

# Review of the Minnesota Dislocated Worker Program

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## Final Report

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## Executive Summary

Contracted by the Minnesota Department of Trade and Economic Development, Berkeley Policy Associates is submitting this review of the Minnesota Dislocated Worker Program. Minnesota's Dislocated Worker Program (DWP) provides laid off workers with services to help laid-off workers with find new employment at comparable wages as quickly as possible, thus minimizing the adverse affects of dislocation on their own lives, their families, and their communities. Minnesota began offering services targeted at dislocated workers in 1983 with federal funding authorized under Title III of the Job Training Partnership Act (JTPA). In 1990, responding to a statewide recession and a rise in worker dislocations, Minnesota enacted a payroll tax on employers to supplement federal funding for dislocated worker services. Funds collected from the employer payroll tax were allocated to the State Dislocated Worker Fund and used to create a state-funded component of the Minnesota Dislocated Worker Program.<sup>1</sup>

Today the Minnesota Dislocated Worker Program continues to be supported by both federal and state funding. State funding for the program is more than twice the federal funding level, with \$8.5 million in federal funds and \$18 million in state funds allocated for Program Year 2000-2001. Minnesota's state contribution to its dislocated worker program is among the highest of the ten states nationally that supplement their federal dislocated worker funds with additional state funds.

Due in part to the importance of ongoing efforts to refine and improve the Dislocated Worker Program and in part to the proposed reorganization of Minnesota's workforce development system overall, the Dislocated Worker Program sought out Berkeley Policy Associates to conduct a program review. In conducting this program review we relied on qualitative and quantitative methods and data. Our qualitative research methods included three key components: (1) a survey of states, (2) interviews with Minnesota Dislocated Worker Program Stakeholders, and (3) a literature review. Our quantitative methods included analysis of program data and secondary data sources for labor market information.

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<sup>1</sup> This fund was renamed the Workforce Development Fund in 2000.



Information presented in this program review includes: the extent and impact of dislocation in Minnesota; a description and review of the Minnesota Dislocated Worker Program; highlights from our survey of states with similar state-funded dislocated worker programs and other states with innovative practices for dislocated worker services; and recommendations for program improvement and policy options. Highlights from this program review are presented in this executive summary.

## **Impact and Extent of Worker Dislocation in Minnesota**

**Worker Dislocations occur in both strong and weak economies, reflecting inevitable churning in the labor market.** Changes in technology or the demand for certain goods and services can result in a company downsizing, closing, or moving out of the area. Thus, the dislocated worker program will always have participants to serve.

**Recent data indicates that the economy may be softening and the number of dislocated workers in Minnesota appears to be increasing.** Although Minnesota's economy remains strong, there is some evidence that the economy is softening. Unemployment has risen slightly, the number of new Unemployment Insurance applicants has increased, and the number of mass layoffs is up.

**Minnesota's Dislocated Worker Program enrolls only a small portion of all dislocated workers in the state.** However, it is likely that the proportion it serves includes those most in need of assistance while those who are more easily reemployed may be able to obtain employment without the program's assistance. It should be noted that in rural counties, where unemployment rates are higher, it can be very difficult for even more employable workers to find employment.

**Program enrollment has recently increased with the increase in worker dislocations.** A review of program enrollment data indicates that the Minnesota Dislocated Worker Program's enrollment has increased concurrent with the increase in worker dislocations in the state.

## Minnesota's Dislocated Worker Program

**Providing comprehensive services to dislocated workers has been a priority in Minnesota for many years.** Minnesota's DWP program reflects the broad directive set forth in previous and current national legislation that dislocated workers need targeted services to assist them in rapid reemployment at wage rates approximating wages at dislocation. Further, the state-specific innovations implemented over the ten years of state contribution to the program have expanded the services provided to dislocated workers in Minnesota.

**Merging the DWP and all WIA Adult and Youth programs, with Economic Development is a promising idea.** The legislature, after originally moving the DWP away from the majority of the workforce development programs, has decided to locate all WIA Adult and Youth programs and DWP with Economic Development. We believe this is a positive step. Further integration of workforce development programs and Economic Development may help both employers searching for workers and workers in need of reemployment. Other strategies such as linking the dislocated worker program with programs serving incumbent workers may provide greater opportunities for early intervention and dislocation prevention.

**Program outcomes reported by the DWP reflect a strong program.** Both job placement rates and replacement wage rates are relatively high, with the replacement wage rate of 93 percent far exceeding national averages for dislocated workers of 75 percent,<sup>2</sup> as well as the WIA performance standard set for Minnesota at 83 percent. Finally, a prior cost effectiveness study found that the program produced a fair return on investment with \$2.45 in social benefit for every dollar expended.

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<sup>2</sup> "Training Programs for Dislocated Workers," Duane Leigh, in *Improving the Odds*, Edited by Burt Barnow and Christopher T. King, Urban Institute Press, February 2000.

## Other States' Responses to the Needs of Dislocated Workers

**State-funded programs for dislocated workers are operated by 20 percent of the states.** While most states fund employment and training programs, ten states (20 percent) currently fund programs that serve dislocated workers.

**The Minnesota Dislocated Worker Program was developed for reasons similar to other state programs.** The program's history is similar to other states whereby state contributions to dislocated worker funds were a response to the increased frequency and size of dislocation events.

**The Minnesota Dislocated Worker Program distinguishes itself from other states in its programming.** The Minnesota program is unique in that it uses Employee-Management Committees, operates a competitive process for service delivery, and encourages training through expenditure requirements.

**Measures of overall and relative funding clearly indicate that Minnesota is a leader in focusing on the needs of dislocated workers.** Minnesota's program is among the most well-funded of all those funded in the country. Some other states commit state-funds at similar levels for workforce development programs targeting other populations.

**Other Dislocated Worker Programs have incorporated dislocation prevention strategies in their efforts to assist both employers and workers before a layoff occurs.** Both Louisiana and Oregon have developed innovative measures for assisting workers prior to layoff by using dislocated worker funds or as part of a dislocated worker program strategy of rapid response in collaboration with incumbent worker services.

**Economic Development Departments can play a critical role in marketing dislocated workers to potential new employers.** Louisiana's Dislocated Worker Unit works closely with its Economic Development Department to view dislocated workers as a marketable resource to potential employers. This strategy has proven particularly successful during tight labor markets. Minnesota has begun to work more closely with Economic Development in recent years and the merging of the DWP and other workforce development programs with Economic Development provides an opportunity for more regular collaboration.

