Financial Innovations Roundtable:
Aligning Capital, Training, and Economic Mobility
April 24-25, 2019

2019 Financial Innovations Roundtable Summary

Executive Summary

Over the past twenty years, the Financial Innovations Roundtable (FIR), located at the Carsey School of Public Policy at the University of New Hampshire, has worked to address problems related to access to capital for low- and moderate-income consumers and communities. Since 2014, the event has been co-hosted by the Federal Reserve Board. The FIR works with a range of financial institutions, government agencies, foundations and trade associations to access their expertise for problem-solving discussions.

The 2019 FIR, co-hosted by the Federal Reserve Bank of Atlanta on April 24-25, focused on "Aligning Capital, Training, and Economic Mobility." While both workforce development organizations and Community Development Financial Institutions (CDFIs) seek to help businesses grow and create quality jobs for low-income workers, the two sectors have often been siloed, with little coordination or alignment of their work. This year's Roundtable brought together workforce development and community development finance practitioners to explore the barriers and opportunities for how they can partner to scale up effective workforce development innovations that help businesses meet their workforce needs and create quality jobs. Conversations focused around:

- Successful training models that helped low-income workers access and retain jobs and grow their earnings and could operate at scale.
- Taking stock of the fragmented funding sources and other challenges that have hindered the workforce development field from achieving greater growth and impact. This discussion included concerns over the relative lack of investment from employers in skills development of mid-level and lower-level workers.
- Opportunities to use finance to redistribute risk and better align incentives between individuals, employers, governments, and training providers to improve the outcomes of workforce programs.
- Specific ways in which community development finance could bring capital to investable opportunities in workforce development organizations, such as:

- Helping to capitalize pay for success or social impact bond designs in which workforce organizations generate revenue from one or more payors when they achieve agreed-upon outcomes
    - Channeling debt or equity to help successful workforce development programs to scale up or expand to new geographies
    - Meeting working capital needs at workforce organizations or wrap-around service providers that may experience significant time lags between providing a service and being reimbursed by government contracts or grant programs
    - Providing affordable and sustainable loans to individuals to help them complete training, or financial coaching in partnership with training providers.
- Broadly, participants also highlighted concerns about the significant risks that individual workers and their families assume within the current workforce development system – including financial risks like taking out personal loans to pay for training that might or might not lead to a quality job.

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Opening Remarks

Raphael Bostic, President and CEO of the Federal Reserve Bank of Atlanta, opened the roundtable (comments were personal and not intended to reflect official policies of the Federal Reserve System or the Federal Reserve Bank of Atlanta). Dr. Bostic noted that CDFIs have used their significant expertise in blending public, philanthropic and private capital to support growth and innovation in other sectors such as child care and education, and have the potential to play a central role in helping to transform workforce and training systems to help low- and moderate-income workers access quality jobs. He noted that boosting workforce development for economic mobility requires more than just job training, but a variety of pre- and post-employment services such as education, child care, and transportation; it requires a more cohesive and interlinked system to exist.

Dr. Bostic described a number of important challenges faced by the workforce development field:

- Despite a strong economy in which businesses are having trouble hiring, fewer working-age adults are participating in the labor force.
- Technological change is disrupting labor markets, with many roles being automated or radically changed, increasing the importance of developing a highly skilled workforce and aligning training with what employers need.
- At the same time that the workforce development field is trying to modernize, federal spending to support it has declined. Funds through the Workforce Investment Opportunity Act (WIOA) are significantly lower than what was provided under its predecessor program, the Jobs Training Partnership Act (JTPA). Overall, the United States spends one-quarter of one percent of GDP on workforce development programming, compared to 1.5 percent in Germany. US employers, meanwhile, spend significant amounts on worker training – by one estimate, $500 billion per year – but most of it is focused on high-level workers with 4 year degrees. Moreover, employee participation in employer-sponsored training programs has actually declined since 1996.
- On the whole, income gains from participating in job training programs are positive but limited, with one meta-study finding average income gains of about $2,000 – leading Dr. Bostic to conclude that "existing structures have not increased the degree of economic mobility in the USA to an acceptable level."

Dr. Bostic proceeded to describe how CDFIs, working together with philanthropy and other partners, and supported by regulatory changes to the Community Reinvestment Act (CRA), were able to help transform the affordable housing sector. While most affordable housing was once government built and managed, today public / private partnership has become the norm, and private sector players have assumed considerable risk. Dr. Bostic posited that CDFIs may be able to "do for workforce development what they did for housing," noting that employers may need financing support to test new ways to invest in training, and that workers may be willing to take on debt for training, but may need help to manage the debt or be sure that the training will help them. Demonstration projects are needed to test new ideas.

Dr. Bostic described how employers have begun to rethink their role in workforce development. As he noted previously, traditionally most employers have focused mainly on developing and keeping their high-level, senior talent. Subsequently, their focus evolved to developing and keeping engineers and technical people. Now, a number of employers are more worried about how to attract and retain workers on the lower rungs of the organizational chart. He described how EG Techtron in Augusta has partnered with a local school to identify at-risk youth and created an apprenticeship program for them with an 80 percent retention rate. Other employers in Atlanta, including Home Depot and Delta, are partnering with the City of Atlanta on skilled trades programs. Lastly, a hospital in New Orleans recently opened a school for nursing. Dr. Bostic concluded by highlighting that given the nature of today's challenges, one-off solutions will not work in the same way they did in previous generations – "we need systemic solutions, operating at scale."

Laying the Foundation: Introduction to the Community Development Finance and Workforce Development Systems

Heidi Kaplan of the Federal Reserve Board moderated the discussion and asked panelists to begin by describing the key workforce initiatives at their respective organizations.

Mary Alice McCarthy, the Director of the Center on Education and Skills at the New America Foundation, opened the panel discussion by pointing out that the higher education system is the nation's "primary delivery system and where the money is." As a result, she has devoted considerable focus to aligning systems better so that higher education is more effective at workforce development. She pointed out that data suggest that apprenticeship programs are the most effective models we have and have the highest change of success, but are a tiny subsector within US workforce development. The Foundation is thus working to help more colleges develop apprenticeship programs.

