alternative formulas discussed in this chapter could help to minimize the fluctuations that do occur. In addition, we examine the effect of incorporating any carry-in funds into the subsequent program year's allocations. Doing this would ensure that areas that have difficulty expending their funds in a single program year would not receive an additional full allocation in the following year.

Hold Harmless

One mechanism developed specifically to minimize the fluctuations in allocations from year to year is the hold harmless provision. Under JTPA, this provision mandated that no local area could receive less than 90% of its prior year's funding level. This has been modified under WIA such that local areas can not receive less than 90% of the average of their previous two years' funding. Thus, the hold-harmless provision under WIA is more conservative, and promotes even greater stability because the threshold on which their current funds are based is a two-year average rather than a single year. Thus, for local areas whose level of need, as measured by the factors included in the allocation formula, is falling rapidly, their allocation will fall somewhat less quickly because they must receive 90% of their average over the prior two years.

This provision is an external constraint imposed on the allocation formula, because it acts largely independent from the formula. First, allocations for each local

*III. Comparisons of Current Allocations with
Alternative Models*

area are calculated using the current formulas. At this point, within each state that implemented hold-harmless provisions (it became mandatory after the second year of WIA implementation), any local area whose allocation is less than the average of the prior two years is automatically assigned this average as their allocation for the subsequent year. Given that this automatic increase to one or more local areas means that less is now available to be allocated to remaining LWIAs, the allocation is calculated again, assigning the remaining available funds to those LWIAs not assigned the hold-harmless minimum in the first stage. This recursive process is repeated until all LWIAs receive at least their minimum and the allocations have been made to all LWIAs in the state. This process clearly, then, takes funds from areas that have a higher “need,” as identified by the factors included in the formula, and reassigns some of those funds to areas with lower levels of “need.” But though it does redirect funds away from those areas the formulas have determined have higher levels of need, it helps to ensure that LWIAs have some stability in funding so that they can be certain that they can offer a relatively stable set of services across program years.

As noted above, certain local areas are much more likely to experience allocations that are 10% or more less than they had in the prior program year. Thus, these are the LWIAs that stand to benefit from hold-harmless provisions, at the expense of LWIAs that did not experience such fluctuations. To examine how the implementation of hold-harmless provisions in each state would impact LWIAs of different types, we calculated the percentage change in allocations made to different LWIAs as a result of hold-harmless. These data are shown in Table III-5. The effects shown in this table are largely the opposite of those shown above. This is not surprising because hold harmless is designed to limit the losses experienced by certain LWIAs by paring back in the allocations to LWIAs not experiencing such losses.

	Adult	Youth
Size of Population		
Lowest Quartile	9.6	11.2
2 nd Quartile	4.1	6.3
3 rd Quartile	-0.3	-0.6
Highest Quartile	-2.7	-3.0
Type of Area		
City	-4.6	-5.1
Suburb	6.1	5.0
Rural	0.5	0.3
LWIA Allocation in 2001		
Lowest Quartile	13.9	12.7
2 nd Quartile	5.2	6.1
3 rd Quartile	-1.3	-1.6
Highest Quartile	-1.9	-2.1

What is clear from the table, though, is that the relatively substantial increases experienced by smaller LWIAs as a result of hold-harmless provisions are offset by relatively small reductions to larger local areas. This is entirely intuitive, in that the amount of dollars that need to be transferred to areas with small allocations to ensure they receive at least 90% of their prior two years' funding is relatively small, especially in comparison to the amount of funds received by much larger LWIAs. Thus, the hold-harmless provision has the average effect of transferring small percentages of larger LWIAs' funds to produce relatively large percentage increases for smaller LWIAs. In this way, the hold-harmless provision is very effective in minimizing the percentage of negative reductions while creating larger percentage gains for certain local areas.

One problem with looking at such changes, however, is that they are critically dependent upon shifting business cycles, such that the areas that stand to benefit from hold harmless in the current business cycle are likely to be those that are hurt by it when the cycle shifts in the opposite direction. Thus, examining changes over a single year period may be incomplete, at best, or misleading at worst because they capture only a

*III. Comparisons of Current Allocations with
Alternative Models*

single snapshot of the areas that are hurt or helped by the hold-harmless provision. It should be made clear, then, that the effects of the hold-harmless provision noted in this section may not hold across different business cycles, and with differing economic circumstances. It should be noted, however, that the effects noted here are largely consistent with an earlier study examining allocations results, which was completed in a much different economic and business context.¹³

In addition to minimizing the losses that are experienced by some local areas from one program year to the next, the hold-harmless provision could also be viewed as a means by which allocation reductions could be minimized in shifting from one funding formula to another. In an earlier section, we presented a range of potential alternative formulas, and described how these formulas would alter the allocations made to local areas from their simulated current allocation. Below, in Table III-6, we present how a hold-harmless provision would affect implementation of each of the alternative formulas.

Although Table III-6 presents too many figures to discuss each one, we want to draw attention to a few key points. First, nearly all the formulas in this table show sizable shifts in funds as a result of implementing the hold-harmless provision. This should not be surprising, given the significant shifts in funds that occur as a result of implementing these alternative formulas. But the size in shifts as a result of hold harmless implementation suggests that much of the money to be allocated would be based simply on hold-harmless, rather than on targeting any indicator of need. Thus, there is a more stark choice between benefiting some smaller LWIAs greatly while taking modest amounts from larger LWIAs, as was the case above. As shown in Table III-6, implementing any of these formulas with a hold-harmless provision would transfer substantial percentages from certain LWIAs toward other LWIAs, thereby lessening the ability to target funds to the levels of need identified within the alternative formulas.

One general exception to this rule, however, is the implementation of the proposed formula to allocate 85% of available funds, with unemployment in ASUs used to allocate the remaining 15%. With this formula, relatively smaller percentages of funds need to be transferred across LWIAs due to hold-harmless provisions and, as a result, more of

¹³ “An Assessment of Funding Allocation under the Job Training Partnership Act,” (1986), Abt Associates, Cambridge, MA.