## **Recommendations for Program Improvement and Policy Options**

**Program Funding.** Given the recent decrease in the employer payroll tax dedicated to the DWP and the recent increase in unemployment BPA recommends that funding for the DWP remains at current levels.

**Improving Early Intervention and Increasing Collaboration.** The top priority for the Minnesota Dislocated Worker Program is early intervention so it can reach and assist dislocated workers as early as possible. Berkeley Policy Associates recommends that the Minnesota Dislocated Worker Program work with workforce development partners to focus on dislocation prevention where possible and services for dislocated workers when dislocations are unavoidable. BPA also recommends increasing outreach about the services provided by the Minnesota Dislocated Worker Program and the workforce development system in general to employers and workers.

**Accountability.** BPA recommends that the Performance Indicator Report continue to be produced annually. Further, BPA recommends that the Minnesota Dislocated Worker Program consider showing how the outcomes in the current program year compare to the prior year to provide a benchmark for program outcomes.

## **Overall Assessment of Program**

Although BPA has made several recommendations for program improvement, in general we found that the Minnesota Dislocated Worker Program provides important services in a timely manner. Services are provided to those in need of reemployment assistance and replacement wages are higher than national averages. State staff and service providers continue to work towards program improvement. The recommendations provided can only help to strengthen the program further.

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## Introduction

Minnesota's Dislocated Worker Program (DWP) is designed to assist laid-off workers in finding new employment at comparable wages as quickly as possible, thus minimizing the adverse affects of dislocation on their own lives as well as their families and communities. Minnesota began offering services targeted at dislocated workers in 1983 with federal funding authorized under Title III of the Job Training Partnership Act (JTPA). In 1990, responding to a statewide recession and a rise in worker dislocations, Minnesota enacted a one-tenth of one percent tax on employers for all wages taxable under the State's Unemployment Insurance Program to supplement federal funding for dislocated worker services.<sup>1</sup> Funds collected from the employer payroll tax were allocated to the State Dislocated Worker Fund and used to create a state-funded component of the Minnesota Dislocated Worker Program.<sup>2</sup>

Today the Minnesota Dislocated Worker Program continues to be supported by both federal and state funding. State funding for the program is more than twice the federal funding level, with \$8.5 million in federal funds and \$18 million in state funds allocated for Program Year 2000-2001. Minnesota's state contribution to its dislocated worker program is among the highest of the ten states nationally that supplement their federal dislocated worker funds with additional state funds, placing Minnesota at the forefront of addressing the needs of dislocated workers.

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<sup>1</sup> This employer payroll tax was reduced to a 0.07 percent of one percent of all wages taxable under the State's Unemployment Insurance program.

<sup>2</sup> This fund was renamed the Workforce Development Fund in 2000.

In 1996, Berkeley Policy Associates (BPA) was contracted to conduct a comprehensive evaluation of the Minnesota Dislocated Worker Program.<sup>3</sup> Since that time the program has undergone a number of changes:

- federal funding for the Minnesota Dislocated Worker Program is now authorized through the Workforce Investment Act which replaced the JTPA;
- the Minnesota Dislocated Worker Program was moved from the Department of Economic Security to the Department of Trade and Economic Development; and
- Minnesota's entire workforce development system is currently the focus of a substantial reorganization effort.

Due in part to the importance of ongoing efforts to refine and improve the Dislocated Worker Program and in part to the proposed reorganization of Minnesota's workforce development system overall, the State's Dislocated Worker Unit contracted with Berkeley Policy Associates to conduct a new program review. This effort is less comprehensive than the original evaluation conducted by BPA, but offers updated program information, analysis, and recommendations for program improvement. Specifically, this report provides:

- updated statistics regarding the impact and extent of worker dislocations in Minnesota,
- a detailed description and review of Minnesota's Dislocated Worker Program,

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<sup>3</sup> *Evaluation of Minnesota's Dislocated Worker Program*, Final Report, Berkeley Policy Associates, September 1997.

- a survey of the states that supplement their Dislocated Worker Program with state funds, and
- policy recommendations regarding potential modifications to the program.

In conducting this program review we rely on qualitative and quantitative methods and data sources including interviews, surveys, program data, and other secondary data sources. These methods are described in more detail in Appendix A of this report.

The following report presents our findings and recommendations for the Minnesota Dislocated Worker Program. Chapter One examines the extent and impact of dislocation in Minnesota. Chapter Two describes and reviews the Minnesota Dislocated Worker Program. Chapter Three highlights findings from our survey of states with similar state-funded dislocated worker programs and other states with innovative practices for dislocated worker services. Finally, Chapter Five identifies policy recommendations and areas for program improvement.

Findings from this report will help the Department, the Dislocated Worker Program, State Legislators, and workforce development stakeholders to better define and improve the Minnesota Dislocated Worker Program.

## Chapter 1. Extent and Impact of Dislocation in Minnesota

State funding to supplement Minnesota's federally funded Dislocated Worker Program was initiated during an economic recession in 1990, responding to a rise in worker dislocations. Despite improvements in economic conditions, worker dislocations have proven to be inevitable. Changes in technology or the demand for certain goods and services can result in a company downsizing, closing, or moving out of the area. Thus, there is always demand for dislocated worker services.

Recently, after years of strong economic growth, Minnesota and the U.S. have begun to see signs of a softening economy. While, While Minnesota's unemployment rate in April 2001 (3.9 percent) was still below the national average (4.5 percent), it is up from 2.8 percent in 1999.<sup>4</sup> Further, new applications for Unemployment Insurance during February 2001 were over 38 percent higher than the same month in 2000.<sup>5</sup>

In this chapter we examine the size of the dislocated worker problem in Minnesota. We begin with a summary of the research examining the impact of dislocation on workers. Next we quantify the extent of dislocation in Minnesota and how this has changed over time. This analysis allows us to examine the extent to which the Program is meeting demand for the program.

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<sup>4</sup> Seasonally Adjusted Rates, Minnesota Department of Economic Security.

<sup>5</sup> Minnesota Department of Economic Security.

