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Financing Workforce Development in a Devolutionary Era

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Abstract: Workforce development financing has changed significantly over the last 25 years. In 2008, federal funding for the traditional workforce development system was 83 percent lower in real terms than it had been in 1980. As the federal system plays a smaller role in workforce development financing, the job training landscape better represents a "marketplace" where students and job seekers use federal training vouchers and grant and student loan money from various sources, primarily the Higher Education Act's Pell Grant and Federal Student Loan programs. Additionally, increasing volatility in the labor market has changed the relationship between employer and employee, leading to the need for a very different workforce development delivery and financing system than currently exists. These trends mark changes in the way that the broad workforce development financing system is consumer driven rather than driven by government or institutional priorities. Also, federal workforce development financing often carries significant restrictions on its use, limiting access to funding for innovative workforce development programs.

In the context of less centralized decision making, declining federal formula funding for workforce development financing, and increasingly complex and changing training needs, workforce development programs and state and local governments often find themselves responsible for developing and funding training. Devolution of responsibility for workforce funding has led to nascent innovation in state and local financing of workforce training, but many of the models have not been widespread. This paper examines the potential for some of these newer models of financing, such as bonding incremental payroll tax and social impact bonds as well as several prospective training models, including income-share agreements.

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Key words: workforce development, workforce development finance, workforce development funding, social impact bonds, workforce development bonds, income-share agreements

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Workforce development faces a paradox—apparent increasing interest and importance in the policy community, but declining funding. Interest in the importance of human capital development and workforce training appears to be ascendant (Markusen 2008; Lowe 2007; Glaeser 2005; Glaeser and Saiz 2003). In fact, professional economic development organizations identify skilled and high-quality labor as the key determinant of many business locations (Brown 2015). While interest in human capital is growing, evaluations of the federal workforce development system find only modest success (Orr et al. 1996; Doolittle et al. 1993).[1] Additionally, intense pressures to reduce the size of the federal government have led to reductions in many of its parts, including the workforce development system. These pressures coupled with apparently modest outcomes have led to steadily declining funding (National Skills Coalition 2011; Andreason and Carpenter 2015).

Given the growing focus on workforce development and human capital strategies for improving employability for job seekers and for businesses' competitive advantage, declining funding is a challenge. Additionally, much of the workforce development funding available does not match well the needs of state-of-the-art effective programs, making scaling these practices a challenge. Financing an evolving and improving workforce development system remains one significant opportunity for innovation.

The Changing Nature of Work and Workforce Development

Labor markets and the nature of work today are increasingly volatile, and the pace of change in the workplace is increasing (Good and Strong 2015). The relationship between employees and employers has changed with the increasingly common use of freelance workers and contingent workers. The growth in contingent workers places a significant burden of responsibility on members of the workforce to be prepared to adjust to new demands of employers (Boushey et al. 2008). Good and Strong (2015) point out that 44 percent of workers consider themselves "free agents" (quoted from Drobocky 2012). Technology is changing both the nature of work and the way that hiring happens—often using software to aid in culling hiring pools and to identify specialized candidates (Cappelli 2012).

These and other changes are coincident with the growth and persistence of long-term unemployment and underemployment (Van Horn 2013). For workers, these changes have elevated the importance of lifelong learning, building a foundation of employability and developing technical skills that are relevant and valued in the labor market. While many of these issues are common across the country and even globe, they are highly local in nature and often require local innovation and action. The workforce development system can fill many of these gaps, but much of the current infrastructure to deploy investments in workforce development is not poised for the agility and flexibility necessary to meet these demands.

Evaluations of the federal workforce development system have identified common characteristics of the programs that were funded through federal workforce development programs via the U.S. Department of Labor. In a history of federal job training efforts, Giloth (2004) notes five common threads:

1. Workforce development and other active labor market policies have been separate from other economic policies.

2. Job training has traditionally been seen as a "second chance" system or a social service, rather than as an investment in the economy.
3. Workforce development has largely been focused only on supply-side approaches, and it has been disconnected from demand-based strategies that help fill positions for industry.
4. Workforce development has been systemically underfunded with the existing policies.
5. The workforce development system is fragmented, with funding from the federal government coming from different programs with different reporting requirements.