Table III-6						
Impact of Hold-Harmless on Alternative Allocation Formulas						
	Alabama Formula	Arizona Formula	Iowa Formula	Florida Formula	Proposed 100%*	Proposed 85%/ASU*
Percent of LWIAs Receiving Increase	34.6	38.9	38.3	37.6	37.2	28.9
Size of Population						
Lowest Quartile	26.3	25.8	27.2	-0.5	14.1	6.3
2 nd Quartile	12.9	9.7	15.9	-2.1	8.0	4.4
3 rd Quartile	-13.6	-10.3	-16.4	-3.6	-10.2	-5.9
Highest Quartile	-8.6	-7.4	-8.0	2.7	-8.4	4.3
Type of Area						
City	-9.5	-9.9	-7.1	-0.3	-8.5	-4.7
Suburb	8.6	4.2	2.7	0.8	7.9	3.2
Rural	17.2	15.4	16.3	1.1	10.4	6.1
LWIA Allocation						
Lowest Quartile	29.8	26.6	31.2	10.2	18.3	12.1
2 nd Quartile	15.2	16.7	12.9	4.8	15.0	5.8
3 rd Quartile	-16.7	-11.9	-14.5	-3.1	-10.2	-7.2
Highest Quartile	-8.5	-10.1	-9.9	-1.6	-6.6	-2.3
<p>Note: Numbers reflect percent change as a result of implementing hold-harmless provision to minimize changes between current formula and identified formula. These numbers reflect adult allocations for PY 2002.</p> <p>*Proposed formula 100% refers to implementing the formula proposed in H.R. 1261, and allocating 100% of available funds using this formula.</p> <p>*Proposed Formula 85%/ASU refers to using the above formula to allocate 85% of the funds, and unemployment in ASUs to allocate the remaining 15%.</p>						

the funds are targeted toward LWIAs identified by the formula as having the highest need. Thus, more funds would remain in areas with high numbers of unemployed individuals, both generally and in areas of excess unemployment or ASUs, as well areas with relatively higher numbers of disadvantaged individuals.

The Impact of Replacing Factors Causing Instability

Another alternative to reducing the fluctuations that occur across program years is to utilize alternative formulas or factors that help to minimize the variation in local areas' shares. As noted above, in the current formula only unemployment in ASUs and excess unemployment can contribute to instability in funding, because these are the only two factors that fluctuate from year-to-year. The number of disadvantaged individuals remains constant, because it is taken from Census data that are updated only once every ten years. Thus, nearly all fluctuation between program years that occurs in local area funding is the result of relative changes in each local area's share of unemployed individuals in ASUs or changes in the number of excess unemployed in areas of excess unemployment.

As is discussed in great detail above, one of the primary concerns about these two factors is that they rely on thresholds. Thus, areas that just meet the threshold are eligible to receive some portion of the allocation for that factor, while areas that fall just below the threshold receive no share for that factor. In reality, these areas may be relatively similar overall, but the all-or-nothing nature of threshold factors treats them radically different in terms of the allocation directed toward each. Further, a single area can be impacted significantly from one year to the next if they, for example, just meet the threshold value in a given year, but fall just below it in a subsequent year. What is an absolute change of only a few unemployed individuals can represent an allocation change of thousands, or even millions of dollars, because they fluctuate just above or below the threshold. This is one reason why many stakeholders have argued that a better, or at the very least a more stable factor to be used would be the absolute number of unemployed individuals. Although this number can vary substantially across program years, with no threshold aspect to the measure local areas would likely not be subject to the dramatic swings in funding so typical of these thresholds.

To examine how the incorporation of such a factor into the allocation formulas would impact the fluctuation experienced by LWIAs, we simulated separate models that replaced each of the ASU and excess unemployment factors with the total unemployment factor. To do this, first we simulated the current funding formulas, using the standard three factors, to produce allocation results for all LWIAs. Following this, we produced separate models in which we replaced the ASU factor with the total unemployment factor, and a second model in which we replaced the excess unemployment factor with the total unemployment factor. Results for this analysis are shown in Table III-7.

Table III-7		
Impact of Holding Unemployment in ASUs and Excess Unemployment Constant		
	Adult	Youth
Simulated Absolute Percentage Change in LWIA Funding (PY2001-2002)	12.5%	12.9%
Unemployment in ASUs		
Simulated Change Replacing Unemployment in ASUs with Total Unemployment	7.2%	7.3%
Percentage Change from Current to Using Total Unemployment	42.4%	43.4%
Excess Unemployment		
Simulated Change Replacing Excess Unemployment with Total Unemployment	7.3%	7.8%
Percentage Change from Current to Using Total Unemployment	41.6%	39.5%

As can be seen in this table, the absolute percentage change between PY 2001 and 2002 experienced by local areas in our standard simulation of the current adult formula was 12.5%. For youth, this figure was 12.9%. In simulations in which we replaced the value of each local area’s ASU share with their relative share of the total number of unemployed individuals, one can see the substantial drop in simulated change, to a value of 7.2% for adults, and 7.3% for youth. This represents a decrease of approximately 40% in the fluctuation experienced by local areas, simply due to replacing unemployment in ASUs with total unemployment across the two program years. The two figures are, ostensibly, measuring similar factors – the relative amount of unemployment in a given local area – but eliminating the threshold measure creates substantially more stability in funding across program years.

Also shown in Table III-7 is a similar result for the excess unemployment variable. As with unemployment in ASUs, simply replacing the excess unemployment factor with a measure of total unemployment across program years substantially reduces the fluctuation experienced by local areas. For adults, replacing excess unemployment with total unemployment reduces the fluctuation by just over 40%, while for youth it reduces this fluctuation by nearly 40%. Perhaps what is most clear in these models is that both unemployment in ASUs and excess unemployment play significant roles in the fluctuation experienced by local areas. This raises the question of what the effect of removing both threshold measures from the model would be on the fluctuation experienced by LWIAs. To answer this question, we simply replaced both the threshold

*III. Comparisons of Current Allocations with
Alternative Models*

factors with a measure of total unemployment. As an initial exercise, we examined the extent to which using the number of unemployed individuals to allocate two-thirds of the allocation (with the number of disadvantaged adults used to allocate the remaining one-third) helped to lessen the changes experienced by LWIAs across program years. These results are shown in Table III-8.

As can be seen in this table, replacing the two threshold measures with the total number of unemployed individuals within a local area as an allocation factor even further reduces the fluctuations experienced in allocation across years. Indeed, substituting this factor as two-thirds of the weight in the allocation formula (and keeping the number of disadvantaged individuals, which does not vary in this simulation, as the remaining factor) reduces the fluctuation by nearly three-fourths for both the adult and youth formulas. Clearly, then, the threshold aspect of both the ASU and excess unemployed factors plays a major role in creating instability in funding across local areas.

We also examined the impact of substituting unemployment measured over an extended duration in place of the two threshold measures. For this measure, we calculated the average number of unemployed individuals over the prior two years, and gave this factor a two-thirds weight in the current formula (with the disadvantaged factor receiving the remaining one-third weight). This combination of the number of unemployed, averaged over a two-year period, further reduced the fluctuations that occurred across program years. In this case, the average fluctuation was reduced by more than 80%. Extending the reference period further back, such as to five year, makes a modest additional difference, such that five-year averages of the number of unemployed individuals reduce the fluctuation in the formulas by just less than 90%.