Maurice Jones, CEO of the Local Initiatives Support Corporation (LISC), described his organization as being in the "opportunity businesses" – spanning both community development finance and workforce development – "because you have to be in both spaces if you really want to create opportunity for the disinvested communities where we work." LISC's "talent development" strategy for low-income residents is comprehensive, including financial literacy training; case management and wraparound services where residents need assistance in order to be productive works (such as housing, transportation, and child care), and workforce training to add both hard and soft skills. All of this work is accomplished through community-based Financial Opportunity Centers supported by LISC, of which there are currently 90 (and growing) around the country. These centers have proven to be "an incredibly effective way of helping residents improve their net worth, build their credit score, and develop skills they need to get jobs" in sectors providing livable-wage jobs.

Tim Cerebe, Vice President of Community Development at Freedom First Federal Credit Union, gave an overview of the array of financial products and services that Freedom First provides to help low income members – including the depository services and loans offered by most credit unions, but also a suite of "impact banking" services such as financial coaching and counseling, the American Dreamer Loan program-to help support the cost of attaining citizenship, and a workforce development lending program. This latter program provides tuition loans to students seeking certifications or licensures for jobs, but who don't qualify for traditional student lending or student aid. Of particular note, Freedom First is working with a truck driving school to provide loans to students seeking a Commercial Drivers License (CDL). They complement these loans with a financial literacy class specifically for truck drivers, "On the Road Finance," helping participants to prepare to handle the additional complexities of managing personal finances while on the road.

Jason Tyszko, Vice President of the US Chamber of Commerce Foundation, stated that among the Chamber's over 3 million employer members, "their number one need has consistently been workforce." Tyszko described two facets of the challenge as a "people problem and a skills problem" – "we need more people with the in-demand skills to take advantage of business opportunities." He posited that these problems must be solved by employers themselves – "workforce development should be seen as a good business practice to drive return on investment, not as a corporate social responsibility activity." Tyszko believes that financial innovation has the potential to get employers to invest.

Kaplan asked **McCarthy** to provide a broader view on the framework and funding of the education and training system in the US. McCarthy described the system as highly decentralized and financed through different levels of government. The biggest systems are K-12 and higher education, which have a lot of federal and state funding, and whose credentials "are the gatekeepers to career investment." But we also have a workforce system, with local communities operating Workforce Investment Boards, and a career and technical education system that includes community colleges. Then there are TANF and SNAP-funded Adult Basic Education programs. Lastly, McCarthy noted, there is an apprenticeship system, which in the US is the smallest of these systems but a very high performing one, which exists almost completely separately from the other systems. "There are a lot of systems here and there that don't speak to one another. Which system you go through impacts your opportunities," she stated. "The system is so fragmented, and is very hard to use for people who are not well suited to a traditional 4-year college degree program." By comparison, in Europe, apprenticeship systems are much larger (over half of all students in Germany go through the vocational system), and are not as separated from one another.

Tyszko chimed in, "follow the money and you see the priorities." Investment in college education – such as Pell grants and student loan programs, dwarfs the workforce system, while apprenticeship programs are "drastically underfunded." "Maybe now is the time for a New Deal for Talent," Tyszko mused – "we need to rethink the system for today's economy, and activate private sector leadership and investment as well."

Kaplan asked panelists to identify the gaps in workforce development training.

Jones responded that LISC's Financial Opportunity Centers help to fill a number of gaps, including pre-apprenticeship work to help the thousands of people who otherwise would not be able to access apprenticeship programs. For example, the Centers will work with residents who might have a GED or High School Diploma, but can only read at the 6-th to 8th grade level. "Through these centers we can get folks to 10th-grade competencies in 30 days, so that they can get into a welding program," said Jones. The challenge is that "the gaps are huge for hundreds of thousands of folks all around the country. Add to that the re-entry population coming out of prison and need to make a living – the system is not serving them well either. There are *lots* of gaps we see in the system." Many people facing these kinds of barriers seek trusted community organizations to help them, which is why LISC is investing in helping Financial Opportunity Centers to work at scale.

Cerebe sees apprenticeship programs as an area to invest in more heavily, but also "going deeper" to address the challenges that low- and moderate-income people face. "Most working adults have some type of financial or transportation barrier to work that has to be addressed to get a job and stay gainfully employed. For example, they might fail an employer credit check, which Freedom First can help people to improve their credit. Or they might not have transportation; and if you don't have good credit how will you get a reliable car with a car loan? So it is important to understand the layers of challenges and barriers when you look at the whole individual and their family."

McCarthy added that the labor market is very segregated by gender for occupations, and that often there is also imbalance by race. She noted that men without a college degree have more access to jobs that pay family sustaining wages, which can be harder to find in female-dominated sectors like health care and education. "We need to think more about how we can equalize entry level jobs in the labor market," she concluded.

Tyszko felt that the most significant gap in the workforce system related to data. One part of this problem is that better data is needed to provide clearer demand signals for what jobs and skills employers are looking for. Another part of this problem is that we need to better track and capture data on the competencies, skills and learning that individual workers are obtaining. Lastly, data is needed on outcomes for both employers and employees. For example, employers need to know whether investing in workforce has added value in terms of reducing time to hire, increasing diversity, or reducing time to full worker productivity. Tyszko believes that the emerging data infrastructure in these areas could help to drive better investment decisions.

Jones added that he has been surprised by the relative lack of critical thinking in the business community about the competencies they actually need, citing the example of employers who demand unnecessary credentials for certain jobs. **Tyszko** agreed, and stated that the Chamber and its partners are working to address this issue. He mentioned a statewide "Talent Pipeline

Management" project in Kentucky where employers are rethinking the competencies needed for jobs and writing better job descriptions.

McCarthy agreed with the importance of getting the metrics right. "You want to make sure the person benefiting is getting a training experience that will support economic mobility and not just a dead end job, not just provide tuition assistance to people but more guidance as to how to advance themselves in their careers, and then build stackable credentials models where every institution has some stackable credentials that can eventually get you to a Bachelors."