Considerable attention has been paid to these five criticisms of the workforce development system, and there is early evidence that the changes have been effective, though often at small scale. Federal entities, including the Departments of Labor, Agriculture, Education, and Health and Human Services, have worked to streamline workforce development funding and programming as part of the 2014 Workforce Innovation and Opportunity Act (WIOA) reforms (U.S. Department of Labor 2015). Over the last several decades, public and private efforts have created stronger regional collaborations and institutions to deal with fragmentation across the broader system of job training (Andreason and Carpenter 2015; Meléndez et al. 2015; Chapple 2005; Lowe 2007; Wolf-Powers 2012). Despite programmatic changes to improve the effectiveness of workforce development programs, there have been only limited changes to the financing mechanisms for workforce development to meet these new approaches.

Funding efforts, including those of the National Fund for Workforce Solutions, and programmatic efforts to create sector-based training or "demand-driven" training have been effective in changing the general frame for workforce development. Newer programs that follow a demand-driven model closely tied to local industrial sectors have been shown in rigorous randomized controlled trials to be effective at increasing wages, employment, and quality of jobs for participants compared to control groups (Maguire et al. 2010). A number of observational studies found similar results and question how to scale these effective programs and integrate them into broader workforce development systems (King 2008; Glover and King 2010). The change toward a sector focus and better employment engagement strategies has more closely aligned workforce development programming with the business community and economic development practice, which has been an intentional strategy. While tensions exist between human service-focused practitioners and economic development practitioners, there has been some agreement that connections with the economic development and business community better serves people in job training (Schrock 2013). This is in part because the workforce development community is working to recast itself as a business service rather than a social service, making political support easier to garner.[2]

In terms of systematic and programmatic reforms, workforce development has undergone significant changes to address many of the criticisms it has received and to adapt to changing labor market demands and volatility, but there has been little change in the ways that workforce development organizations and programs are financed. Significant portions of the system still rely on federal funding from the Workforce Innovation and Opportunity Act (and its predecessor legislation), the Higher Education Act (HEA), or philanthropic grants. Federal funding from the WIOA (and its predecessors) faces significant challenges in financing workforce development in that it has been in decline for decades and is underfunded relative to both the breadth and the depth of the need. Giloth (2004) estimates that funding provided to the Workforce Investment Act of 1998, or WIA (and its predecessor, the Job Training Partnership Act of 1982) was only sufficient to support 5 percent of those who were eligible. Wolf-Powers and Andreason (2012) estimate that many in workforce development programs needed roughly 1,000 hours of adult basic education to succeed in the labor market, and WIOA (and predecessor) funds only covered a small portion of that need. In real terms, Holzer (2008) estimates that "traditional" workforce development funding was 83 percent lower in 2008 than in 1980.[3]

Funding from the Higher Education Act—Pell Grants and student loans—is much less program driven than student driven, and Pell Grants have increased significantly over the last decade, from about $15 billion a year to about $30 billion. Organizations must be eligible to receive these funds and have to market to students to encourage them to enroll, potentially creating a competitive environment among providers.

The following sections provide further analysis of the workforce development finance landscape and several prospective alternative funding mechanisms that could promote strategic investment in local workforce development and business partnerships and responsive job training. The funding methods that follow are opportunities to attract new, return-seeking capital to the workforce development system.

A Different Perspective on the Workforce Development Finance System

A common misconception about workforce development funding is that it is possible to make completely centralized and strategic investments in the type of training or programs that are offered. McCarthy (2014) suggests that a better metaphor for the workforce development system is one of a marketplace than a centralized system. In the workforce development marketplace, programs compete for limited federal funding in the form of student-driven funding from the Higher Education Act and the Workforce Innovation and Opportunity Act. Pell Grants and student loans are student driven in that students, or the consumers of training, decide where and how to spend their allotted funding. With students making consumption decisions, organizations authorized to accept these funds compete for customers and funding. Good and Strong (2015) argue that given these challenges, career navigation—independent of programs and funding—is a necessary but undeveloped resource to help students make better career and training choices in the workforce development marketplace.