	Adult	Youth
Simulated Absolute Percentage Change in LWIA Funding (PY2001-2002)	12.5%	12.9%
Number of Unemployed Individuals		
Simulated Change Using Number of Unemployed	3.2%	3.3%
Percentage Change	74.4%	74.4%
Extended Reference Period for Unemployment		
Simulated Change Extending Reference Period for Unemployment	2.1%	2.2%
Percentage Change	83.2%	82.9%

This beneficial effect of extending the measurement of factors out over time to produce greater stability in funding across program years can also be applied to the two threshold measures. For example, were one to calculate the average of an area's unemployment over a five-year period in order to determine its status as an ASU or area of excess unemployment, there would similarly be a decrease in the fluctuation experienced by local areas. This decrease is shown in Table III-9. As can be seen in this table, although the general effect is the same – there is less fluctuation between program years in local areas' funding when calculating ASUs and excess unemployment over a five-year period – the magnitude of the effect is much less than that shown for the total employment factor above. Calculating both of these factors as five-year averages reduces the fluctuation by just over 50%. Thus, there is still an impact of the threshold, as some areas will fall just above or just below, even when averaging across five years. Thus, one way of minimizing shifts in funds would be to average ASUs and/or excess unemployment over a longer period of time, but this would still create greater fluctuation than would replacing the threshold measures with an absolute measure, such as total unemployment. Further, it may well be impractical to average these threshold measures over five years, especially given that ASUs can be calculated at relatively small levels. Thus, this alternative seems less fruitful than using a simpler approach such as using total unemployment.

Table III-9		
Impact of Using Longer-Term ASUs or Excess Unemployment		
	Adult	Youth
Simulated Absolute Percentage Change in LWIA Funding (PY2001-2002)	12.5%	12.9%
Simulated Change Extending Reference Period for Unemployment in ASUs and Excess Unemployment	5.9%	6.0%
Percentage Change	52.8%	53.5%

The factors presented in this section are an alternative to the externally imposed constraints brought about by hold-harmless provisions. By using measures similar to the current measures, without the threshold aspect, one can reduce fluctuations experienced by local areas by substantial amounts. Although some local areas will still experience reductions in their allocation of more than 10%, such areas will be a small percentage of the overall number of LWIAs. Further, the benefit of adopting such an approach is that it ensures that funds are allocated on the basis of one very plausible definition of need – the number of unemployed individuals within a given local area – rather than on the basis of an external guarantee that no area will receive less than some previous years’ allocation, regardless of whether or not there is a need for this amount of funding. Further, even greater benefit can be derived by averaging this factor over a period of years, rather than allowing it to vary only for a single year. This averaging also would help reduce fluctuation while still using the unemployment in ASUs and excess unemployment variables, though the impact of this is somewhat less than eliminating threshold measures entirely.

Incorporating Carry-In Funds to Subsequent Allocations

Although sudden reductions in funding can clearly create concerns among local areas, and difficulties in providing a stable set of services across program years, local areas also may struggle because their annual allocation of funds is unspent in a given program year, and so the remaining amount is carried in to the new program year. In addition to this carry-in amount, however, they also receive a new year’s allocation on top of this unspent amount. Thus, local areas are faced with spending not only their latest allocation, but also the unspent portion from the prior year. At the same time, other local areas that utilized their entire allocation the prior year receive only their subsequent year

funds for the coming year. On the surface, then, it would seem as though areas that are able to spend their funds (and perhaps even run out of funds during the program year) might well need additional funding in subsequent years because the demand for their services is high. In contrast, areas that cannot expend their funds perhaps should receive lesser allocations in subsequent years, because the demand for services in these local areas may be lower than in other areas.

Several state representatives and other key stakeholders cautioned against this assumption, however. Because local areas have two years to expend their funds, the fact an area carries in funds from one program year to the next may not be indicative of an inability to spend their funds. Indeed, in most cases, according to state representatives and other stakeholders, carry-in funds are already obligated to service providers, and thus they make the distinction between unspent and unobligated funds, which are funds that are neither spent nor contractually obligated. As noted in Chapter II, the vast majority of states have in place provisions that enable them to recapture funds from local areas if they are not obligated by some date late in the program year, which enables the state to reallocate such funds that likely would not be spent. Thus, in many ways this state-level recapture of unobligated funds serves as a basis for addressing fluctuations from year-to-year, because areas that cannot obligate their funds will lose them, to be reallocated among the areas that are having no problem obligating and expending funds.

Unspent funds, on the other hand, currently are not recaptured or reallocated, and thus are carried into subsequent program years. Despite the cautions of stakeholders, many believe that such funds represent inefficiencies in the allocation of funds, for the reasons identified above. Thus, as a final means of examining the promotion of organizational and financial stability, we simulated the effects of incorporating carry-in funds into the current year's allocation.

To do so, we identified all states that had reported in their survey that at least some of their local areas had unspent funds at the end of a program year. We then asked representatives from each of these states to provide data on the amount of adult, youth, and dislocated worker funds each local area carried in to PY 2002, that had been unspent for PY 2001. Thirty-four of the thirty-eight multiple-area states in our respondent sample were thus asked to provide this information. After repeated solicitations via email and telephone, we were able to obtain carry-in information for 20 states. An additional four states that reported their areas had no carry-in funds could also be included in our analysis, with the carry-in shares being assigned to zero for these states.

III. Comparisons of Current Allocations with Alternative Models

To conduct this simulation, we used a two-stage process. First, we combined all carry-in funds (from PY 2001 into PY 2002) into a single pool of funds, which was combined with the PY 2002 state total of funds available to be allocated. Thus, if a given state had \$3 million in carry-in adult funds, and an available pool of adult funds to be allocated of \$20 million, we treated these as a single pool. Second, we allocated funds from this single pool (i.e., the \$23 million) in exactly the same way as they are allocated under the current formula. What this means, of course, is that local areas who had carry-in funds receive some portion of these funds back in their subsequent year's allocations, but they do not receive the entire amount. Indeed, they would receive only their original share of the state total, while those local areas that did not have carry-in funds would receive greater than their share. Thus, this process increases the percentage of funds going to areas that have no carry-in funds, while simultaneously reducing the percentage of funds going to those areas with carry-in funds.

We selected this process, rather than one in which carry-in funds were separated from the main pool of funds and allocated only to local areas without carry-in funds, because of the possibility of two occurrences. First, it is conceivable that under spending, and thus having carry-in funds, is quite common. Indeed, in the states submitting data on carry-in funds, more than half of the local areas have such funds. When this is the case, taking these funds from local areas that could not spend them, and allocating only to those local areas that had spent their entire allocation, would create substantial amounts of new resources for a small percentage of local areas. This may, in effect, create the reverse problem, providing certain local areas with too much in their allocation. Thus, in the attempt to solve the problem of under spending, one might create the contrasting problem of needing to overspend. Indeed, in the extreme case in which all LWIAs within a state have unspent funds, the state would be faced with the situation of recapturing the funds and having no local areas to which they can give them.

To describe the second issue, we will use a hypothetical example of a state with two local areas. Should one have no carry-in funds and the other have substantial amounts, it makes some sense that the first area receive some portion of the second area's unspent funds. But the idea of directly transferring the entire amount of funds from the second area to the first seems extreme, and likely would lead to inequities that are little better than the imbalance that spurred the change.