Audience members then posted the question: "what parts of workforce development are financeable, versus purely philanthropic?"

Cerebe described financeable pieces of Freedom First FCU's workforce lending program, which include unsecured loans of up to $5,000 that can be used not only for tuition, but also to address other barriers like child care and transportation. He noted that their average borrower credit score is around 700, and that the main reason other financial institutions will not make these loans is because they are unsecured. In particular, Freedom First has development a partnership with a private driving school that prepares students for their Commercial Drivers' License (CDL). The 20-day course costs $4,500 and the program has a 91 percent job placement rate among those students who complete the course and obtain their CDL. The driving school helps students to apply to Freedom First for a loan to finance the course. The loan has a 36-month term, with the first payment positioned 60 days from loan issuance to allow students to focus first on completing the course.

Jones felt that the biggest opportunity in this space was to get businesses to pay for workforce preparation, as is the case in Europe. "Workforce programs need to become more closely aligned with the businesses who need the talent," he posited, "and then the businesses will pay for it." Jones described how he himself ran a business in which he had spent "a lot of money trying to attract and retain talent; if I had a partner who could do that for me it would be well worth the investment." He noted that large companies can often perform workforce development functions themselves, but there is an opportunity to work with medium size businesses.

McCarthy discussed the need to increase sectoral strategies in which an intermediary will bring together a group of employers to talk about their talent needs as a group and build a regional sector based approach. Employers promise not to poach each other but to think through talent development needs as a group.

Tyszko raised the possibility of local chambers of commerce becoming "clearinghouses" for workforce investment. He also raised the possibility of financing workforce training through income sharing agreements (a form of equity financing for workers in which investors share in the earnings increases that workers achieve through training).

Cerebe mentioned how Freedom First has provided short-term financing to workers to participate in training programs where the cost would later be reimbursed by their employer.

Facilitator **Michael Swack** of the UNH Carsey School of Public Policy asked Jones to talk about the role CDFIs could play in helping small businesses to become more profitable. **Jones** pointed out the need to work on both "people" and "place" issues at the same time. In addition to "people" based workforce strategies, place-based strategies include neighborhood revitalization initiatives and efforts to leverage procurement spending to invest in minority- and women-owned businesses from low-income communities.

Swack asked Tyszko to expand upon his point that Chambers of Commerce could serve as clearinghouses for workforce investment. **Jones** interjected to relate some work he had done as Secretary of Commerce and Trade in Virginia, in which the State worked with the business sector to jointly invest in workforce development, even knowing that "sometimes the graduates might go to their competitors." **Tyszko** used that example as something that "we are trying to support at scale through more chambers of commerce. The theory of change is, we need to reinvent the employer role not as an advisor [to workforce development programs] but as an end customer of a 'talent supply chain.'" He described how local chambers could enable small and midsize businesses who don't have their own HR systems to work collectively with their chambers of commerce, who can then "deliver a talent pipeline to their member businesses." He noted that in other countries, businesses are taxed and have to contribute to these systems. By working as aggregators, chambers and other business associations could help pool investment and spread risk when investing in talent pipeline solutions. To date, the US Chamber has trained 200 business associations and provided them with a "playbook" for how to collectively address their workforce development needs.

Barbara Dyer from the MIT Sloan School highlighted that both employers and workers have agency to make decisions about workforce development. She suggested that focus is needed on increasing the ability of both employers and workers to navigate the fragmented workforce system. "The employer needs confidence that they can make their business succeed – that the workers they employ will be part of a skilled team with the right attitudes and energy," she stated. "The worker needs confidence that the skills they gain will help them succeed and build a career."

Facilitator **Sameera Fazili** of the Federal Reserve Bank of Atlanta related an audience question about the proliferation of low-wage jobs, asking "how can we help people get to family-sustaining jobs?" **Jones** highlighted the importance of working in the public policy arena to improve the workforce development funding system – "there are tons of dollars being spent right now but it just is not effective," he said. "We need to spend less on preparing people to be cosmetologists and more to prepare people to be coders – to prepare people for occupations that are really going to produce livable wages."

McCarthy agreed that especially for low-wage and under-educated workers, there has to be a role for public policy – "those jobs are not going to get better on their own." She agreed with Jones that "we have an oversupply of relatively ineffective certificate programs that don't put people into good paying jobs." She believed that workers should have access to help from an informed advisor when making decisions about their education and training: "We prioritize choice in our education and training systems – but people don't always make the right choices. We allow way too much debt financing for programs that lead to jobs paying low wages. We need choices to be made in a safer environment." She mentioned some example of joint labor-management funds, such as in health care where hospitals have come together with worker unions to think through training strategies to move entry level workers and open up career paths through them.

Dyer clarified that she also sees a role for public policy, but that "a core competency in the 20th century is to be able to navigate a complex world - we need to help both employers and employees navigate that world better and need to put money into building those capabilities. **McCarthy** felt that the education and training provider needs to be a part of that effort, and needs to be paid for that role – "it's not a direct relationship between employers and workers – they often need help connecting with one another."

Tyszko found Dyer's comments intriguing. "We need to look at shoring up the relationship between employer and employee. The old social contract was that the employer helped you manage health care and retirement. How about helping with skill training, avoiding obsolescence too, instead of just a funky tuition reimbursement program with a lag time for when the money comes back?" He pointed out that workers need better access to information to make good choices about education and training pathways. He wondered whether it could make sense to "voucher-ize" workforce and education funding streams, letting workers choose the pathway but giving them data and risk management tools to support their choices.

Anthony Bugg-Levine of Nonprofit Finance Fund questioned the premise that "it is the obligation of the individual and the training to get them into a different job. We should have more jobs that are good wage jobs." He particularly pointed out the need to improve wages for the human services workforce, and that we need to make a moral choice to get a "closer match between value and wages." **Jones** added that "we need more companies to pay living wages for *all* their jobs. Anthony's point is dead on but we need to broaden it – if you work 40 hours a week you should make a living wage."