## Impact of Dislocation on Workers

Research indicates that dislocated workers are distinct from other unemployed workers in several respects. Dislocated workers typically have extensive work experience, a strong work ethic, and a desire to stay attached to the labor force. They are often laid off due to downsizing or plant closings, in contrast to other unemployed workers who may have quit or do not want to be in the workforce. Additionally, dislocated workers may have specific skills that are not easily transferable to a new industry or occupation. Finally, dislocation often takes an emotional toll on dislocated workers as they are often leaving well-paying jobs on which they have built their careers, and the dislocation event disrupts life plans and goals.<sup>6</sup>

Furthermore, dislocation significantly impacts workers' post-layoff earnings and employment outcomes. Research shows that after dislocation, these workers face more periods of nonemployment than the general working population, though these differences appear to fade over a four year time period. Dislocated workers also experience a substantial loss in earnings when compared to their pre-layoff earnings. On average, researchers estimate that dislocated workers earn 75 percent of their pre-layoff wages upon reemployment. This loss of earnings does not appear to fade over time, and this translates into average losses of more than \$6,500 in earnings per dislocated worker, per year.<sup>7</sup>

These impacts are not limited to the workers alone, but are felt by the workers' families and their communities. Workers may have mortgages to pay, children in college, and other financial commitments that place a strain on the worker and

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<sup>6</sup>“Training Programs for Dislocated Workers,” Duane Leigh, in *Improving the Odds*, Edited by Burt Barnow and Christopher T. King, Urban Institute Press, February 2000.

<sup>7</sup> Ibid.

his/her family. When large dislocations occur in a single community, the financial impact alone affects the local economy as dislocated workers' contribution to the local sales tax can fall sharply. These impacts can be particularly acute in rural communities in which a small number of employers drive the local economy.

Services for dislocated workers are designed to address these negative impacts. Such services focus on minimizing the time from dislocation to reemployment and on reemployment in jobs with high replacement wage rates. In Chapter Two, we discuss the success of the Minnesota Dislocated Worker program in achieving some of these outcomes. The remainder of this chapter focuses on quantifying the level of dislocation in Minnesota.

### **The Extent of Worker Dislocation in Minnesota**

To determine the demand for dislocated worker services and to what extent the Dislocated Worker Program is meeting this demand, it is important to try to quantify the extent of worker dislocation in the State. In Minnesota individuals who are eligible to receive dislocated worker services are those who:

- have been terminated or laid off and are unlikely to return to their previous industry or occupation;
- have been affected by a permanent plant closure or a substantial layoff;
- are long-term unemployed workers who have limited opportunities for employment in their previous occupation;
- are self-employed workers (including farmers and ranchers) who are impacted by natural disasters or business failures; and

- workers who have not received an individual notice of termination, but who are employed at a facility for which the employer has made a public announcement of an impending layoff or planned closure.

Minnesota has also decided to use state-funds to assist long-term unemployed individuals (those who have been unemployed for 26 weeks or more) who are no longer eligible for federal dislocated worker funds.<sup>8</sup>

To determine the extent of dislocation in Minnesota and the proportion of workers being served by the Minnesota Dislocated Worker Program, we examined four data sets:

- Minnesota Dislocated Worker Program Enrollment Data, Minnesota Department of Economic Security;
- Mass Layoff Statistics (MLS) from the U.S. Bureau of Labor Statistics (BLS).
- Unemployment Rates from Local Area Unemployment Statistics (LAUS), a project sponsored jointly by MDES and U.S. Department of Labor, Bureau of Labor Statistics; and
- Unemployment Insurance Applicant Database, Minnesota Department of Economic Security.

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<sup>8</sup> Under WIA, Displaced homemakers could be served with federal dislocated worker funds, however, the state chooses to serve them under a separate fund. Minnesota has also established a separate Displaced Homemaker Program, to assist displaced homemakers, or individuals whose principal job has been homemaking and who have lost their main source of income.

Although each of these four data sets contributes toward our understanding of the dislocated worker program, none of these data sets perfectly captures the number of workers dislocated in Minnesota.

Two of these data sets examine the extent of worker unemployment in Minnesota: Unemployment Rates from LAUS and the Unemployment Insurance Applicant Database. However, dislocated workers are not synonymous with unemployed workers. Unemployed workers also include workers who may be out of work for other reasons, such as quitting their jobs or newly entering the labor force, without having found work yet. Instead, dislocated workers are a subset of unemployed workers. Thus, the data sets looking at unemployment or new applicants for Unemployment Insurance will overestimate the number of dislocated workers in Minnesota.

In contrast, there are two data sets, the Dislocated Worker Program Enrollment Data and the Mass Layoff Statistics (MLS) that specifically examine dislocated workers in Minnesota. However, these two data sets are limited in the extent to which they help quantify the number of dislocated workers because they include only a portion of those eligible for the Minnesota Dislocated Worker Program. The Dislocated Worker Program enrollees capture only the portion of the eligible dislocated worker population that the program is serving, which is a significantly smaller number than the total workers affected by Mass Layoffs in the State. Mass Layoff Statistics only capture layoffs from establishments with at least 50 initial Unemployment Insurance claimants filing during a consecutive five-week period, with separation lasting at least 31 days. Layoffs from smaller employers or employers not required to participate in the Unemployment Insurance system are not counted.<sup>9</sup> Thus, both the Dislocated Worker Program

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<sup>9</sup> Certain employers are not required to contribute to the Unemployment Insurance system. These employers include non-profit organizations. Employees laid off from such an organization would not be counted in the Mass Layoff Statistics.

Enrollment Data and the Mass Layoff Statistics undercount the total number of dislocated workers in Minnesota.

As no data set perfectly captures the number of workers dislocated in Minnesota, we chose to present a range of data to give some sense of the magnitude of dislocation in Minnesota. Figure 1-1 presents several estimates of dislocation based on the four available data sets.

**Figure 1-1**  
**Estimates of Dislocated Workers in Minnesota Using Various Data Sets**

	<b>Dislocated Worker Program Enrollees PY 1999-2000</b>	<b>Number Affected by Mass Layoffs 2000</b>	<b>Number of Unemployed Workers 2000</b>	<b>Number of UI Claimants 2000</b>
Minnesota	14,345	24,886	89,558	137,459

Sources: Minnesota Dislocated Worker Program Enrollment Data, Minnesota Department of Economic Security; Mass Layoff Statistics (MLS), Extended Separations, U.S. Bureau of Labor Statistics (BLS); Unemployment Figure from the Current Population Survey, U.S. Bureau of Labor Statistics, and Local Area Unemployment Statistics (LAUS) from the Minnesota Department of Economic Security; and Unemployment Insurance Applicant Database, Minnesota Department of Economic Security.

