Workforce Investment Act
Performance Level Revisions Requested by Washington State for PY10

In revising Washington state's negotiated performance targets for WIA I-B programs and Wagner Peyser Act programs, our approach is to propose targets based on recent changes in program participation and our local economies. Instead of guessing at the impact of participant or economic changes on performance, we develop statistical measures of the impact of these changes near the end of each year based on regression models. Our regression models calculate the impact that actual changes in the characteristics of participants or health of the economy are likely to have on our results. The adjustments that we propose may be upwards or downwards, depending on conditions. We propose those changes in the spring of each program year, before we know the final results for that year's performance.

We are limiting our request to the WIA I-B measures evaluated by the Department of Labor (DOL) for incentives and sanctions.

Proposal for PY10 Performance Target Revisions

As in past years, we have compared the economic and demographic characteristics of this year's (PY10) participants with earlier economic and demographic characteristics.

The most severe recession in decades has taken the forecasting of performance levels into uncharted territory. As a consequence of the contraction of labor markets during the recession, we request reductions for all Adult and Dislocated Worker PY10 targets and one of the Youth targets. The analysis that follows will compare economic and demographic conditions in PY10 with earlier years when baseline targets were established.

We propose to:

- Decrease all three Adult targets: Entered Employment (-3.5 percent) Retention (-2.6 percent) and Earnings (-$2,481). These reductions are primarily due to the worsening of Washington state economy during the current program year.

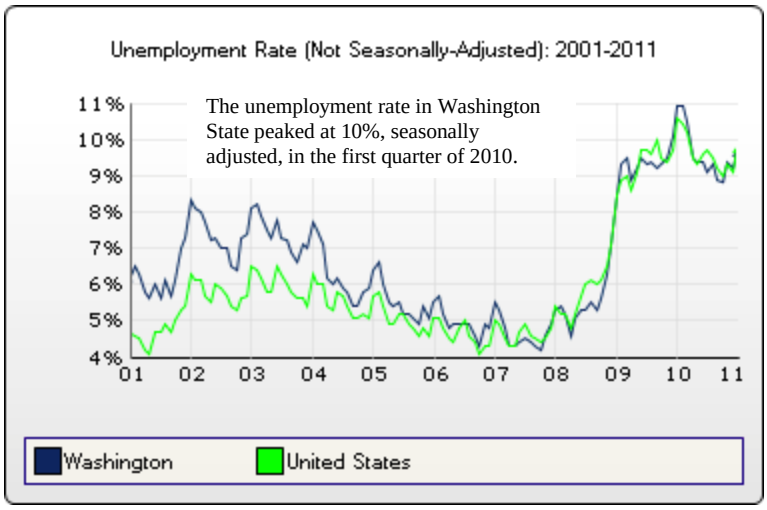
- Decrease all three Dislocated Worker targets: Entered Employment (-6.6 percent), Retention (-3.6 percent) and Earnings (-$2,721). These are reductions are also primarily due to the worsening of Washington state economy.

- Decrease the Youth Placement target (-6.1%). Increase the Youth Credential target (+4.8%) and the Youth Literacy/Numeracy target (+9.0%)

<u>Analysis</u>

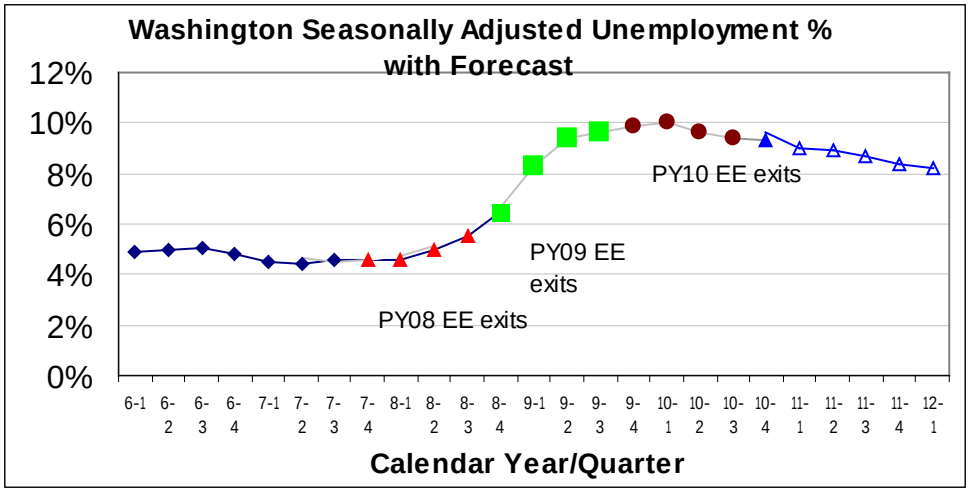
Washington state's economic conditions precipitated into a severe recession along with the rest of the county during the period covered in the PY10 performance report.

Figure 1
Unemployment Rates in Washington State vs. US



(Source: Washington State Employment Security Department)

Figure 2
Unemployment Rates for WIA Employment Reporting Periods



Assuming the recession does not enter a second dip, PY 10 will be the program year in which exiting participants faced the weakest labor market in post-war economic history. The annual average unemployment rate facing exiters in this year was 9.7% or 9.8%, depending on the measure. For the prior year, the rates were 7.5% or 8.5%. If the current state forecast holds, PY 11 exiters will face average unemployment rates of 9.1% or 9.2%.

Characteristics of WIA Participation

In negotiating performance targets, Washington state recognizes that future economic conditions and demographic characteristics of WIA participants cannot be accurately predicted. Our approach is to set propose performance targets based on steady state assumptions, and to

later propose revisions to WIA targets once more is know about changes in economic conditions and demographic characteristics.