Thus, we are able to simulate how the allocations would change in the 24 states for which we have carry-in data. Results for this simulation are shown in Table III-10. As

can be seen in this table, local areas that have carry-in funds do, in fact, receive a lower percentage of the overall funds in the subsequent program year. Although these areas would have carried-in, on average, between 29% and 41% of their prior year's funds to their subsequent year's allocation, as a result of this modification these areas do not receive nearly this percentage.

The percentages in Table III-10 reveal that a sizable percentage of local areas have carry-in funds. As a result, significant sums of money are available to be recaptured and reallocated. Thus, all areas will receive more than they otherwise would have were no carry-in funds reallocated. However, as can be seen by comparing the last two rows, areas that had carry-in funds experience a much smaller percentage gain as a result than they would have had they carried forward their own funds. For example, among those local areas with adult carry-in funds, the average percentage of their allocation that was to be carried into the subsequent program year is 29%. Under this scenario, this percentage can be thought of as the increase they would be expected to see were their carry-in funds not recaptured. However, once they are recaptured and reallocated, these LWIAs, on average, receive only a 6% increase in their funds. They still experience an increase because there is a larger than expected pool of funds available, of which they receive their relative share. But the increase is far less than what they otherwise could have expected to experience. Further, areas that did not have carry-in funds also experience an increase, solely because there are now more funds available, as a result of the carry-in funds being redistributed. Each of these areas receives its relative share of the additional carry-in funds, thereby providing them with an increase in overall funds. Although their overall increase is smaller than the increase experienced by areas with carry-over funds, this is entirely due to the fact that the specific areas that had carry-in funds are typically allocated a much greater percentage of available funds than are those areas that did not have carry-in funds. As a result, the average percentage gain is greater for areas with carry-in funds, but the playing field is substantially leveled because of the introduction of these funds into the general pool to be allocated.

	Adults	Youth	Dislocated Worker
Percent of Areas with Carry-In Funds	69%	74%	71%
Average Percent of State Total Received by Areas with Carry-In Funds	72%	69%	73%
Percent of Total Allocation that Would Have Been Carry-In Funds	29%	33%	41%
Actual Percent Increase in Funds from 2001-2002 Among Areas with Carry-In Funds	6%	5%	6%
Actual Percent Increase in Funds from 2001-2002 Among Areas with No Carry-In Funds	5%	4%	4%

Thus, including carry-in funds in the overall pool of funds to be allocated would serve to even out the “gains” that areas receive from one year to the next. Those areas with carry-in funds currently receive all those funds for use in the subsequent year, while those without carry-in funds receive nothing. By including carry-in funds in the general pool, all local areas experience an increase in what they would have received, and the increase experienced by areas with carry-in funds is much smaller. Thus, this procedure has the effect of transferring funds that in a particular program year would go to areas with unspent funds toward areas that in that same program year that were able to spend their funds. In this way, it can be seen as redistributing funds toward areas that have more demand, or the capacity to spend all their funds.

As noted above, however, there are significant concerns about such an approach. Primarily, these concerns center on the fact that unspent funds are not necessarily unobligated funds. Thus, recapturing unspent funds from local areas would often, in effect, be taking money that these areas had obligated to a service provider or program, and redistributing it to other areas. This would make it somewhat difficult to sign long-term contracts with service providers that allow for much of the money in the contract to be exchanged in subsequent program years. Rather, local areas would need to focus on spending the money they receive in a given year within that year. Thus, adopting such an

approach must be done very cautiously, and with sufficient advance warning such that local areas could adapt their behavior accordingly.

CONCLUSION

In this chapter we have described the simulation of current formula allocations used for the WIA adult, youth, and dislocated worker funding streams. To simulate these allocations, we obtained information from our state survey on the specific formulas being used by states to allocate their funds under these programs. We then obtained the data necessary to simulate the formulas from the Census and other relevant data sources, including the LAUS and ES_202 datasets. Using these data, we were able to mimic current allocations by either applying the standard formula, for those states who were utilizing only this formula for adult and youth allocations, or a combinations of the standard and discretionary formulas, for those states that had adopted a discretionary formula, as well as the dislocated worker formula they were using, as specified in their survey.

After simulating the current allocations, we compared the results of these allocations to various alternative models, including the four discretionary formulas currently in use, as well as formulas that have been proposed as part of legislation reauthorizing WIA. In so doing, we examined how the allocations to local areas would change as a result of these alternative formulas.

Further, we examined how the fluctuation in these formulas could be reduced using a variety of approaches, including implementing a hold-harmless provision, substituting conceptually similar factors that do not incorporate a threshold, extending the reference period during which factors are calculated (i.e., to measure unemployment as an average over two or three years, as opposed to a single year), and incorporating carry-in funds to a subsequent year's allocations. Each of these measures was effective in reducing the fluctuation experienced by local areas, though they also had drawbacks as well, such as reducing allocations to certain types of areas, or taking funds that might already be obligated and redistributing them to other areas as part of a reallocation process.

In the subsequent chapter, we provide a summary of the entire report, and offer key findings from each of the first three chapters.

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IV. SUMMARY

In this report, we have examined the formulas that states use to allocate funds to local workforce investment areas under the Workforce Investment Act (WIA) Title I adult, dislocated worker, and youth programs. We began by describing the current allocations formulas under WIA. Although there are standard formulas in use for the adult and youth programs, which rely upon unemployment factors and counts of disadvantaged individuals within local areas, WIA allows states to employ discretionary formulas for up to 30% of their adult and youth allocations. The dislocated worker formula, on the other hand, is not specified at the substate level. Rather, states can choose from a variety of factors on which to base their substate dislocated worker allocations.

BACKGROUND

In Chapter I we described the differences between the inter- and substate allocation formulas for adult, youth, and dislocated workers, as well as how the formulas differ from those used under JTPA. For example, JTPA did not allow any discretionary formulas to be used for allocating funds to local areas. Additionally, states were allowed to set-aside a greater portion of their funds for statewide activities under JTPA. Third, although JTPA allowed local areas to transfer some funds between the adult, youth, and dislocated worker programs, WIA prohibits the transfer of funds into and out of the youth program. Fourth, although both JTPA and WIA incorporated hold-harmless provisions to help minimize year-to-year fluctuations in funding levels, this provision only took effect after two years under WIA (although states were given the option of invoking this provision earlier).

In addition, we identified several key issues of concern in using the formulas. Many of these issues arose under JTPA, and remain concerns under WIA, because, the differences noted above notwithstanding, the formulas are actually quite similar. These issues represent a summation of several earlier research efforts as well as concerns expressed by states and local areas as part of this study, and include concerns about the organizational and financial stability of local areas under WIA, inequities in targeting funds to meet the goals of the legislation, data quality and access, and the use of discretionary formulas.

IV. Summary

Because local areas' funding can vary significantly, based on their levels of unemployment and other factors that are included in the allocation formula, there is legitimate concern that these shifts may create instability in program services or the capacity to meet the needs of their customers should they lose substantial funding from one year to the next. This concern has typically given rise to the implementation of hold-harmless provisions, which limit the amount of loss a local area can experience from one year to the next to 90% of either their previous year's allocation (under JTPA) or 90% of the average of their two previous years' allocations (WIA). In addition, some have suggested that simply extending the reference period (e.g., measuring unemployment over more than a single year) used in the allocation formulas over a longer period of time would help to minimize funding fluctuation.