Although not an exact estimate, Figure 1-1 provides some sense of the number of dislocated workers in Minnesota. The number of Minnesota Dislocated Worker Program participants (14,345) is unlikely to be the most accurate because it only counts those who actually obtain services, rather than all workers who are eligible for services. It also excludes individuals who received Rapid Response

services but did not enroll in the Dislocated Worker Program for additional services.<sup>10</sup> Similarly, the number of workers affected by mass layoffs (24,886) also underestimates the actual number of dislocated workers in the state. Mass Layoff Statistics include only larger-scale layoffs.<sup>11</sup> Layoffs from smaller employers or employers not required to participate in the Unemployment Insurance system are not counted.

In contrast, both the total number of unemployed workers (89,558) and the total number of Unemployment Insurance claimants (137,459) overestimate the number of dislocated workers in Minnesota. In addition to dislocated workers, unemployment data includes individuals not eligible for the Minnesota Dislocated Worker Program, such as those who quit their jobs or are newly entering the labor force and have not yet found work.

Unemployment Insurance recipients similarly overestimates the number of dislocated workers. It is higher than the number of unemployed because the Unemployment Insurance system can serve individuals for a period of 26 weeks. Therefore Unemployment Insurance claimants can include individuals who became unemployed in a prior year but are still receiving benefits. Further,

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<sup>10</sup> As described further in Chapter 3, Rapid Response services are provided to firms with large-scale layoffs. Rapid Response includes, among other services, informational meetings with groups of workers likely to lose their jobs. These information sessions are often conducted at the work site by members of the State's Dislocated Worker Program's Rapid Response Team. The Team presents an overview of Dislocated Worker Program services, conducts a survey of employee needs, and presents some initial labor market information. Employees who attend these meetings are not counted as Dislocated Worker Program enrollees unless they enroll with the program for additional services.

<sup>11</sup> Mass Layoff Statistics include individuals laid off from establishments with at least 50 initial unemployment insurance claimants during a consecutive five-week period, with separation lasting at least 31 days.

applicants may apply for Unemployment Insurance even though they do not plan to reenter the labor force. Therefore, Unemployment insurance claimants represent a maximum bound for the number of dislocated workers.

The number of dislocated workers in Minnesota falls between those affected by mass layoffs (24,886) and the total number of unemployed individuals (89,558). Even when using the lower estimate, the Minnesota Dislocated Worker Program, which enrolled 14,345 dislocated workers in Program Year (PY) 1999-2000, is clearly serving just a small proportion of the dislocated workers in the state. There are several reasons we might see this outcome. First, the Minnesota Dislocated Worker Program actually provides assistance to many more affected workers than actually enroll in the Dislocated Worker Program. Group orientations and workshops are held with affected workers in large-scale layoffs through Rapid Response. Many of these workers do not require additional services and therefore do not enroll in the program. Second, not all dislocated workers are in need of services because, in a good economy, many are able to find work on their own soon after dislocation. Therefore, those who do enroll in the Dislocated Worker Program are more likely to reflect the number of dislocated workers in the state in need of assistance because they believe their job opportunities are limited or they need assistance understanding the current labor market. At the same time, dislocated workers in rural counties with higher unemployment rates may have a harder time finding employment due to limited job opportunities. Other potential reasons that the Dislocated Worker Program enrollments may be low include a lack of information about the program or stigma about receiving government assistance.

### **Changes in the Extent of Dislocation over Time**

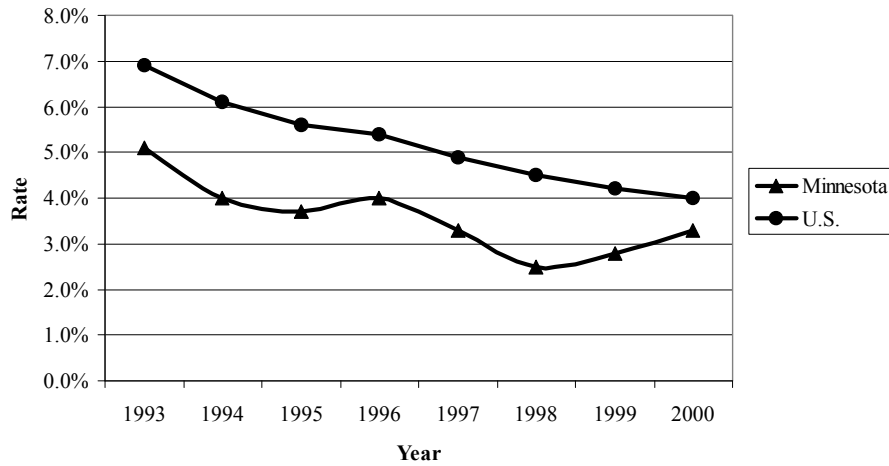
In addition to estimating the current extent of dislocation in Minnesota and to what extent the Dislocated Worker Program is assisting this population, it is helpful to place these numbers in the context of changes over time. In particular,

we examined examining how the number of dislocated workers has changed, how this relates to changes in the economy, and how the program has responded to these changes over time.

### Economic Conditions in Minnesota

The strength of Minnesota's economy relative to the U.S. is detailed in Figure 1-2. This figure indicates that over the past seven years, Minnesota's economy as measured by the unemployment rate, is stronger than the U.S. as a whole.

Figure 1-2  
Unemployment Rate (Seasonally Adjusted)



Sources: Current Population Survey, U.S. Bureau of Labor Statistics, and Local Area Unemployment Statistics (LAUS) from the Minnesota Department of Economic Security.

Note: It should be noted that Minnesota has wide variation in unemployment rates with lower unemployment in the seven county metro area compared to the remaining 80 counties in the state. Thus, while the state unemployment rate may appear relatively healthy, rural counties may be experiencing much higher unemployment rates.

Although Minnesota's unemployment rate has been lower on average than the national rate, the gap between the Minnesota and the U.S. unemployment rate has been closing since 1998. Unemployment has risen slightly in Minnesota from a low of 2.5 percent in 1998 to 3.3 percent in 2000, while the national rate fell from 4.2 to 4.0 percent during that same time period. Further, more recent monthly unemployment rates indicate that unemployment rates are continuing to rise. In April 2001, Minnesota's unemployment rate rose further still to 3.9 percent.<sup>12</sup> Though still below the national average of 4.5 percent, these recent changes suggest that Minnesota's strong labor market may be softening.