Somewhat similarly, as federal workforce development legislation has evolved over the last 50 years, greater emphasis has been placed on individual choice in training rather than strategic allocations of resources at the systems level. The WIA legislation of 1998 created Individual Training Accounts that established vouchers equivalent to a certain amount of funding (Eberts 2010; Patel and Savner 2001). WIA and WIOA have devolved significant responsibilities to states and local areas to decide a minimum threshold for being eligible to receive training vouchers, but the ultimate decision of what training or which eligible training provider receives funding is up to the consumer or job seeker, not a centralized group, local government, or economic development organization. This mechanism functionally biases training choices toward those organizations that are established, not necessarily those that are in most demand in a local area or integrated with job opportunities (Bird, Foster, and Ganzglass 2014).

Pell Grants and federal student loans authorized through the Higher Education Act (HEA) have become the dominant source of funding for workforce training and preparation.[4] Pell Grants amount to roughly $36 billion a year and student loans are about $120 billion. These funding sources further shift the decision-making power of which types of occupational training receive funding. Student loans and Pell Grants are spent largely at private, for-profit postsecondary institutions providing job training (McCarthy 2014).[5]

When considering the entire potential landscape of educational and job training opportunities, workforce development organizations no longer see a single point of funding and strategic decision making in terms of programming. Organizations must consider that funding may come from federal sources of workforce development formula grants, in the form of educational grants or loans from the HEA or private sources, philanthropic investments, or partnerships with businesses working to train existing or potential employees. Workforce development organizations compete for student-customers, and attracting new grant and philanthropic funding to meet the demand for effective programs is difficult.

These new funding challenges are the results of a decentralization of programmatic decision making and a broader devolution of responsibilities to states and localities to fund workforce development programs. The decision making on investment in workforce skills has functionally devolved to student-customers. States and local governments have worked to develop new ways to invest in programs that would not qualify for many of the HEA-eligible funding. States and local areas, as well as individual programs, are challenged because there are limited examples of ways to attract new capital to fund and scale programs—return-seeking capital has been particularly underutilized as a resource.

States (and some municipalities) have started to use general funds from tax revenues for programs that meet local needs, but these are only emerging trends. A recent scan by the National Skills Coalition found only 12 states had programs that provided grants from tax revenues for sectoral training partnerships. Many came in the form of grants like the Tennessee Labor Education Alignment Program, which created a $10 million grant pool from state general funding (DeRenzis and Wilson 2015).