McCarthy thanked Bugg-Levine for is comment and added that many female-dominated sectors do not pay a living wage. She discussed an early education apprenticeship program her organization worked with in Philadelphia, that helped low-wage early education workers meet a new requirement for an associate's degree on the job, and included wage gains over the course of the program. The example, she felt, points out "how apprenticeship can be different because it brings the wage directly into the question."

Cerebe pointed out the need to address the full range of needs that workers face. “We have these silos – or ‘cylinders of excellence’ – trying to impact workforce development. We need to think across them to address the whole individual.”

Karama Neal of Southern Bancorp Community Partners noted that in the rural areas where they work, there is population loss and out-migration. She asked what workforce models could work in areas where opportunity feels limited. **Tyszko** responded that roughly half of the communities the US Chamber works with are in that situation. He felt that the key was for these communities to develop “talent sourcing channels outside their borders to attract people into the community.” He added that “the employer community is ready to talk about talent finance – willing to invest – but we want to do it wisely.”

Fazili highlighted some audience conversation that had been happening using the “Pigeonhole” interactive event platform. Some conversation themes included:

- How to help certain targeted populations such as unemployed people with multiple barriers to employment, and ALICE populations (Asset-Limited, Income-Constrained, Employed)
- Measuring change and identifying success
- How to incentivize employers to do more on-the-job training, “earn and learn” strategies, and apprenticeships – and what financial products could be used to support such models.

Breakfast Small-Group Discussions

Participants organized small group discussions around the following topics:

- How chambers of commerce can organize joint investment by small and medium-sized enterprises in workforce development
- How CDFIs and other investors can provide not only investment but coaching to help small businesses providing decent jobs to make those jobs better
- How a CDFI could be formed to lend money to employers to do job training, in the context of a sector-based workforce strategy
- Developing worker-owned businesses as a strategy to create and preserve quality jobs
- Building outcomes-based financing strategies such as income sharing agreements
- Discussing Pay for Success models such as a program now run by SEEDCO in which that organization provides case management services for new workers with a focus on improving worker retention.

Financial Barriers to Scaling Successful Training and Workforce Programs

Dan Letendre of Bank of America framed an opening question to this session. He noted that effective workforce programs will create future income streams for workers. “The beneficiaries are the individuals receiving the higher income, but also the companies receiving a better prepared workforce, and the public sector who benefits when individuals need fewer benefits, pay more taxes, and the programs that provide the education and training. So how do we design finance programs that align the interests of all four?” Letendre also underscored the importance of picking institutions who can do a good job of providing this financing “maybe it should not be the government unless we want to replicate a student loan program, or big financial institutions unless we want consumer finance.” He suggested that CDFIs could be well suited to financing workforce development, as they would be willing to advise borrowers and even be willing to tell them that “no, you shouldn’t pay for that program because you won’t get the results you want.”

Fazili began the session by noting the connections between the first session and the products CDFIs offer. She noted that there may be opportunities for CDFIs to offer Consumer loans, Growth Capital, Working Capital, Equipment loans, Business loans, or Advisory services to different players in the workforce development and training system. Those products can support employers, training providers, social services providers (wrap around services providers), or individuals/workers. However, she noted, workforce development providers do not think in these same terms, and so the sessions today would allow participants to discuss where there could be some opportunities for products or services to be developed between the two sectors. She then asked panelists to describe the workforce development work their organizations do, with a focus on the innovations they have developed.

Amy Nishman of Jewish Vocational Services described her organization’s goal as moving clients into and up in the labor market thru a continuum of services. Most of their services target people with barriers to employment. JVS is working with Social Finance to implement the nation’s first Pay for Success project focused exclusively on workforce development. The project uses administrative data from the State of Massachusetts to quantify the value added to the state from helping people to get jobs.

Melinda Mack represents the New York Association of Training and Employment Professionals, which works with the “full cross section” of the workforce system (community colleges, Workforce Investment boards, employment and training programs, etc). Association members get funding from a variety of state and federal programs to tackle issues of equity and inclusion in the workforce. Mack responded to early comments about how the workforce system is ineffective: “people misunderstand the complexity of the problems we try to solve and of the resources we are provided with.” She highlighted that employers needed to be investing more in workforce training, recognizing that productivity improves their bottom line. The Association is interested in making working capital loans to help small to midsize companies pay for sectoral-based training, recognizing that they will receive return from productivity, and pairing those loans with supports from the workforce system.

Sara Dunnigan related how the Virginia Community College System launched a program called the Workforce Credential Grant Program in 2017. Through this program, the State makes "pay for performance" grants for non-credit training at community colleges that lead to an industry certification. (Note that Pell and student loans will not pay for such training). Dunnigan emphasized that the training is focused on high demand occupations, commenting that "it is morally irresponsible to train people who are already at risk for low wage dead end jobs." The training is open to workers of any income level. The individual worker is responsible for paying the initial 1/3 of the cost of the training. The State pays the community colleges the next 1/3 of tuition only if the individual completes the course; the last 1/3 is only paid if the individual passes the licensure exam successfully. The structure thus creates powerful incentives to achieve results. Dunnigan reported that they observed a 97% completion rate in the first year of the program, compared to a typical rate closer to 25%. To date, 12,000 individuals have participated in the program. The average cost to the individual is about $900, and the average cost to the State is a little over $2,000.

Amelia Nickerson presented the growth strategy of First Step Staffing, a nonprofit staffing agency that works to employ the most vulnerable, such as people experiencing homelessness, people with criminal backgrounds, and veterans. "These are the people who still can't get jobs even in this economy," said Nickerson. First Step provides wraparound services like transportation to support participant success. The program started in Atlanta in 2007, and by 2015 was employing 100 people a week with $2 million in revenue. To accelerate growth, First Step bought a staffing company with $17 million in contract revenue. It financed this purchase with debt, using accounts receivable as the only collateral. "The loans to us reflected the risk," said Nickerson, "but we went from 100 jobs available to 1,000 jobs available." While their investors were concerned about whether businesses would still want to work with First Step once it started sending homeless people to the job site, "we found just the opposite," said Nickerson. "Our value proposition is 'we have motivated supported people who want to work and we are going to transport them there so we know they are going to show up,' not 'please hire our homeless people.' Our investors are happy and we are on schedule to pay back all debt." In January 2018, First Step made another deal to open a second office in Philadelphia, and is now in the process of a third deal to open offices in California. First Step continues to look at the question of "adding depth" to the worker experience so that the first job is not a plateau. The organization anticipates that as it pays down debt, earned revenue will cover costs, and any philanthropic support it receives will go to cover additional supportive services.