#### **New Unemployment Insurance Applications**

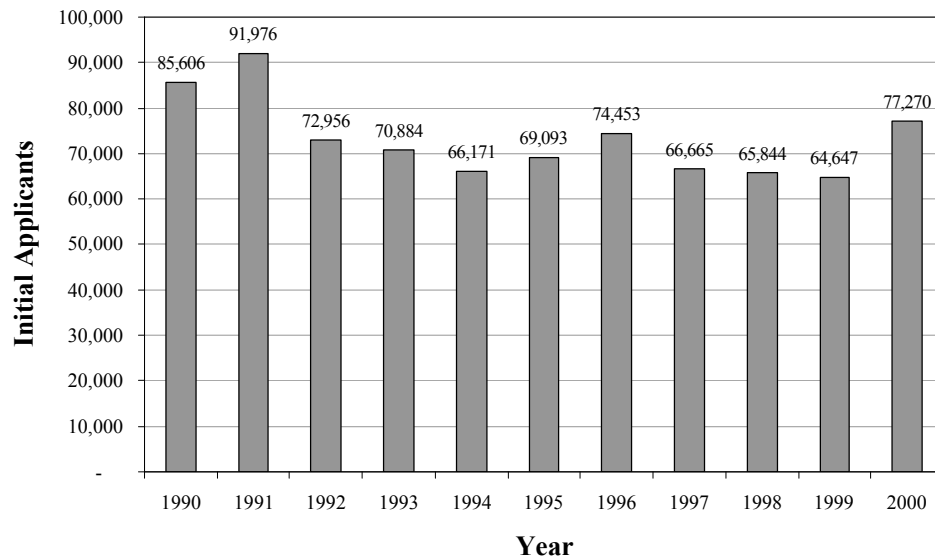
Further evidence of a softening of the Minnesota labor market may be seen in the number of new Unemployment Insurance applicants in Minnesota. The number of new Unemployment Insurance applicants in Minnesota has been rising recently. As shown in Figure 1-3, there was a substantial rise in the number of new applicants for Unemployment Insurance in Minnesota during Fourth Quarter 2000 relative to that same time period the year prior. In Fourth Quarter 1999 there were 64,647 new Unemployment Insurance claimants compared to 77,270 in Fourth Quarter 2000, a 19.5 percent increase. Further, new unemployment insurance claimants jumped 38.4 percent in February 2001, from the same month the prior year.<sup>13</sup> This data suggests that the number of dislocated workers is also increasing, as dislocated workers are a subset of new applicants for Unemployment Insurance.

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<sup>12</sup> Minnesota Department of Economic Security.

<sup>13</sup> Ibid.

**Figure 1-3**  
**Total Unemployment Insurance Initial Claims**  
**State of Minnesota**  
**Fourth Quarter**



Source: Unemployment Insurance Applicant Database, Minnesota Department of Economic Security.

### **Mass Layoffs**

Further evidence that the number of dislocated workers is increasing in Minnesota is provided by Mass Layoff data. Although the U.S. has seen a decrease in the number of individuals affected by mass layoffs over the past three years, Minnesota has seen an increase in the number of these dislocated

workers. As show in Figure 1-4, between 1999 and 2000 the number of workers laid off by firms with more than 50 layoffs in a consecutive five-week period increased by 12.6 percent. During this same period in the U.S. as a whole, the number of workers affected by mass layoffs dropped by 2.8 percent.

**Figure 1-4**  
**Mass Layoffs<sup>a</sup>**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>Change 1999-2000</b>	<b>Total Change 1998-2000</b>
Minnesota	18,470	21,747	24,886	12.6%	34.7%
U.S.	1,227,573	1,149,267	1,117,183	-2.8%	-9.0%

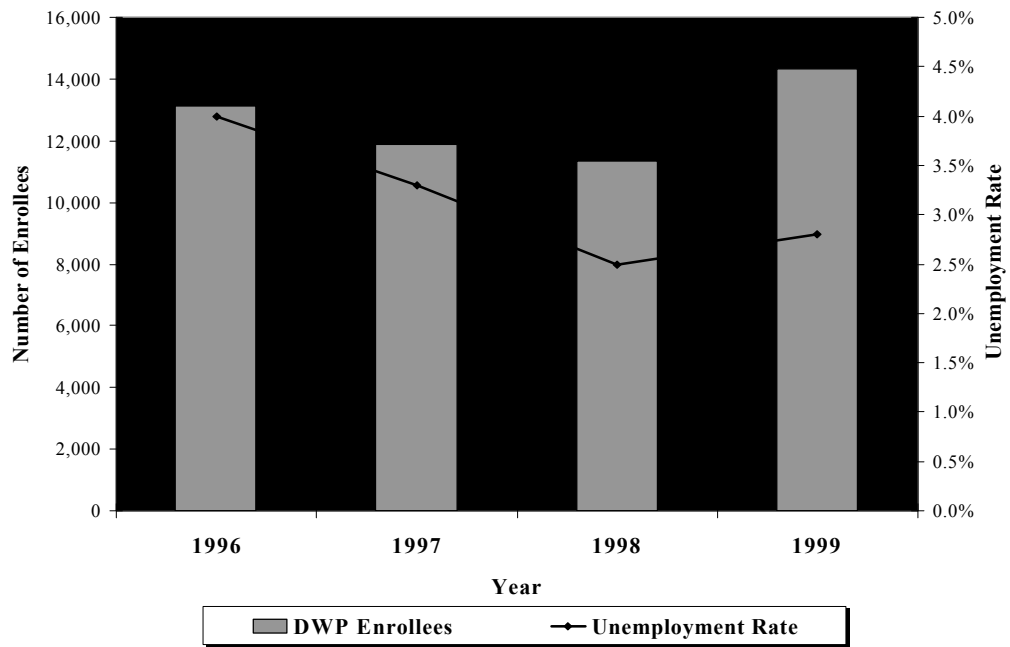
<sup>a</sup> Data from U.S. Bureau of Labor Statistics. The annual number of separations resulting from mass extended layoffs. Extended layoffs are separations lasting over five weeks.