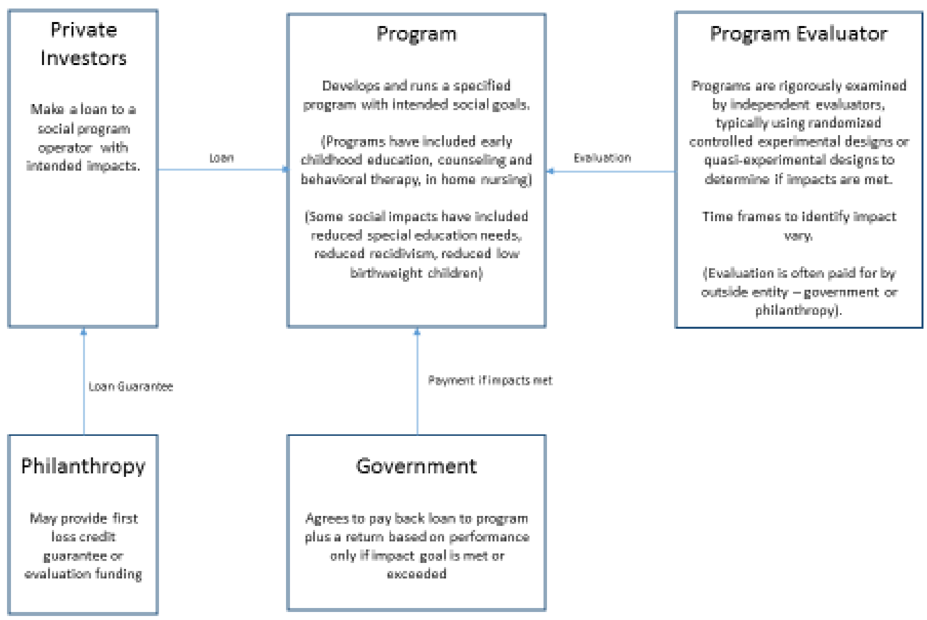
In the context of restrictive and declining federal funding, limited state and local general funds committed to workforce development programs, inherently limited scalability of philanthropic giving, and a consumer-driven "marketplace" for HEA grants and loans, states and local governments and individual programs are faced with finding new ways of generating investments and new revenues for workforce development programming that is locally responsive and innovative and meets the demands of local industries. Other authors have discussed how better to align existing funding from the federal government and gaps necessary to create a superior "braid" of separate funding streams that help improve the skills of the workforce. These proposals include a significant expansion of business tax credits for training and tax-advantaged individual training accounts, similar to 401(k) accounts, and stronger alignment of economic development funding to workforce development funding (Good and Strong 2015; Bartik and Bishop 2009; Wolf-Powers and Andreason 2012). This paper will focus on new financing models for workforce development programs, including financing models that will attract new, return-seeking capital. There are a number of promising models that borrow from other municipal funding mechanisms such as traditional forms of bonding, and newer models like income-share agreements and social impact bonds. The following sections will highlight some of these emerging models of funding workforce development programming and will discuss the potential of each.

Social Impact Bonds

Social impact bonds (SIBs) are a new form of financing investments in social programs that may not deliver a direct monetary return, but instead realize a return through cost savings because of the programs. They were developed to provide a financing mechanism for investments that bring social savings or other positive returns to society.[6] Often, social impact bonds are crafted on mechanisms where an initial investment, usually from a private firm or financial institution, is used to fund a program that will create cost savings for a government in the future. The bonds have been used to finance investments in early childhood education, reducing recidivism and decreasing the incidence of low-birth-weight children (Shin and Shire 2015; Golden and Nagendra 2015).[7] Social impact bonds are unique financing models because they focus on rigorous independent experimental or quasi-experimental evaluation of the outcomes of a program, not only its implementation. Social impact bonds do not pay out unless the goals of the program are met.

The financing mechanism provides opportunities to invest in programs that are often beyond what are seen as traditional investments. Typically, social impact bonds are used to fund preventative services. New York City, Bloomberg Philanthropies, MDRC, and other partners recently ran the nation’s first social impact bond project on Rikers Island with the goal of reducing recidivism among adolescent ex-offenders.[89] The ex-offenders, all between 16 and 18, participated in an evidence-based cognitive behavioral therapy program whose goal was to reduce the incidence of reincarceration. While workforce development was not a core component of this SIB, some of the experiences of the program would be instructive to a workforce development-focused SIB. Figure 1 shows how a social impact bond can be structured.

Figure 1 Mapping of Social Impact Bond Deal Structure



Source: Adapted from Rudd et al. 2013

The Rikers Island SIB focused on a social impact with a large social benefit—avoided jail time. Belinksy (2013) notes that estimated annual costs of incarceration for potential SIB program participants are $30,000 a year. The inherent riskiness in the new financing tool, that the independent evaluation may identify no impact, also suggests the importance of credit guarantees in SIBs—Bloomberg Philanthropies provided a 75 percent, or $7.2 million, guarantee to Goldman Sachs, the financial investor in the project. Credit guarantees vary significantly, though; a recent New York State social impact bond addressing recidivism, which was developed by the nonprofit organization Social Finance, had a 10 percent first-loss guarantee for Class A-1 investors from the Rockefeller Foundation (Hsu 2016).