Substantial concern has also been raised about the ability of the funding formulas to target funds to those areas in greatest need of them. Because two-thirds of the weight of the standard adult and youth formulas is given to unemployment factors, it is conceivable the allocation is weighted too greatly toward cyclical factors caused by short-term business downturns, rather than toward areas with higher concentrations of economically disadvantaged individuals who may have greater long-term needs for workforce services. Further, although the WIA adult program has eliminated the requirement (in place under JTPA) that adults must be economically disadvantaged to be eligible, this requirement is still in place for the youth program. Thus, allocating two-thirds of the youth funds based on unemployment, with only one-third allocated based on the number of economically disadvantaged youth in an area, may target funds to areas that have relatively few eligible youth.

Additionally, because both unemployment factors used in the adult and youth formulas are threshold measures (meaning that an area must at least meet a certain level of unemployment before receiving any share based on that factor), allocations based upon them tend to have dramatic swings from year-to-year, as areas just meet or fall below the threshold levels. This has implications for organizational stability, as described above, and also raises the question of whether an area that just meets the threshold is necessarily far more in need than an area that falls just below the threshold.

A third concern is that, to allocate the funds to local areas, states must have access to the necessary data on which the formulas are based. Although the data used in the standard adult and youth formulas are readily available, this concern is particularly

relevant should states opt to implement any discretionary formula, because to do so requires that they have ready access to these data.

STATES' CURRENT ALLOCATIONS

In Chapter II, we described the results from a survey of all states concerning their current allocation formulas under WIA for the adult, youth, and dislocated worker programs. We received completed surveys from 44 states, plus Washington, D.C and Puerto Rico. Results showed that very few states actually chose to use a discretionary formula for their adult and youth programs, even though WIA allows states to do so for up to 30% of their allocated funds. Those four states that did adopt discretionary formulas typically used indices of excess unemployment, or unemployment above the state average, as their discretionary measures.

In general, states allocated money under the adult and youth programs very similarly. Each of the four states using discretionary formulas did so for both their adult and youth programs. All remaining states used the standard formula to allocate their entire amount of youth and adult program funds.

Most states were primarily concerned that the formula used to allocate funds under WIA target those funds to areas with the greatest need. Additionally, states believed that consistent funding levels were important so that local areas could rely on sufficient funds to provide a stable set of services from one year to the next. Though the survey results would suggest that states' concern for targeting need is paramount, the fact that only four states opted to adopt a discretionary formula in allocating funds for the adult and youth program suggests that perhaps stability in funding among local areas may instead be the critical factor in this allocation. Indeed, many states reported that they did not believe that the standard formulas accurately target levels of need within local areas, yet they still opted to use only these formulas for their substate allocation. When asked why they would use a formula even though it does not accurately target need, typically, the answer was that it was a convenient and well-understood formula that did not create problems when implemented. In an effort to ensure this stability, the vast majority of states invoked their authority to implement a hold harmless provision in substate funding, even though WIA did not mandate one until two years after WIA implementation.

Substate funding for the dislocated worker program relied primarily on several factors, including most prominently unemployment, unemployment concentrations, and long-term unemployment, which are similar to the factors used in inter-state allocations.

Several other factors often were used in substate allocations, though typically these other factors received less weight in the allocation formula. A few states used the standard WIA adult formula to allocate funds under the dislocated worker program, thereby foreshadowing to some degree proposed changes to the allocation formulas under WIA that would integrate adult and dislocated worker funds (as well as those under Wagner-Peysner).

Finally, eight of the states in our sample were single workforce area states. Of these, three reported allocating funds to substate areas, often using the standard WIA adult and youth formulas, or slight variants of them, as the mechanism by which to make these allocations. The remaining five states did not allocate funds to substate areas and, instead, directed funds as needed from the state level.

COMPARISONS WITH CURRENT ALLOCATIONS

In the third chapter, we described the results of several simulations conducted to examine both how allocations are currently made and how the amounts allocated to local areas would change under several alternative formulas. First, we described the process by which we simulated current allocations, obtaining data from the 2000 Census and several years of data from the Local Area Unemployment Statistics (LAUS) and ES_202 programs. Using these data, we were able to mimic current allocations by either applying the standard formula, for those states who were utilizing only this formula for adult and youth funding, or a combination of the standard and discretionary formulas, for those states that had adopted a discretionary formula, as well as the dislocated worker formula identified by states in their survey.

Applying Discretionary Formulas

Once we had simulated the current allocations, we then simulated several alternative allocation formulas to examine how the allocations made as a result of these formulas differ from the allocations made under the current formulas. Among the alternatives, first we simulated the four discretionary formulas adopted by states, and examined how each impacted the allocations made to local areas across all states. In each case, these alternatives used the standard formula to allocate the minimum 70% of their funds, while employing a discretionary formula to allocate the remaining 30% of their funds. These discretionary formulas typically relied upon unemployment or poverty above the state average, although the weights assigned to these two factors differed across the states. In contrast, Florida used as its sole discretionary factor unemployment above 1.25%, thereby incorporating a threshold factor, albeit one that is likely to be met

by virtually every local area. To mimic these formulas, then, we applied the standard formula to allocate 70% of funds, and each respective discretionary formula to allocate the remaining 30%.

In general, these formulas produced allocations that were markedly different from the current allocation formulas. For example, allocations based on these formulas typically produced results in which nearly one-third of all local areas experienced changes of at least 25% from their current allocations. Often, approximately two-thirds of all local areas would experience changes of at least 10% were these alternative formulas – using the discretionary formulas already in place – adopted.

The Alabama and Arizona formulas produced quite similar results, which is unsurprising given the relative similarity of their discretionary formulas. Specifically, both states use indices of unemployment and poverty above the state average in their formulas, though Alabama weights the unemployment factor as one-fourth of the discretionary formula and poverty as three-fourths, while Arizona weights the two equally. Applying these two states' formulas across all states, results showed that LWIAs with larger populations, and those in cities, tended to experience increases in their funding, while smaller LWIAs and those in rural areas tended to experience losses. In addition, these formulas targeted greater amounts of funds toward areas that, in a prior program year, had served a higher number of customers per WIA dollar. While this measure was not intended to be a measure of WIA effectiveness, formulas that target areas that serve higher numbers of customers per dollar could be said to be areas in which there is demand for services. The formulas' impact on poverty was less clear. Alabama's formula shifted substantial amounts of funds away from areas with low poverty, but most of the gains went to areas with moderate, rather than very high, levels of poverty. Arizona's formula showed a somewhat similar pattern, although its impacts were generally more muted, as the formula did not target funds toward areas of poverty in any consistent way. In virtually all cases, the adult and youth formulas produced very similar results.