Sources: Mass Layoff Statistics (MLS), Extended Separations, U.S. Bureau of Labor Statistics (BLS).

### **Dislocated Worker Program Enrollees**

It appears that the Minnesota Dislocated Worker program is responding to this increase in dislocations. Figure 1-5 shows the number of enrollees in the Minnesota Dislocated Worker Program over time, compared to the State's unemployment rate. Program enrollment has increased substantially as the unemployment rate has begun to rise. In fact, from PY 1998-1999 to PY 1999-2000 there was a 26 percent increase in enrollment.

**Figure 1-5**  
**Minnesota Dislocated Worker Program Enrollees Compared to the State**  
**Unemployment Rate**

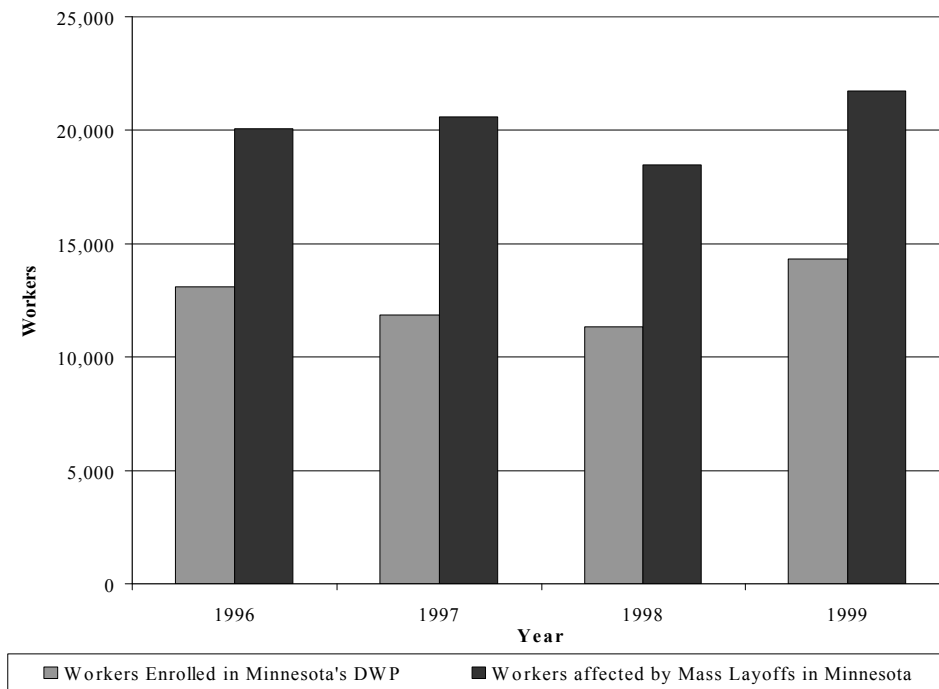


Note: The number of enrollees for the Minnesota Dislocated Worker Program corresponds to the program's fiscal year, while the unemployment rate corresponds to the calendar year.

Sources: Dislocated Worker Program Annual Report, Minnesota Department of Economic Security. Seasonally Adjusted Unemployment Rates from Local Area Unemployment Statistics (LAUS), a project sponsored jointly by Minnesota Department of Economic Security and U.S. Department of Labor, Bureau of Labor Statistics (BLS).

To further examine how the Minnesota Dislocated Worker Program is meeting demand for dislocated worker services over time, we compared the number of program enrollees to workers affected by mass layoffs (Figure 1-6). Again, it is important to acknowledge that the dislocated worker program provides services to more workers than those who ultimately enroll. Further, not all dislocated workers need assistance. It is also important to note that the number of workers affected by mass layoffs is a subset of all dislocated workers in Minnesota. With these caveats in mind, we find that the program has increased the number of enrollees over time as the number of workers affected by mass layoffs has increased. However, the numbers also indicate that the Dislocated Worker Program is still enrolling just a fraction of all workers eligible for the program. In PY 1999-2000 Minnesota's Dislocated Worker Program enrolled approximately 66 percent of the 21,747 workers in Minnesota affected by mass layoffs.

**Figure 1-6**  
**Comparison of Dislocated Worker Program Enrollees to Workers**  
**Affected by Mass Layoffs**



Sources: Minnesota Dislocated Worker Program Enrollment Data, Minnesota Department of Economic Security; Mass Layoff Statistics (MLS), Extended Separations, U.S. Bureau of Labor Statistics (BLS).

## Conclusions

The conclusions and findings of this chapter can be summarized as follows:

**Worker Dislocations occur in both strong and weak economies, reflecting inevitable churning in the labor market.** Changes in technology or the demand for certain goods and services can result in a company downsizing, closing, or moving out of the area. Thus, the dislocated worker program will always have participants to serve.

**Recent data indicates that the economy may be softening and the number of dislocated workers in Minnesota appears to be increasing.** Although Minnesota's economy remains strong, there is some evidence that the economy is softening. Unemployment has risen slightly, the number of new Unemployment Insurance applicants has increased, and the number of mass layoffs is up.

**Minnesota's Dislocated Worker Program enrolls only a small portion of all dislocated workers in the state.** However, it is likely that the proportion it serves includes those most in need of assistance while those who are more easily reemployed may be able to obtain employment without the program's assistance. It should be noted that in rural counties, where unemployment rates are higher, it can be very difficult for even more employable workers to find employment.

**Program enrollment has recently increased with the increase in worker dislocations.** A review of program enrollment data indicates that the Minnesota Dislocated Worker Program's enrollment has increased concurrent with the increase in worker dislocations in the state.

## Chapter 2: Minnesota's Dislocated Worker Program

Minnesota's Dislocated Worker Program (DWP) is designed to assist laid-off workers in obtaining new jobs with comparable wages, thus minimizing the adverse affects of dislocation on their own lives as well as their families and communities. It emphasizes early intervention services to those who have demonstrated a strong attachment to the workforce and who have been terminated due to decisions and forces beyond their control. The program is organized and administered through federal and state legislation that requires considerable coordination among federal, state, and local agencies. Minnesota's program has evolved from a modest program driven chiefly by federal funding and regulations to a predominantly state-driven program. In Program Year (PY) 2000, DWP served 14,345 dislocated workers using a combination of \$8.5 million in federal WIA funds and \$18 million in state funds. In this chapter, we describe general aspects of the program including the program's background in Minnesota, differences between the state and federal programs, and program specifics including program services, priorities, and performance.