Social impact bonds as a whole, not only workforce development-focused ones, are such a new financial tool that the uncertainty about their returns remains a significant impediment to expansion. Rockefeller Foundation President Judith Rodin notes that philanthropic credit guarantees for SIBs are part of the evolution of new social investment, saying, “Philanthropy must do what it does best: peel back the first layer of risk, and experiment where other sectors cannot, making development and commercial investment dollars more productive and less risky” (quoted in Global Impact Investing Network 2013). Given these credit guarantees, it is clear that financial investors, even socially minded ones, currently see SIBs as very risky *financial* investments, suggesting the importance, at least in the short term, for some level of first-loss philanthropic investment.

Social impact bonds might also be a way to incorporate flexibility into repayment for programs. Using evaluation methods similar to traditional SIBs, one that is focused on flexible repayment might trigger different repayment terms depending on the evaluation outcomes (instead of dictating all-or-none repayment). Effective programs might pay more money, pay at a higher interest rate, or pay over a shorter period, while programs that are not proven effective would pay lower amounts, have lower interest rates, or would be paid over longer repayment periods. As the SIB market matures and fewer philanthropic guarantees are given, this would help to incorporate investor risk into the private SIB market.

This "flexible" SIB model would make investments in smaller social impacts more realistic if the programs were of sufficient scale to detect small, but statistically significant, social impacts such as wage gains for workforce development participants.[10] As the SIB market becomes more sophisticated and has additional financing schemes, new programmatic targets—such as workforce development programs—may emerge. Under the most recent models, workforce development programs that effectively keep people out of prison, help them graduate from high school, or provide other positive outcomes with large social benefits are likely the ones to work for the financing model.

Variations on Traditional Bonding Mechanisms

Several states have begun to use their bonding authority to create new revenues for workforce development programs. The New Jobs Training Programs in Iowa and Missouri are examples of the use of state tax-exempt bonds to finance workforce development programs.[11] The programs were run through community colleges, which were granted tax-exempt bonding authority through state legislation, acting as workforce development intermediaries with newly located businesses in the state.

General obligation bond financing for workforce development is not common—the majority of bond financing is spent on fixed capital investments such as infrastructure or real estate. Most workforce development finance comes from state and federal appropriations rather than investment (Prince 2007). There is promise, though, that investments in human capital, potentially via workforce development programs, hold significant long-standing positive social and economic returns (Mathur 1999). Mathur (1999) suggests that the benefits to investing in human capital are longer lasting and persist between generations.

Newer, promising models of bonding programs for workforce development are not structured as general obligation bonds, but much more closely to incremental tax bonds, often used in real estate-focused economic development projects. Tax increment financing typically secures bonding through promising new tax revenue in order to pay off an initial loan to finance the project. The New Jobs Training Programs in Iowa and Missouri were structured on a similar model. Using diverted new state gross payroll taxes as the revenue to bond, the community colleges in each state were able to finance new worker training programs upfront at the time of the business location or expansion.[12]

In both examples, half of new gross payroll taxes (for example, 1.5 percent of the total 3.0 percent in Iowa) from the new company was used to pay off the bond that financed the new worker training. The structure has several advantages. A significant appeal of this financing mechanism to state and local lawmakers and budget directors is that it is a revenue-neutral strategy to bring new money to workforce development programming.[13] It also creates a way to fund and offer significant business attraction benefits that has a way of replenishing itself and slowly recovers business incentives for location (if the company is the bond purchaser, as it often was in Iowa and Missouri). Investors can purchase bonds to fund workforce training programs for new or expanding businesses as well as ones undergoing significant changes in the occupational needs of their workforce. As all employers pay into payroll taxes, it could be applied to governmental and tax-exempt organizations as well.