The following tables illustrate some of the demographic and economic changes that occurred between PY09 and PY10. The performance measure group for which these demographics are measures are shown in the table heading. These tables compare the characteristics of WIA participants and the average unemployment rate or local trade earnings that WIA participants faced in the quarters used for their employment follow-up, based on their counties of residence.

Table 1
Selected Demographic and Economic Comparison of PY06 and PY10
Factors Affecting Disadvantaged Adults

Adult Demographics (Earnings Measure group)	PY09	PY10
On Unemployment at enrollment	27%	30%
Receiving Foodstamps	31%	44%
Some College	17%	27%
Unemployment Rate Q1 after Exit (EE)	7.8%	10.3%
Average Retail Trade Earnings in County	$2,800	$2,100
Average Pre-Program Earnings (Earnings)	$7,170	$7,470

Table 2
Demographic and Economic Changes between PY09 and PY10
Affecting Dislocated Workers

Dislocated Worker Demographics (Entered Employment group)	PY09	PY10
Unemployment Rate After Exit	8.4%	10.1%
Hourly Wage Rate at Dislocation (EE)	$18.83	$19.97

Table 3

Demographic and Economic Changes between PY09 and PY10
Affecting Youth participants

Youth participant	PY09	PY10
In School (Credentials group)	42.8%	56.9%
Native American (Credentials group)	2.9%	3.8%
Hispanic (Credentials group)	18.8%	22.4%
Homeless (Placement group)	5.9%	8.2%
Prior Employment (Placement group)	50.1%	41.4%
Unemployment Rate After Exit (Placement group)	8.4%	9.3%
High School Diploma	14.7%	19.6%

Modeling the Impacts of Economic and Demographic Changes on WIA Performance Measures
Washington State Workforce Training and Education Coordinating Board (Workforce Board) staff originally developed statistical models to measure the impacts of changes between the JTPA baseline period of 1997-98 and the PY00, PY01, PY02 and PY03 periods.

In the spring of 2005, the Workforce Board developed a new set of models based on WIA performance data between January 2001 and December 2003, or June 2004, depending on the length of the follow-up period for each measure. The models take advantage of WIA data elements collected in the Skills, Knowledge and Information Exchange System (SKIES) and a wider range of economic variables. Details of these models can be found in "WIA 1-B Performance Regression Models of Federal and State Performance Measures, March 2006." In the summer of 2007, shifting to the new, redefined, federal earnings measures required developing new regression models.

Initial regression models, based on PY 08 outcomes and characteristics were developed for the Youth Common measures last year.

The Dislocated Worker Earnings model and the Adult Earnings model were revised last year, when it became obvious that the prior models did not adequately account for the effect of seriously contracting labor markets on the earnings opportunities available. Further, for the Dislocated Worker Earnings model, the baseline year selected in 2007 (PY06) had anomalously high earnings outcomes, never approached before or since. Because the industrial composition of the dislocated worker population varies enormously over time as dislocation is concentrated in particular industries, it is challenging to develop a model that adequately accounts for such changes. Therefore, both of these models were revised to include unemployment rates as predictors of earnings, and the Dislocated Worker was rebased on a less anomalous year.

This year, the only model not performing reasonably has been the new model for Youth Credentials. The model was developed using the PY 08 year only, and perhaps as a result, did not have a very effective economic component. Within the range of unemployment rates among Washington counties in that single year, the model estimated that rising unemployment rates would result in rising credential rates in a simple linear relationship. When this method was applied to the major increases in unemployment rate experienced in PY10, the result was implausibly high increases in Credential targets – in excess of 17%. PY 08 and PY 09 data were combined to base the model on a wider variation in unemployment rates, and the model was altered to allow the effect of unemployment rates to not be strictly linear, but rather to decline as unemployment rates reached unusually elevated levels. Also, changes in participation by all ethnic minority groups were added. The resulting model gives a better fit statistically, and a more plausible expectation about how unemployment rates affect credential attainment. The new model still results in an increased performance target for Credential rates, but one that is a reasonable expectation for program performance (+4.8%).

Spreadsheets of the specific models are included in an accompanying workbook. Additional technical material is available on request.

Proposed Revisions of Negotiated Levels of Performance for PY10

For PY10, we request the revisions listed in the following table. The proposed revisions are based on our regression models using changes in demographic characteristics and economic conditions. All of the downward revisions are in outcomes that we would expect to have been depressed by the deepening of the recession. The remaining two Youth measures for which we propose higher targets are not as directly affected by the labor market.

Table 4
Current and Proposed WIA I-B Targets for PY10 in Washington State

Adult Measures	2010 Original Levels	Proposed Revised Levels	Change
Entered Employment	78.7%	75.2%	-3.5%
Retention	83.6%	81.0%	-2.6%
Earnings	$11,937	$9,456	-$2,481
Revised PY10 as Percent of Original			90.6%

Dislocated Worker Measures			
Entered Employment	80.2%	73.6%	-6.6%
Retention	87.5%	83.9%	-3.6%
Earnings	$16,764	$14,043	-$2,721
Revised PY10 as Percent of Original			90.5%

Youth Measures			
Placement	60.0%	53.9%	-6.1%
Credential	70.5%	75.3%	4.8%
Literacy/Numeracy	35.0%	44.0%	9.0%
Revised PY10 as Percent of Original			107.4%

The lines labeled "Proposed PY10 as Percent of Original" show the impact of the proposed adjustments on the average level of targets for the populations as a whole. The proposed PY10 Adult targets are 90.6 percent of the original targets. The proposed PY10 Dislocated Worker targets are 90.5 percent of the original targets. The proposed Youth targets are 107.4% of the original targets.