### Background of Minnesota's Dislocated Worker Program

Minnesota's efforts to assist dislocated workers have been strongly influenced by both the passage of federal legislation and the state's own experience with dislocation. Passed by Congress in 1982, Title III of the Job Training Partnership Act (JTPA) was the first federally funded program designed to help workers affected by large layoffs and plant closings. It was a modestly funded program that was largely unstructured, giving a high degree of discretion to states. Most states used the federal funds to respond to the largest and most visible layoffs and tended to under serve workers laid off in smaller numbers or from smaller employers.

During the 1980s, Minnesota experienced substantial layoffs affecting traditional blue-collar jobs in the manufacturing and mining industries. As the decade progressed the state experienced increasing dislocations affecting workers from other industries, including services and trades. More professional and technical workers were becoming dislocated by the 1990s, joining the ranks of the unemployed blue-collar workers. Rural communities throughout the state were also experiencing significant dislocation as a result of the farm crisis.

In response to the continued massive dislocation and unemployment nationwide, Congress amended Title III of JTPA in 1988 with the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA). EDWAA created a unique partnership between federal, state, and local authorities to deliver services to a broader subset of eligible dislocated workers, including workers dislocated due to smaller layoffs. It created a funding framework in which states allocate up to 60 percent of their federal funds to local entities for such smaller scale layoffs and retain the remainder to administer the program and facilitate a rapid response to larger layoffs and closings.

Concurrently, Minnesota state legislators were also concerned with continued dislocation trends in the state. They responded in 1990 by establishing an employer payroll tax through the Unemployment Insurance program to fund a Dislocated Worker Fund. This Dislocated Worker Fund created a separate state fund to supplement federal dislocated workers funds. State funding through the Dislocated Worker Fund grew steadily since its inception and now comprises approximately two-thirds of combined state and federal funds. The growth of the Dislocated Worker Fund has provided the state with substantial additional resources to respond to dislocation. Enrollments in the program climbed steadily in the early to mid-1990s but decreased substantially in 1997 and 1998. However, in PY 1999-2000 enrollments jumped again to their highest level since the inception of the program. Enrollments for the current program year are expected to show continued growth.

In 1998 Congress passed the Workforce Investment Act (WIA), which replaced JTPA and EDWAA. The legislation provides a loose framework for workforce development focusing on the needs of business and job seekers alike. This customer-oriented system mandates that relevant employment and training information and services be easily accessible through a “one-stop shop,” that employers and individuals have the opportunity to access training tailored to their specific needs, and that state and local programs and providers meet the expectations of customers by being held accountable for their performance.

The passage of WIA has not significantly altered the administration, funding, or state allocation requirements of the dislocated worker program. Expenditure requirements for training have been eliminated under the federal program and a new structure for services established. WIA seeks to ensure that job seekers receive the services that best suit their needs by establishing a sequential eligibility structure, or pyramid approach to services, such that only those who have a demonstrated need receive training. In addition, WIA places strong emphasis on accountability and customer choice. Under previous employment and training legislation, state and local services areas were only obligated to track the percentage of participants who entered employment after receiving services, while having the option to track other outcomes if desired. WIA establishes four performance measures that local areas, states, and service providers are required to track: job placement, job retention, earnings, and skill attainment.

## Minnesota's Dislocated Worker Program (DWP)

### Program Organization

WIA places official responsibility for the administration, coordination, and oversight of dislocated worker services with governors. To fulfill these duties, the governor is required to establish a Dislocated Worker Unit (DWU) at the state level. Until June 2000, the Minnesota DWU, along with all other workforce development programs, was housed under the Department of Economic Security. On July 1, 2000, the program was transferred to the Department of Trade and Economic Development, while the rest of the workforce development programs funded under WIA remained under the Department of Economic Security. While this move allowed for greater collaboration between the DWP and Economic Development, it also isolated Minnesota's Dislocated Worker Program from other workforce development programs. The legislature has now decided to locate all WIA Adult and Youth programs and DWP with Economic Development. This move will allow for further integration of workforce development programs and Economic Development. Such a move may help both employers searching for workers and workers in need of reemployment. Other strategies such as linking the dislocated worker program with programs serving incumbent workers may provide greater opportunities for early intervention and dislocation prevention.

### Federal and State Funding Sources

As discussed above, Minnesota's Dislocated Worker Program is funded with both federal and State funding. The existence of substantial state funding provides Minnesota with exceptional latitude to craft policies that influence the design and operation of services for dislocated workers. Minnesota sets state priorities by: 1) focusing state monies on early response to specific dislocation events, and 2) attaching expenditure requirements to allocations.

### **Allocating Federal and State Funding**

Each state is divided into Workforce Service Areas (WSAs), as designated by each governor. WSAs are typically units of local government in areas with populations of 200,000 or more. WIA requires that each state distribute 60 percent of their federal dislocated worker funds to its local WSAs. These funds are typically referred to as formula funds and are used to provide general services to dislocated workers. In Minnesota, there are 16 designated WSAs. The other 40 percent of federal funds may be used by each state for discretionary activities and are typically called discretionary funds, however there are specific categorical requirements for these discretionary funds that reduce the discretion states have.<sup>14</sup> In Minnesota, federal discretionary funds are used for early response to large-scale layoff, or those that affect 50 workers or more. Other uses for discretionary funds include state monitoring and administration of DWP, technical assistance to WSAs and other dislocated worker service providers, and program coordination and information dissemination, among others.

In contrast to the federal program, Minnesota statutes require that 60 percent of the state funds be allocated to state discretionary funds that may be used for various activities aimed at addressing substantial layoffs in the state. The remaining 40 percent of state funds are allocated to local WSAs to address small-scale dislocations of 50 workers or less. Program services funded through these monies are described below.

As a result of these allocation policies, federal and state discretionary funds are used to address large layoffs and may be awarded to nonprofit organizations,

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<sup>14</sup> Discretionary funds account for 40 percent of the federal funding however the discretionary funds are required to be spent in the following manner: 25 percent of federal funding for Rapid Response, 10 percent for specific activities, and 5 percent for state administration.

community action agencies, business organizations or associations, labor organizations, or WSAs to serve workers affected by substantial dislocation events. Formula funds, both federal and state, are allocated to the 16 WSAs and to two independent grantees in the state (the Teamsters Service Bureau (TSB) and Quality Career Services (QCS)) to serve individual dislocated workers, or those affected by small (50 or less workers) dislocation events. Because Minnesota contributes more state funds than federal funds to its Dislocated Worker Program, and because 60 percent of state funds are allocated for discretionary funds, there are more funds in the state overall for large-scale layoffs.