The bonding program could lead to significant expansion of customized training for businesses. Few state programs create opportunities to develop private capital involvement in sector-based training programs—the models from Iowa and Missouri show how partnerships with community colleges could be created.[14]

The financing model is potentially disadvantaged in that it requires significant expansion of bonding authority—to community colleges in the cases of Missouri and Iowa. While the decision to extend tax-exempt bonding authority to additional entities is a state or local decision, should communities decide to go forward with extending authority, the legal administration of the extension could be time-consuming. Additionally, the potential success of this financing method is highly influenced by the strategic design of state tax policies—and is likely less effective in states that rely on sources of funding other than payroll taxes (such as property taxes).

The model is compelling and could be emulated with both tax-exempt and non-tax-exempt bonds.[15] It is also a model that has significant flexibility: community colleges do not always have to be the entity that receives and administers the bond. Similar structures could be developed through economic development authorities or workforce development boards. The opportunity to create diverted revenue that is essentially new (when tied to business expansion or relocation to a new state) creates an opportunity to raise new funding for job training programs, and, like tax increment financing structures, when the bond is paid off, the higher payroll tax receipts can then be used for other purposes.

Income-Share Agreements

Income-share agreements (ISAs) are a newer form of financing gaining attention as a method of financing a traditional college education. In its simplest form, an income-share agreement is an equity investment in an individual's future earnings in return for admission to an educational program. For example, a student may commit to pay 3 percent of her earnings to a fund for a period of 20 years after graduating from a public university. Oregon passed the first legislation to explore a model of an income-share agreement in 2013. Often discussed under the name "Pay It Forward" legislation, viability studies related to the use of income share-agreements to finance traditional college and university education had begun in 25 states as of April 2014 (Economic Opportunity Institute 2014). Pay It Forward legislation has largely focused on creating public alternatives for ISAs, where the income share is held by a public entity, often proposed to be the state government. Some legislators have proposed private ISA programs as well.[16]

While these financing models have gained significant attention as an alternative way to finance traditional attendance at a university, there has been less attention paid to their ability to finance shorter-term workforce development training programs. The proposed program in Oregon offers similar terms to all students: a fixed number of years of repayment and a fixed percentage of income for repayment. There may need to be more flexibility in terms if these programs were to work well for funding shorter-term training and workforce development programs.

Another alternative is to develop a private market for ISAs where independent organizations hold the agreement and potential revenues from student's future earnings (Palacios, DeSorrento, and Kelly 2014). A number of private companies have begun to make loans—especially internationally—but remain largely focused on financing college education.[17] Palacios, DeSorrento, and Kelly (2014) discuss the potential for ISAs to fund shorter-term job training by noting that lower-cost programs could offer more advantageous terms to students in its specific ISA tuition program offerings. The authors propose that in a private market, some companies may be able to specialize in shorter-term programs and their outcomes. In this scenario, ISAs for job training programs that were effective, lower cost, and quick would likely require less burden on workers' future earnings than an ISA to fund a full four years of college education.

Income-share agreements are unique in financing methods because they represent a program or institutional agreement with a student or job seeker similar to a student loan or grant program. A key difference, however, is that the agreement is similar to a venture investment in a student rather than a loan agreement. While outside of traditional financing techniques, ISAs might functionally create incentives for the training programs to support ongoing positive employment outcomes, because if a student does not earn much, they do not owe much in return. Given the funding structure, it is also likely to drive workforce development programs to build programming for the positions that have the highest demand in the labor market.