Fazili asked the panelists to discuss what are the hallmarks of a high quality workforce development program, and how workforce programs can measure impact.

Nishman noted that the workforce development field has employed outcomes measurements for a long time, such as program completion rate, job attainment rate, job retention over time, and wage gains. She added that JVS spends a lot of time tracking down clients to study earnings growth, but that in JVS' new Pay for Success program, performance is being measured using tax data from the State of Massachusetts. She expressed hope that in the future, more outcomes measurement could be conducted using these kinds of administrative data sources. **Fazili** asked how the State of Massachusetts was able to start using that data. **Nishman** replied that the government "needed a lot of help working it out," and it took a year and a half of meetings to get it to actually start happening.

Mack added that the variety of performance measures in the workforce system can be a challenge – "each funding source has different required performance measures, and how the funding comes to the organization drives decision making."

Panelists also responded to Fazili by advising event participants on what to look for when seeking to partner with a workforce development agency. **Mack** suggested to ask workforce partners what problem they are trying to solve, and what populations they are seeking to serve (e.g. people experiencing homelessness, TANF recipients, single moms). She stressed that no one organization can provide support for a full career pathway on its own, so participants should "find someone with strong partnerships, and who are good at their part of the solution."

Nishman recommended avoiding partnerships with proprietary schools that are paid 100 percent of costs at enrollment – "they don't have the right incentive structure. We see tons of people with significant debt who started at these schools and maybe weren't even qualified to do those programs."

Dunnigan stressed the importance of making sure that workforce program partners have the infrastructure to monitor program outcomes. Further, she recommended finding "an organization that is not afraid of failure and changing their business model as conditions change."

Fazili asked panelists how their organizations have sought to maintain quality as they grow.

Nickerson noted that "part of our model is to build strong partnerships to serve each community we come to. We try to be additive to the system that is already there, and meet with nonprofit partners and see if they will be welcoming."

Nishman struck a similar chord: as JVS expanded services to additional cities, "We didn't try to start 'mini JVSs' in other areas, but rather found organizations that knew the population we were trying to serve, and maybe didn't offer workforce services yet, to partner with to complement the services they were already offering."

Fazili asked panelists what funding bottlenecks they face to growth.

Nickerson felt that over time, it has been easier for First Step to obtain financing from CDFIs. However, she noted that "the equity part is difficult for us to raise," and that with only a 4 percent profit margin, some type of grant equity is needed to support growth. First Step is currently looking at a $7 million acquisition deal, in which it would prefer that a couple million of that would be grant equity. Nickerson noted that Foundations have tended to provide them with smaller grants, and the organization is seeking more scaled grant investment, some of which is now starting to come from government sources.

Nishman also discussed barriers to raising grant dollars – "how do you scale when you feel you already have a good program, while philanthropy is focused on the 'next new thing.'" When Massachusetts put out its Pay for Success RFP, JVS was able to partner with Social Finance to be able to move to other cities.

Mack noted some needs for short-term working capital financing in the space – "governments are terrible at paying you on time, leaving organizations without enough working capital."

Panelists discussed several questions from audience members and Pigeonhole selected by Fazili.

Dunnigan was asked what certifications are offered by the community college program, and whether the performance-based outcomes included job placement or wage gains. **Dunnigan** replied that the program supports 170 different workforce credentials. The program utilizes a list of in-demand occupations, but each provider must also validate that there is employer demand in those job areas. Payment is not currently attached to job placement or earnings outcomes. That said, the program does measure those outcomes, and found an aggregate wage gain for the year 1 training cohort of $15 million.

Panelists were also asked to discuss what the barriers are to data collection as well as recommended practices. **Nickerson** noted that "every grant we have has a different data requirement; it is extremely time consuming to do that for all our different contracts, some of which can be very small." She believes there is a need to fund nonprofit infrastructure for data collection and reporting. "No one wants to fund a data person," she commented, "but you can't do the work if you don't have the data." **Dunnigan** described the Virginia Longitudinal Data System, which is a longitudinal database of individual participant outcomes for a wide variety of programs, allowing analysts to see what happens to an individual over time. "Building a culture around data is super important," said Dunnigan. "For investors, there is a ton of data that we can provide to demonstrate what the earnings outcomes over time are for an individual and what types of experiences seem to influence those outcomes the most."

Betsy Biemann of Coastal Enterprises, Inc. asked about how programs can work in small cities and rural towns when there is not a scale of people and businesses. **Dunnigan** replied that her program has had good experiences in more rural communities, but are finding more financial gaps that workers face in these areas – for example, needed money to cover the costs of sitting for the exam, or acquiring specialized tools and equipment needed for some jobs. She also noted an issue with there being fewer jobs in rural areas. **Mack** listed child care, transportation and housing as critical issues in these communities. She described the positive impact of Employer Resource Networks (ERNs) in improving job retention – ERNs are collections of nonprofit organizations that provide wraparound work supports, that employers support financially.

Matthew Cloud of Ivy Tech Community College commented that his organization is often tasked with how to provide the right skills for students, and match those with employers, but is under-funded. They are looking at how to provide more wraparound services for student "to help that final 25% of the students who are struggling even to get to class and have no internet access."

Fazili commented that many participants are trying to bring employers in as payers, and asked for strategies on how to do that.