Iowa's formula, which uses unemployment above the state average as its sole discretionary factor for adults, and poverty above the state average as its sole youth discretionary factor, showed similar patterns to Alabama's and Arizona's formula results in that it directed more funds toward areas of larger population, and toward cities at the expense of suburbs and rural areas. But the formula produced quite different allocation results based on poverty, especially for the youth formula. These formulas targeted

IV. Summary

substantially more funds toward areas of high poverty, while shifting funds away from areas of low poverty. Indeed, areas in the lowest quartile in terms of poverty rates received, on average, 10% less in their youth allocations when using Iowa's youth formula, while areas in the highest quartile received on average slightly more than 10% more in their allocations. Clearly, then, using poverty as the discretionary factor has a fairly significant impact and causes much greater proportions of funds to be directed toward areas of high poverty. Interestingly, Iowa's formulas shift money away from areas that serve both the most and the least number of customers per dollar, while shifting money toward those LWIAs in the middle two quartiles on this measure.

The final formula currently in use as a discretionary formula is Florida's, which uses unemployment above 1.25% as its sole factor in both the adult and youth discretionary formulas. This formula produces quite different results than those described above. For example, the effect of implementing Florida's formula across all states would be to target more funds toward those local areas with smaller populations, at the expense of LWIAs with larger populations. LWIAs in the lowest quartile in terms of population size would experience gains of approximately 8% for both their adult and youth allocations, while LWIAs in the highest quartile would experience losses of about 4%. Further, rural areas would gain under this formula, while suburban areas would stand to lose (cities would remain largely unaffected). This formula also is relatively effective at directing funds away from areas with lower poverty and toward areas in the highest quartile in terms of poverty rates. Interestingly, this suggests that Florida's formula has the effect of allocating greater proportions of the funds toward rural areas, which tend to be highest in terms of their poverty *rates*, but away from cities, which tend to have higher absolute *numbers* of individuals living in poverty. Finally, Florida's formulas have the effect of shifting funds away from LWIAs that serve the highest number of customers per WIA dollar, and toward areas that serve fewer customers per dollar.

Dislocated Workers

We also examined how the dislocated worker allocations would shift under alternative scenarios. We did not apply any single state's formula across all states to simulate allocations for these funds, because the number of variables and weights assigned to them were so disparate no one formula could be selected over any other. Rather, we examined allocations under two alternative scenarios, including applying the standard adult formula to allocate these funds, and applying the inter-state formula to do

so. We were interested in examining the impact of the standard adult formula because a few states had chosen to apply this formula for their own allocations due to its relative simplicity and the inherent unpredictability of dislocations. States seemed to reason that, since one could not accurately predict dislocations in any meaningful way no matter how many factors were included in a model, it would be simpler and somewhat more equitable to allocate based on a more streamlined model that local areas and states already were used to, such as the standard adult formula. Applying this model across all states, however, produced sizable changes in allocations. Nearly 50% of all LWIAs would experience a change of at least 15%, with one in four experiencing changes of more than 25%. Further, more than one-third of all local areas would experience losses of more than 10%. Allocations made under this formula would have mixed impacts on LWIAs of different sizes. While areas with the smallest populations would experience substantial losses (i.e., 12.7%) under this formula, areas with the largest populations would experience gains (of just over 7%). Further, cities would stand to benefit at the expense of suburbs and rural areas.

The second alternative formula considered for dislocated workers was to apply the inter-state formula to these allocations. This formula, which applies equal weight to three factors—the number of unemployed individuals, the number of excess unemployed in areas of excess unemployment, and the number of long-term unemployed—is actually quite similar to what many states are using for their allocations. Although states tend to include several other factors in their models, typically these other factors are assigned quite small weights, while the three factors used in the inter-state formula are assigned the vast majority of the allocation weight. Thus, we expected that this formula would produce somewhat similar results to the current allocations made under the dislocated worker program. Indeed, results of substate allocations made using the inter-state formula were much more similar than those made under the standard adult formula. Although one in three LWIAs would experience shifts of more than 15%, nearly half would experience shifts of less than 10%. LWIAs in both the lowest and highest quartiles in terms of population size would experience gains under this formula, while those in the middle quartiles would experience losses. Further, cities would stand to gain under this formula, while rural and suburban areas would experience losses. However, these gains and losses were typically much smaller than those observed under the standard adult formula.

Applying Proposed Formulas

We also simulated the implementation of formulas that have been proposed under H.R. 1261, a bill proposed to reauthorize WIA. These formulas, which would substantially alter the funding mechanisms used by WIA adult and dislocated workers, as well as Wagner-Peyser, are an attempt to better target the levels of need within local areas while streamlining the allocation of several different sources of funds.

For example, under these proposed formulas, the adult, dislocated worker, and Wagner-Peyser programs would be merged into a single funding stream. To mimic this, we simulated results for current adult and dislocated worker funds, and combined them into a single sum for each local area. To this we added the local area's current hypothesized Wagner-Peyser allocation. Because Wagner-Peyser is currently a state-run program, with no such allocations to local areas, we assumed for this exercise that local allocations would be made using the formula currently in place under Wagner-Peyser for inter-state allotments. This formula places a two-thirds weight on the relative number of unemployed individuals and a one-third weight on the relative size of the civilian labor force. Using this formula, we were able to simulate the local allocations under Wagner-Peyser, which were then added to the adult and dislocated allocations to obtain a current total allocation for each local area.

To these sums, we compared the allocations made under the proposed adult formula. This formula, which represents somewhat of an amalgamation of the adult, dislocated worker, and Wagner-Peyser formulas, includes the number of unemployed individuals, the number of excess unemployed individuals, and the number of disadvantaged individuals as the factors for allocating funds. According to the legislation, this formula is to be used to allocate 85% of the funds, while the remaining 15% would be allocated using a formula of the state's choosing. We simulated the effects of the proposed formula in three separate ways: first, we allocated 100% of the funds using this formula. Next, we allocated 85% of the funds using this formula, and the remaining 15% using unemployment in ASU. Finally, we allocated 85% of the funds using the proposed formula and 15% using unemployment above the state average, which is the factor states that currently have adopted a discretionary formula typically use in their formula.

Of these three simulations, clearly the one most similar to current allocations was that which allocated 85% of the funds using the proposed formula and 15% using unemployment in ASUs. Under this scenario, relatively small percentages of LWIAs

experienced shifts of greater than 25%. A sizable number of areas experience shifts of between 10 and 25%, but over forty percent of the areas would experience shifts of less than 10%, even in the absence of hold-harmless provisions. This is likely due to the fact that the formula includes many of the primary factors currently in use by the three formulas that would be merged. This formula is largely unrelated to population size, as areas with different populations would not experience dramatically different gains or losses. Although cities would stand to benefit under this formula, the shift is not large, and, similarly, suburban and rural areas, on average, experience only slight reductions in their allocations. Further, this formula directs somewhat more funds toward areas that are in the middle two quartiles in terms of poverty, while directing funds away from the quartiles that are highest and lowest in terms of poverty rates.