First, by having program revenues tied to student's income after their involvement in a program, the programs that are best able to prepare job seekers for well-paying employment would receive the largest returns via the ISA. These arrangements also help to shift the risk of understanding the quality of a training program and the ultimate job opportunities that they provide from almost exclusively on the student to one of shared risk between the student and the training program. In the current workforce development financing landscape, if a student is in a program that has little labor market value, the learner alone bears the cost, and programs are still paid tuition based on enrollment, not outcomes.[18] While students would have to pay the same percentage back, if they end up in a job that does not pay as well as expected, they pay less money back to the ISA agreement and if they make more, then they can afford higher payments back. Given these aspects, students would likely see stronger market signals around the quality of programs that have ISAs. Programs will not start ISAs without the high likelihood of earnings in the future. This funding mechanism essentially means that the programs or groups making the ISA agreement have a stake in the employment outcomes of students and program participants. By linking student success to funding, ISA help to strengthen the alignment of incentives—higher wages and employment—between students and programs.

Palacios, DeSorrento, and Kelly (2014) also note that private ISA agreements are helpful to newer and innovative programs that are not eligible for federal student loan programs or for programs that aren't accredited. ISAs are likely seen as important and attractive new sources of funding to these types of institutions engaged in job training. These programs would need to be structured to show viability and effectiveness. Some observers suggest that students at elite universities in both undergraduate and graduate programs may be seen as the most desirable ISA candidates by private institutions because they are likely reliable and higher-term repayers (Kelchen 2015). Palacios, DeSorrento, and Kelly (2014) argue that the model should work in different contexts given its flexibility. Workforce development programs will need to work with private funding institutions to develop ISA agreements that work specifically to finance these lower-cost programs and that direct capital to them.

Income-share agreements, like social impact bonds, face the challenge of being a new financing method for educational investments—either for workforce training or for university tuition. The model is receiving attention from politicians and policymakers across the country. Palacios, DeSorrento, and Kelly (2014) note that, overall, ISAs still need additional legal clarity,[19] direction on how they might interact with existing student loan programs, and better data collection (in order to track and monitor the fair repayment of ISA agreements). The continued development of private ISA initiatives and state Pay It Forward programs suggest that there will soon be examples of ISA programs that can be studied and modeled after. The model shows promise for funding workforce development programs.

Conclusions

Workforce development practice has undergone significant changes over the last several decades, with many of the changes coming in the last 10 years. Like other allied fields, including community and economic development, the federal government has redefined its role in funding local workforce development. There has been significant reduction in "block grant" funding to states and localities, and through federal workforce development legislation there has been significant growth in student-driven funding through the Higher Education Act, creating a marketplace of workforce services that compete for student funding. While there have been efforts to align federal workforce development funding with state-of-the-art practice, including the promotion of sectoral training partnerships and on-the-job training programs, a number of administrative and legislative requirements have driven training programs to elect not to use federal funding, or programs cannot meet the burdens of the funding programs (Wolf-Powers and Andreason 2012).

While workforce development is at the top of many policymakers' agendas, recent history suggests that new, unencumbered grant money or federal allocations will not fill the investment gap in job training and human capital. A number of communities across the country have experimented with new financing models, including social impact bonds and incremental revenue bonding for workforce development programs. Income-share agreements have been discussed extensively as an emerging opportunity to finance education at the college and university level. There is an opportunity to replicate these programs in workforce development settings as well. Attracting return-seeking investment provides new and potentially renewable funding to workforce development programming. Private investment can be tied to other community initiatives such as business recruitment, as the New Jobs Training Program bonds in Iowa and Missouri did. Innovation in financing interventions in community and economic development provide examples of how workforce development might create similar interventions.

As communities work to differentiate their workforce development systems and human capital stocks as competitive portions of their economy, they will have to develop programs that respond to local training and educational needs. How to finance new and innovative programs has not received enough attention. Further research and analysis are needed to better understand the possibilities in new models of workforce development finance than is presented in this paper, but there are a number of promising possibilities, including incremental revenue bonds, social impact bonds, and income-share agreements. There are likely many more as well. Going forward, developing testable and experimental financing mechanisms will require partnerships across government, the private sector, and philanthropy. As noted previously, one of the greatest challenges for all these models is the limited time they have been in actual practice and the limited evidence base available for investors to use to understand the risks and value in the investments. Continued partnerships with philanthropy and government should help to mitigate the lack of data, but as these programs are formed, building increasing knowledge about the models' viability is important.