Nickerson agreed with the importance of this strategy, and commented that First Step's revenues are 95 percent earned through employer contracts – "employers are willing to pay to fill their HR needs." She suggested that a key strategy is to work at scale, rather than working as "employment navigators" who "beg employers for one job for one person – no one will invest in that." She further highlighted the importance of educating employers about how much it costs them to re-fill a job, and bring an industry to the table rather than one employer at a time. In short, she felt that practitioners need to "make the value proposition for improving employers' bottom line."

Mack suggested consulting work to help small companies understand their costs of turnover – "we need to provide TA so companies can change their business practices."

Dunnigan described a grant program the State of Virginia tried to encourage employer collaboratives. "It was very bold, we were offering to match $1 for $1 for collaboratives to address workforce challenges." The project covered 4 sectors, including one in forestry and another for utility linemen. We did 4 projects. Dunnigan said, "Every one of those students is getting jobs because that employer collaborative is right outside the door with arms wide open."

Nishman commented on the tight labor market – "if anything will bring employers to the table it is that they can't find labor anywhere else right now. We need to capitalize on this right now." She further commented that "this is the time to talk to employers about job quality – not just wages, but predictable schedules, supportive supervisors, and career paths."

Mack commented on the importance of in-depth connections with employers to understand the job opportunities, relating one example of how her organization identified a need for dairy processing technicians that would not have been visible just from looking at state labor market data. She commented that as CDFIs get businesses coming to them for financing, they could be sharing data back with workforce partners about labor market needs.

Dyer commented on how "the nature of jobs is getting disrupted – it sounds like the frame of reference here is getting and keeping a job, but the reality is that workers are moving around a lot. How are people thinking about that?"

Dunnigan agreed and felt that "educational attainment in anything is important, and can make workers more nimble and resilient." She further highlighted the importance of building an education system that accommodates lifelong learning and responds to the diversity of what students look like today.

Nickerson agreed that "students are changing and our systems are not moving rapidly enough. There's a lack of training providers who understand they are working with working adults. Providers need to be more flexible with scheduling and requirements - stipends aren't enough."

Mack felt that another implication of the changing nature of work is that employers don't recognize their employees have more freedom of choice, so being a good place to work matters. "Policies that support worker training have to change – employers aren't investing in incumbent worker training and neither is the government," she said. "Who owns the responsibility for that? It's not just the worker, it should be a shared responsibility."

A question was raised about providing education for math and English competency, where programs have a high cost but outcomes could be a year or two down the road. To provide further context, **Fazili** cited an anecdote from LISC that it can take them 10 years to help someone get from Adult Basic Education through to a living wage job.

Mack felt that it was important nonetheless to invest in the skills people need to work. She noted that it costs more to serve people with multiple barriers to employment – "It will cost 15-20k to help someone with a 3rd grade education to get a job." She decried that too many funders emphasize simply the number of people going through workforce programs, as opposed to program quality.

Nishman agreed: "we need to talk about the people whose skills aren't sufficient for some training program – how do we help them or is there a different training program that they could still do?" She pointed out that one-year government funding cycles make it harder to measure longer-term outcomes.

Dunnigan talked about the Plugged In Virginia program, which integrates training and education (participants can obtain a GED while also getting job training).

Arlo Washington of People Trust asked Dunnigan what certificate programs have been top performing in terms of outcomes. **Dunnigan** replied that their Commercial Drivers License program has been very successful. Health care has been a strong sector but "not our biggest winner in terms of earnings gains, so we have had to reflect on that." In health care she felt that it would be important to have a strong group of employers working with your program and to have a good understanding of the entry points into occupations and who will pay for training. Dunnigan also noted that counterintuitively, they have not seen good results with computer and information technology programs – "some of these credentials are hard to get, and we saw a negative wage effect for program completers."

Cerebe observed a difference in quality of training between different providers. He asked, "how do we find other quality training providers, and how do we support them?"

Mack suggested finding out what the program success rate is, what turnover is like for staff within their own training program organization, and how they source and develop curricula. In terms of supporting good programs, she felt that the key need was money for administration – "no one is giving nonprofits working capital so they can run."

Dunnigan highlighted the need to understand the different populations that different training programs serve before making comparisons across programs, as people come to different programs from different backgrounds and different levels of life skills and academic preparation.

Fazili asked panelists for concluding thoughts.

Nishman felt that the Pay For Success model "is really exciting, you are moving private capital into social services and it can't happen without this vehicle. That will move the field forward." **Fazili** asks about the sources of private capital for this model. Nishman identified Bank of America, High Net Worth Individuals, and Foundations doing impact investing.

Mack suggested that "CDFI resources could allow us to change policy and practice by creating pathways for innovation."

Dunnigan cautioned participants to "keep it simple – everyone tries to over-complicate this stuff."

Nickerson stated, "Our government workforce system still leaves the most vulnerable behind." It is critical, she felt, for investors to understand that helping this population could take more time and money than government will allow, as well as less aversion to risk.

Fazili concluded, "When we work on the bleeding edge of innovation, we need to look at practitioners, what are they doing that seems to be working that we can scale. We need experimentation at the local level and at the margins to teach policy makers what works."

Attracting Capital to Reach Scale

Swack, moderating the panel, commented that CDFIs could play several different roles to finance people, businesses, or workforce development institutions. He raised up the potential for CDFIs doing business lending to "nudge" business borrowers towards business practices that would improve job quality. He then asked each panelist to describe the financing roles that their organization has played in workforce development.

Carrie McKellogg described how the Roberts Enterprise Development Fund (REDF) works with "employment social enterprises," meaning double bottom line businesses who compete in the market with other businesses but who serve a specific employee population who have barriers to employment (e.g. people experiencing homelessness or people with mental health or addiction issues). "After 20 years of making grants," related McKellogg, they decided in 2017 that there were some bankable propositions within this portfolio that could take on debt. McKellogg noted that some CDFIs have hesitated to lend to these kinds of double bottom line enterprises, apparently due to concerns over the needs of these businesses to receive some grants to cover the costs of supportive services such as child care and transportation – concluding that "We are trying to lift this up as a viable, bankable opportunity."