The remaining two simulations produced somewhat greater changes. Allocating 100% of the funds based on the proposed formula would produce shifts of more than 25% for more than one in three LWIAs, and only one in four would experience shifts of less than 10%. Using unemployment above the state average as a discretionary factor in conjunction with the proposed formula, only 21% of LWIAs would experience changes of 10% or less, while nearly half would experience changes of greater than 25%. Each of the formulas tends to direct more of the funds toward local areas with larger populations, and these increases come at the expense of areas with smaller populations. Similarly, both formulas also would significantly increase allocations made to cities at the expense of suburban areas and, especially for the formula using unemployment above the state average as the discretionary factor, rural areas. Finally, using the proposed formula to allocate 100% of the funds to local areas has the effect of directing funds toward areas of lower poverty, and away from areas of highest poverty. Thus, this formula does a poor job of targeting funds to local areas with higher rates of poverty. Using unemployment above the state average as the discretionary factor reverses this effect, directing more funds toward areas with high poverty and away from areas of low poverty.

We also simulated the effects of adopting the proposed youth formula. This formula, which weights three factors—the number of unemployed individuals, the number of youth in the civilian labor force, and the number of disadvantaged youth—equally, would, according to the proposed legislation, be used to allocate 80% of the funds, while states could choose a formula to allocate the remaining 20%. To simulate the allocations produced by this formula, we conducted two simulations, one in which the proposed formula was used to allocate 100% of the funds, and a second in which the

proposed formula was used to allocate 80% of the funds, and youth poverty above the state average was used to allocate the remaining 20%.

In both cases, very large shifts in allocations were experienced by a majority of LWIAs. This is perhaps not surprising, because the proposed formula is quite different from the current allocation formula. In both cases, approximately two out of three LWIAs would experience shifts of greater than 25%, and approximately one-third would experience changes in excess of 50%. In general, far more funds would be directed toward areas with the largest populations, at the expense of areas with smaller populations. Using the proposed formula to allocate 100% of the funds also tends to direct money away from areas of highest poverty, with LWIAs in the highest quartile of poverty rates experiencing slightly more than 10% losses in their allocations. Not surprisingly, the formula that includes youth poverty above the state average as the discretionary factor reverses this effect and directs a greater proportion of the funds toward areas of higher poverty.

Mechanisms to Promote Organizational and Financial Stability

Finally, we examined mechanisms by which the formulas could be used or altered to help ensure that local areas receive relatively stable allocations from year-to-year. Sizable shifts across years make it far more difficult to offer consistent services and to meet the needs of customers. To examine stability in funding across program years, we looked at three separate ways in which greater stability could be introduced into the formulas, including hold-harmless provisions, extending the reference period for which allocation factors are calculated, and including carry-in funds in a subsequent year's allocations.

The need for mechanisms to control fluctuation is readily apparent when examining the changes that occur in the absence of them. In the last two program years, only slightly more than 50% of all local areas would have experienced shifts of less than 10% were no mechanisms in place to limit shifts. Further, approximately one in six local areas would have experienced shifts of more than 25%. Thus, the need for mechanisms that help to limit these shifts seems clear, as LWIAs cannot be expected to be able to rapidly expand or contract, and sign or void contracts with service providers, based on dramatic shifts in their funding across years.

The first of the three mechanisms we simulated, implementing a hold-harmless provision, was quite effective at minimizing the shifts experienced by local areas. Since

it automatically imposes a limit of no more than a 10% loss from one year to the next, LWIAs can reasonably predict what their subsequent allocation will be. As a result of hold-harmless, then, all local areas receive at least 90% of the average of their two prior years' allocations. In general, this benefits LWIAs with smaller populations, those in suburban and rural locations, and those with smaller allocations to begin with. The great benefit of hold-harmless applied to current allocation data, however, is that these externally-imposed increases come at the expense of larger areas with more WIA resources to begin with. As a result, substantial percentage increases directed toward smaller areas as a result of hold-harmless provisions require only relatively minimal losses on the part of larger areas, and it is these areas that can best afford such small losses because of their relatively vast resource base.

A second useful mechanism by which to limit fluctuation in LWIA funding across program years is to slightly alter the factors included in the formulas. Rather than utilizing threshold measures for unemployment, such as unemployment in ASUs and in areas of excess unemployment, one could simply substitute the absolute number of unemployed, regardless of whether this number exceeds some externally imposed threshold. Doing this reduces the fluctuation in yearly allocations by nearly three-fourths, simply because there are not dramatic swings caused by just meeting or falling below a given threshold.

Additionally, if one were to use the average number of unemployed individuals over an extended period of time, such as the prior two years, the fluctuation would be limited even further still. Using a measure of the average number of unemployed individuals over the prior two years, and assigning this factor a weight of two-thirds in the allocation formulas (with the number of disadvantaged individuals as the remaining one-third) would reduce the fluctuations experienced by LWIAs by more than 80%.

The final mechanism by which we examined stability was by attempting to incorporate carry-in funds into subsequent program year allocations. Although this mechanism was somewhat effective in limiting the fluctuations local areas experienced, it had two serious drawbacks. First, local areas and several interested stakeholders with whom we spoke suggested that using carry-in funds as an indicator of an inability to expend funds or as a sign of low demand for services was a poor assumption. These funds largely had been obligated in the assigned program year, but since LWIAs have two years to actually spend them they had not yet been expended. A large percentage of these funds, according to local areas, was obligated to service providers under longer-

term contracts, and limiting subsequent obligations because of apparently available carry-in funds would significantly limit these areas' ability to provide other needed services. Secondly, the process by which the carry-in funds would need to be incorporated back into subsequent year allocations was trickier than expected, and thus makes the allocation process a much less simple one. Given that states and other stakeholders were clearly advocating an allocation process that remained relatively simple to understand and implement, this must be seen as a significant drawback.

CONCLUSION AND RECOMMENDATIONS

Although none of the formulas examined as part of this report can be said to be the ideal one, because there are many competing interests and concerns involved in the allocation of funds under WIA, we can identify those formulas that would be best suited to achieve specific goals. For example, although any change to the allocation formulas is bound to create significant shifts in funding at least in the first year, these shifts will benefit certain local areas more than others. To the extent that those that benefit have more need for WIA funds, as a result of their greater demand, greater numbers of unemployed or disadvantaged individuals, or greater capacity to serve this demand, then these shifts could be considered a temporary but necessary challenge to overcome in the effort to target greater proportions of funds to those areas better suited to receive them. Thus, changes, even dramatic ones, may not be a poor result given that the current allocations do not target the eligible population perfectly.