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[1] Other reviews of the system suggest that the limited positive outcomes may be due to little agility of the system to meet local economic needs (Wolf-Powers and Andreason 2012) as well as significant fragmentation in the workforce development system (Giloth 2004; Andreason and Carpenter 2015).
[2] There is not clear agreement that workforce development is always an economic development intervention. Hill (1998) defines economic development interventions as ones that expand the production frontier of a local economy and are not concerned with the distributional effects of those interventions. He delimitates interventions that are concerned with distribution of resources as community development interventions. Often, these interventions are mutually reinforcing but not identical in purpose or effect (Hill 1998). Many community development interventions have worked to recast their position as economic development programs to garner more resources and political and business support (Beauregard 1993). Workforce development may sometimes be an economic development intervention, but it is often a community development intervention.
[3] It is important to note that Pell Grants are federal funds as well and like WIOA are funded through federal taxes. The term "traditional" is meant to reference the U.S. Department of Labor funded programs.
[4] There is some debate about the "dominant" source of workforce development investment. The Georgetown Center on Education and the Workforce estimates that $1.1 trillion a year is spent on job training and skill development, with $590 billion coming from employer-sponsored training (Carnevale, Strohl, and Gulish 2015). Other estimates are significantly lower, at roughly $160 billion annually spent by employers (Association for Talent Development 2013). Some of the divergence is in estimates of indirect costs (time spent by senior managers in informal training that could have been spent more productively).
[5] This may be driven in large part by the differential costs of programs. Proprietary colleges are often more expensive that state-subsidized training programs at community and technical colleges.
[6] Here the term society is used to capture essentially civic society and government, and value that is outside of private entities (Boardman et al. 2010).
[7] For a longer discussion of social impact bonds, see Butler, Bloom, and Rudd (2013).
[8] For a longer discussion and details of the Rikers Island SIB Project see Rudd et al. 2013; MDRC 2015.
[9] A number of social impact bonds were established in Europe earlier than the SIB on Rikers Island.
[10] Smaller social impact bond programs are difficult to create because of the complexity of the funding and evaluation mechanisms involved. The administrative work is similarly difficult no matter the size of the program.
[11] See Prince and Jablow (2007) for a longer discussion of the Iowa and Missouri programs.
[12] The Iowa and Missouri programs are very similar in structure. The creator of the Iowa program was recruited to Missouri as the chancellor of the community college system, where he replicated the model.
[13] These programs should likely also be considered under similar questions to other economic development incentives, "would the job growth have happened but for the incentive?" (Bartik 2007; Markusen 2007). Some companies may take advantage of a training finance program when they would have expanded anyway. Arguably, since the incentive is developed to help improve local talent stocks through workforce development, inefficient uses of the incentive (those that don't pass the "but for" test) spill over to workers and local economies more than inefficient allocation of tax and cash incentives.
[14] A number of philanthropic efforts, notably the National Fund for Workforce Solutions, have created regional workforce development funding collaboratives that have brought private capital to public-private-philanthropic partnerships for workforce training. While each regional collaborative is different, the author is not aware of any of these that have structured investments in training that bring financial returns.
[15] Although non-tax-exempt bonds would likely drive up the cost of the bond for workforce development programs.
[16] One of the major barriers for ISAs is regulatory clarity. While private companies could enter the market, state laws are not always clear, and sometimes do not allow for ISA programs. They may also require clearer regulation at the federal level as well.
[17] One such company, Lumni, has made a somewhat significant number of ISA agreements internationally in Latin America and a small handful in the United States.

[18] There are nascent examples of "pay for performance" contracts in workforce development programs funded through the federal government, but they are largely shorter term and do not have the built-in long-term relationship between a program and student's labor market success that ISAs do.
[19] Senator Marco Rubio (R-FL) and Congressman Tom Petri (R-WI) introduced a bill to help provide some legal clarity for ISA programs in 2014 (Holt 2014).