John Hamilton of the New Hampshire Community Loan Fund described his organization's mission as "helping underserved people to get ahead economically, by shaping our capital to help businesses grow and create better quality jobs." NHCLF offers loans as well as equity investments and royalty financing to businesses – but more than that, it provides technical assistance and brokers relationships with business peers and coaches. "We are in the ears of the CEOs to help them see the value of investing in their incumbent workforce," said Hamilton.

Anthony Bugg Levine of Nonprofit Finance Fund (NFF) described his CDFI's mission as "unlocking the potential of organizations like the ones who were on the previous panel [workforce development organizations]." NFF lent to First Step to help fund its expansion. Bugg Levine noted that "as lenders, we don't put money into a system, we take money out" (in the form of interest). While a lender can help a business or a workforce development program to grow and become more productive, ultimately the revenues to repay the investment will have to come from three sources of value. Either 1) the employer will make money and will pay for the help they got; 2) employees will increase their salaries and CDFIs can lend against their future income; or 3) value is created for society for which government is willing to pay (e.g. positive externalities or savings for government programs). He noted that "As a sector, CDFIs flourish in housing, education and health care because we've figured out where the revenues come from."

Chauncy Lennon of the Lumina Foundation described a Program-Related Investment fund, Lumina Impact Ventures, that is focused on helping workers attain workforce credentials. The Foundation has a goal of helping 60 percent of all adults attain a post-high-school credential by 2025. Lennon described several challenges to meeting the goal – one is that there are over

700,000 different workforce credentials in existence in the US, but "we have very weak ways of knowing which ones are valued." Secondly, he noted large and troubling racial equity gaps in workforce credential attainment. To respond to these challenges, Lumina invests in what it calls "persistence tech" – ventures that help people not just access education but complete it. Some positive disruptors they are seeing emerge include boot camps, new assessment tools that help workers evaluate how they could convert learning they already have into a credential, new credentialing platforms, and new kinds of learning technology.

Swack asked panelists to describe the segments of the workforce population served by the businesses they finance.

McKellogg answered that REDF is "proudly serving individuals with the most significant barriers to employment." REDF- financed social enterprises employ about 10,000 people a year, generating $150 million in revenue. The workforce is 80% people of color, 60% people with criminal justice involvement, and 50% people with housing instability or homelessness in their background. Signs of success include that people exiting the transitional employment programs are making 125% of minimum wage, "and with some pathway and an understanding of soft skills that are needed in the workforce."

Hamilton replied that NHCLF works only with businesses who naturally hire low-income people – "the working poor are who we focus on, but the businesses of course employ a range of people."

Lennon stated that Lumina serves students exiting high school - a population that is increasingly diverse racially and economically, and that often has taken longer to complete a 4-year degree. A key question, he believes, is how to help this population become aware of the opportunities for their careers.

Swack asked **Bugg-Levine** about how NFF was able to underwrite a loan to First Step. Bugg-Levine replied that NFF made the loan without requiring real estate collateral. The key underwriting questions for NFF were first, "are the contracts First Step buying going to generate the revenue to pay us back;" and second, is First Step an "excellent operator who can produce not only fantastic social results but operate profitably… so in that sense we underwrite people." Banks will often not lend to such borrowers, as "they can't invest in understanding how savvy the managing team is so they resort to looking at the balance sheet and the collateral." NFF provided about $4 million of a total financing package of $6.3 million to First Step. Like other CDFIs, NFF sustains itself financially from the spread between its cost of capital and the interest rate it charges on loans. Currently, interest rates on its loans range between 5.5% and 6.5%.

Swack commented on the needs for grant equity described by workforce providers earlier during the event, something that CDFIs are unable to provide. He asked panelists to discuss promising opportunities for alignment between workforce organizations and CDFIs.

Lennon broke down three primary avenues through which CDFIs could provide financing:

- The first is to finance individuals. Here Lennon described Income Share Agreements (ISAs), a "rising flavor of the month" in which the lender finances a borrower's education and is paid back based on the borrower's income. Lennon offered some criticisms of this model. On the positive side, income share agreements could help students avoid situations where an institution is offering education credentials without economic value (because presumably the lender would refuse to finance such a credential). However, Lennon felt that ISAs "won't really change the picture much" if they end up costing students the same as what it costs right now. Also, "to the extent the transaction costs become more complex that could be negative." Lennon noted an ISA program at the University of Utah that has been a part of a broader financing package and helps to provide the "last mile" of financing needed.
- The second avenue is to finance firms. "We are at an early stage of understanding the way capital could influence firm behavior," said Lennon.
- The third is to support education and training providers. Here, Lennon said, it is key to understand the deep challenges providers face, especially the state systems that educate most people. "The cost of education is outpacing what individuals have to finance," he stated. He felt it will also be important to monitor the rise of for-profit providers, "some of whom are predatory, while others are trying to provide quality credentials at a better cost structure."

Hamilton reviewed NHCLF's royalty financing program, a hybrid type of financing that has features of both debt and equity, in which businesses receive capital and then repay it as a percentage of growth in revenues over time. He clarified that all of NHCLF's financing tools – debt, equity, and royalty – can be workforce tools. The question is, "will the business provide low income people with better quality jobs as a result of our financing?"

Swack asked Hamilton to describe some of the ways that NHCLF engages with businesses beyond providing financing. Hamilton described the "CEO roundtable," a set of CEO peer groups where business leaders can learn from one another. Some of these groups have focused specifically on supporting employees. Other techniques include helping businesses to set up advisory boards, and providing cost-sharing grants for technical assistance. NHLC has a list of "8 ways to engage employees" that it suggests to employers – such as building trust, wage growth, building bench strength in the management team, and cross training. "We try to figure out which of those strategies you as a business want to work on," said Hamilton. "We provide discounts – rebate some of our interest – as a carrot to incentivize more adoption of progressive management techniques."