In this report we have presented a variety of alternative formulas and compared how these formulas impact the allocations made to local areas. Such comparisons enable us to examine how changes that seem slight or subtle may have dramatic effects on the allocations made, and that LWIAs with different characteristics may be impacted differentially. For example, an alternative formula that changes on an unemployment factor may do far more than target more funds toward areas of greater unemployment. Because of the way in which the factor is measured within local areas, it may also target greater proportions of funds to LWIAs that have higher, or lower, rates of poverty, or areas that typically receive larger or smaller shares of WIA funds. These impacts, while unintentional, have very real effects on LWIAs, and must be understood and anticipated in order to know how any such changes will be received.

Among the alternatives considered in this report, we have seen that several of the discretionary formulas currently in use by four states would have the impact, if applied across all states, of targeting greater proportions of funds to those local areas with greater

populations and LWIAs that are primarily in cities, while areas with smaller populations, and those in rural or suburban areas, would experience losses. The formulas also tended to shift funds away from areas of low poverty toward areas with moderate, but not very high, poverty levels. Thus, if one considers the universal adult customer under WIA to be any individual, these formulas may be well suited to targeting funds toward areas that have relatively greater numbers of such customers. Further, these formulas tend to target funds to areas that have, in PY 2001, served greater numbers of customers per WIA dollar. Additional funds targeted toward these areas thus would be one way of directing resources to areas in which there is a clear demand.

Other formulas do a better job of targeting funds toward local areas with high rates of poverty, largely by including in their allocation formula the number of individuals living in poverty as a central component. Other formulas have targeted areas of high poverty by using alternative factors, such as unemployment above 1.25%, which targets poverty indirectly, but nevertheless has the effect, when combined with the standard formula, of directing more funds toward areas with more people living in poverty.

In general, any changes to the allocation formula will tend to produce sizable shifts in the actual allocations received by local areas, simply because LWIAs will vary in their relative values for the factors in question. Thus, changes proposed to the allocation formula as part of WIA reauthorization are likely to produce sizable shifts from current allocations, though the analysis presented in this report suggests some ways in which those shifts can be minimized. A critical task in determining whether or how to modify the existing formulas will thus be to ensure that whatever shifts are produced by the new formulas, they have the effect of targeting more funds to areas that have a demonstrated need, such as the number of unemployed or disadvantaged individuals, the size of the labor force, or other key factors, many of which have been described above.

Given these concerns, below we offer several recommendations to DOL as they consider alternatives to the current formula as specified in the original WIA legislation.

- **Include factors that measure raw counts of individuals.** Using raw counts of individuals measures the actual number of individuals who may be in need of services. Relying on such measures will create a more uniform and objective formula because the raw counts can be compared directly across areas to determine the relative need in each.
- **Include measures that target the eligible population.** The current formulas focus heavily on unemployment factors, as well as measures of the disadvantaged population. However, for the adult program, neither

being unemployed nor disadvantaged is a requirement to be eligible under WIA. Thus, none of the factors used to allocate funds actually targets what could be considered the eligible population. Similarly, for the youth program, although being disadvantaged generally remains a requirement for the youth program, there is no requirement that youth be unemployed. Thus, two-thirds of the current formula allocating youth funds does not specifically target the eligible population. Thus, we recommend specifically that DOL consider including the following measures in the allocation formulas:

- For the adult program, a measure of the number of individuals in the labor force, as a reasonable indicator of the potential eligible population, which includes the “universal customer.”
 - For the adult program, consider the use of measures of underemployment.
 - For the youth program, a measure of the number of youth with any of the barriers that are required for eligibility for WIA services. Although several of these barriers would be difficult to measure and, thus difficult to implement, we believe it is possible to use at least some of the barriers confirming eligibility in the allocation barriers. Among these measures could be the number of youth who are school dropouts or those who are pregnant or parenting.
- **Include measures of growth industries or in-demand jobs as an allocation factor.** Doing so represents one aspect of the “need” within an area, in that employers in such industries, or with job openings in these areas, have substantial need for a trained workforce.
 - **Eliminate the use of threshold measures in the substate allocation formulas.** These measures create significant fluctuation in allocations from year to year and can make it more difficult for local boards to remain stable. Eliminating them can substantially increase the stability of allocations while continuing to allow yearly fluctuation that indicates actual need within local areas.
 - **To promote organizational and administrative stability, continue use of hold harmless provisions,** at least during the transition period when changes, such as those described above, are being implemented. Such provisions ensure that local areas can be reasonably sure of the amount they will receive from year to year, thereby making their planning efforts more feasible and informed.
 - **Exercise great caution if including carry-in funds as a factor in subsequent allocations.** Primarily, this is important because often unspent funds have already been obligated. Incorporating them into subsequent allocations may therefore significantly impair local areas from meeting their obligations and providing services to their customers, and

may result in local areas being hesitant to enter longer-term contracts with their providers. Such contracts often are seen as beneficial, as relationships can be developed that help to foster positive outcomes for customers.

- If the adult and dislocated worker streams of funding are to be merged, **enable states to retain a higher proportion of funds to be distributed based on dislocations as they occur.** Because past layoffs are a poor predictor of future events, states must remain able to target funds as new layoffs do occur. They therefore must retain a significant portion of their WIA funds to distribute as these events occur.
- **Support efforts to develop new data sources that would provide data to be used for substate allocations more quickly.** Among these efforts could be the use of the SAIPE or the full implementation of the American Community Survey. Updating the data on poverty, which currently is weighted as one-third of both the adult and youth formulas, more than every ten years would better target this need as it shifts within a ten-year period.

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**APPENDIX A:
FACTORS INCLUDED IN SIMULATED
FORMULAS**

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APPENDIX A: FACTORS INCLUDED IN SIMULATED FORMULAS

The following is a list of the factors used in the various simulations examined as part of this study. In addition to the name of the factor, we also include a description of the source from which we obtained these data and a description of any key issues that should be noted about the factor.

Factor	Data Source	Key Issues
Disadvantaged Adults	Census	The number of adults, ages 21 to 64, living in poverty.
Excess Unemployment	LAUS, Census	
Unemployment in Areas of Substantial Unemployment	LAUS, Census	
Household Income	Census	Average and Median Income.
Median Earnings	Census	Household earnings of population 16 and over.
Number of Individuals with Less Than High School Education	Census	Ages 18 and above.
Population	Census	
Poverty Above the State Average	Census	
Total Number of Unemployed	LAUS	
Total Civilian Labor Force	Census, LAUS	
Unemployment Rate	LAUS	
Disadvantaged Youth	Census	The number of youth, ages 16 to 20, living in poverty.
High School Dropouts	Census	For youth, calculated from ages 16 to 19. For adults, calculated as ages 18 and older.

Jobless Out-of-School Youth (OSY)	Census	Combination of unemployed and out of labor force, among those youth ages 16 to 19 not in school.
Unemployed OSY	Census	The number of unemployed, ages 16 to 19, among those not in school.
Unemployed Youth	Census	Number of unemployed youth, ages 16 to 21.
Number Employed in Declining Industries	ES_202	
Mass Layoffs	Mass Layoff Statistics Series	
Farmer-Rancher Economic Hardship	Department of Agriculture, State-level data	
Plant Closing Data	WARN Notices, State-level data	