Swack relayed questions from the Pigeonhole interactive event platform. The first asked about how CDFIs could finance nonprofit workforce organizations to shift their training programming or employer engagement strategies. **Bugg-Levine** responded, "There are systemic challenges that we have created for the nonprofits we work with. Government contracts pay less than the full cost of services such that the average nonprofit has less than 90 days cash. The sector does not have reserves, and thus will have a hard time taking the risk of doing new things. And you can't finance a program that is not going to pay off in the short term." He felt that subsidy is required to transform a workforce development organization – "someone has to recapitalize these organizations so they can invest in growth and change," but there is currently "no capacity building money out there."

A second question asked about what accountability exists for employers around workforce issues, noting the Community Reinvestment Act (CRA) requirements that impact how banks engage with local communities. **Bugg-Levine** completed the comparison. CRA responds in part to a moral imperative – "you can't be an American bank if you are racist," as Bugg-Levine put it – but also to a market failure in which banks were systematically mispricing the risk of lending in minority and low-income communities. "There's an equivalent to the panels where people have asserted that companies have under-invested in workforce in ways that are not just greedy but actually undermine their own business success," he noted. The question is then about how to translate that issue into some kind of policy mandate for employers. Some comments on Pigeonhole also picked up the theme of employer accountability to discuss community benefits agreements that companies may enter into with local governments.

Tara Colton of SEEDCO asked about the time horizons that would govern financing partnerships, and how these would align with the existing operations and contract structure of most workforce providers. At SEEDCO, she said, "the longest period of any of our workforce grants is 5 years." Additionally, many cities enter a grant that is more like a vendor relationship with workforce providers, but that are ineffectively focused on "getting people in and out and moving on to the next person." Foundation grants, meanwhile are typically for 1-2 year time periods, and usually cover primarily direct service provision costs and offer limited support for indirect or administrative costs. The result, said Colton, is that workforce providers "have to hustle every couple of years" to sustain their organizations financially.

Hamilton offered that NHCLF does lend to nonprofits – for example, child care providers – and the 2 to 5 year time frame is well within their lending parameters (in fact NHCLF could do a longer term). **McKellogg** agreed that if a workforce provider can demonstrate consistency of receiving funding over its operating history, "that is a reasonable thing to finance."

Lennon commented that "the core issue is the pittance of federal money spent on federal training, which doesn't compare to what the private sector spends training higher wage higher skilled employees - $500 billion compared to $4 billion." Financing could fix how workforce providers take in the government dollars, but the big need is to redirect employer investments towards the workers we care about.

McKellogg asked about the best way to de-risk CDFI investments in revenue generating social enterprises with a workforce mission – "should I take grants and use them as a first-loss tranche, or to invest in TA for the businesses?"

Bugg-Levine noted that NFF had made a loan to SEEDCO, commenting that they could do a 20-year loan on SEEDCO's 5-year contracts because it was underwriting the management team's capacity and access to revenue streams, as opposed to lending against the real estate collateral.

He challenged participants to think about how to create a sustainable business model for workforce providers: “As lenders we are servers not leaders – you have to figure out the business model and revenues and then we can lend to you. We are here when that happens. It will happen when there is the political will to fund these things in the right way.” He suggested that we need a system that has organized funding around outcomes – such as people obtaining and keeping good jobs. “Have the thing that we all care about be what makes the revenues flow,” he suggested.

Lennon felt that while CDFIs will “often not be the biggest investors” in the capital stack of any given workforce-related deal, they have an important role to play as smaller, less risk averse investors who can finance certain kinds of workforce related investments that use capital in more strategic ways.

Hamilton underscored the value of “making the business case to employers of why investing in your employees makes good sense. The more we focus on that the better off we will be.” He noted that workforce groups and CDFIs have a shared customer- the business. “Let’s talk together about their needs and share information – we’d love to supply capital to businesses who are growing and needing more workforce services, so there are collaboration opportunities here,” he concluded.

Brad Markell of the AFL-CIO made a comment here about the unions as a model for facilitating employer investment into worker training, with workers playing a role in how those funds are spent through their democratically elected union representative.

Small Group Discussions

The last portion of the event was devoted to small group conversations around particular action agendas identified during the preceding panel discussions. Small group leaders delivered a brief report of their group’s discussions. The discussion topics were:

1. ***Workforce partnerships for small and medium sized businesses***

This group discussed possibilities for small and midsize businesses to engage collectively on training efforts, building off of the work done by the U.S. Chamber of Commerce around this issue. Discussion focused on how to finance employer collaboratives, which are often organized at the local or regional level. Some initial conversation was held about ways that CDFIs might help the Kentucky Chamber of Commerce to set up a workforce funding collaborative. The table’s summary was presented by Jason Tyszko of the U.S. Chamber of Commerce Foundation.

2. ***Addressing needs of multiple barrier customers***

This group discussed the complex needs some populations may have in accessing training or securing employment. For organizations who work with these populations, scale itself does not necessarily add efficiency to their work, and they may not be able to scale their work by just growing larger. Instead, the group discussed the need for more structural changes that may be necessary to truly reach these groups at scale. This table's summary was presented by Heidi Kaplan of the Federal Reserve Board of Governors.

3. ***Rural workforce and economic development needs***

This group brought together participants who were rural focused to understand the specific opportunities, needs, and challenges in addressing workforce development challenges in rural settings. Participants discussed the opportunity to engage community colleges to provide financial services, and in incorporating financial services into wrap around services or case management. This table's summary was presented by Ed Sivak of Hope Enterprises

4. ***Creating federal incentives to support the integration of Community Development Finance and Workforce Development***

This group talked about whether federal funding could support financing collaborations between CDFIs and training organizations that would focus on helping workforce organizations scale. Participants talked about what the financing needs might be amongst workforce organizations as they try to scale (including for administrative growth). They also discussed what federal agencies could be a logical source of funding for such an effort. The table's summary was presented by Laura Benedict of Self Help

5. ***Helping businesses create quality jobs***

This group discussed various financial and technical assistance mechanisms that can be used to help businesses improve the quality of their jobs. Strategies discussed included those engaging CDFIs, venture capital investors, and/or workforce development organizations. The group identified shared tools, resources, and services that inform business behavior. The table's summary was presented by Jake Clark of J.P. Morgan Chase Foundation.