#### ***Distribution of Discretionary Funds***

In addition to the 16 WSAs designated in accordance with WIA guidelines, Minnesota law allows for up to two independent grantees and six additional certified providers to receive funds to deliver services to dislocated workers affected by a large-scale dislocation event.<sup>15</sup> Minnesota has created a unique process for award of service contracts for large-scale layoffs, by which the WSAs, independent service providers, and certified providers compete for state discretionary funds. This competitive process was established as the result of a broad state philosophy that there be “no presumed provider of services.”<sup>16</sup>

The State DWU is responsible for the early identification of large-scale layoffs. The most formal way the DWU is informed of a substantial layoff through a Worker Assistance and Retraining Notification (WARN). Federal legislation requires employers to use a WARN notice to inform the DWU, affected workers

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<sup>15</sup> Minnesota Statutes 1996: 268.9781.

<sup>16</sup> Minnesota’s Administrative Manual for JTPA Programs, Part II, 13.0 and 13.10.

or a representative, and the appropriate unit of local government at least 60 days in advance if they plan to lay-off more than 50 workers. Along with this formal method of notification, DWU staff rely on other methods for early detection of layoffs, including monitoring Unemployment Insurance claims, media reports, and information from WSAs. Once the DWU identifies a large-scale dislocation, they contact the employer to schedule an on-site orientation meeting for workers. During the orientation meeting, DWU staff familiarize workers with available services, including unemployment insurance and employment and training programs; facilitate the formation of an Employee-Management Committee (EMC); and collect information on the affected workers.

All WSAs, independent grantees, and additional certified providers receive weekly notice of layoffs that come to the attention of the DWU and are invited to compete to provide services through a Request for Information (RFI) process. Grantees who wish to compete submit a standardized response detailing their experience, basic service plans, knowledge of the labor market for workers sharing similar characteristics, and relevant strengths. RFI proposals are reviewed by the Rapid Response Team with the EMC, which is comprised of affected workers, company management, and union leaders (if applicable). The EMC selects a service provider based on the submitted proposals and then works with that provider to develop a service plan. Because development of the service plan can take between 15 and 45 days to complete, Early Readjustment Grants (ERAGs) can be awarded to selected providers to deliver basic services such as counseling, assessment, and job search assistance while the service plan is being developed. Once the service plan is complete, the selected provider is awarded a Dislocation Event Service Grant to implement the service plan.

Some respondents interviewed for this report expressed concern that the competitive process for selecting service providers for discretionary funds, unnecessarily delayed the process of delivering services to dislocated workers. Other respondents believe that the competitive process has improved services by

creating competition and that the process for awarding contracts is expedient. Without conclusive evidence either way, it remains true that the Dislocated Worker Unit is always seeking new and improved strategies for early intervention

### ***Distribution of Formula Funds***

Formula funds are comprised of 60 percent of Minnesota's federal dislocated worker monies and 40 percent of state dislocated worker funds. WIA stipulates that the Governor must allocate federal dislocated worker funds among WSAs using a formula that takes into account local economic conditions. Minnesota considers six factors when distributing these formula funds to local WSAs: unemployment benefits collected, unemployment rate, mass layoffs, declining industries, low-income farmers, and long-term unemployed. Half of state formula funds available to WSAs are allocated using the same formula used for federal allocations. The other half of these state dollars are allocated based on established need, through requests by WSAs for additional funds to address needs otherwise unaddressed by other federal or state resources. Minnesota law also allows the two independent grantees (TSB and QCS) to receive formula funds.

### **Program Services**

As mentioned above, the DWP aims to offer the same basic services to all dislocated workers in the state, whether they are affected by small- or large-scale layoffs. WIA requires that services to dislocated workers be provided on an individual basis, focused on need. The result is a pyramid structure of services where the base services are called core services and include basic job search and placement assistance. All dislocated workers are eligible for core services. More intensive services are the next tier of assistance, and are targeted towards those dislocated workers needing more assistance. Intensive services can

include comprehensive and specialized skill assessment, development of an individualized employment plan, and case management. The final tier includes training for those for whom core and intensive services are not enough to gain re-employment. Supportive Services are also available to dislocated workers participating in an authorized program and who are unable to obtain these services from other community programs. The services can include transportation, personal and family health care, and other assistance.

***Services Provided with Discretionary Funds***

State discretionary funds are used for workers affected by mass layoffs to provide preparatory services, including outreach and technical assistance. As described above, DWU staff are responsible for identifying large dislocation events through the formalized WARN notification process or by other means, such as word-of-mouth. The affected workers are then contacted and informed about available dislocated worker services, typically while they are still on the job and before they are officially unemployed. The development of EMCs and the competitive grantee process allows workers displaced during mass dislocation events to participate in the selection of their service provider and the development of their service plan.

Once the service provider is selected, the services delivered under Dislocation Event Service Grants may differ from those administered in the WSAs using federal dislocated worker monies. The reason for the potential variance in service is that, at least in the current program year, most large dislocation events use discretionary funds generated from the state's Dislocated Worker Fund, and these state funds are subject to expenditure requirements that encourage training assistance. Under recent Minnesota statute, grantees are required to spend a minimum of 50 percent of their allocated funds on training assistance, but providers can request a waiver allowing them to reduce this requirement to as

low as 30 percent.<sup>17</sup> All of the Dislocation Event Service Grants currently operating are funded with state dollars and are therefore subject to the training assistance expenditure requirements. However, as the program is currently constructed, future Dislocation Event Service Grants could be funded by either the federal or state funding source, and the pool of money used could potentially determine which services, either training or quick re-employment focused, were delivered.

### ***Services Provided with Formula Funds***

Individual dislocated workers access services through the local WSA or two independent grantees (TSB and QCS). Individuals are frequently referred to these services by the Unemployment Insurance office, if they are reaching the end of their benefits. However, referrals are not required and individuals can seek these services on their own. WSAs and independent grantees provide core, intensive, training and support services with both federal and state funds. They receive 40 percent of the state funds for dislocated worker services, which carry the training expenditure requirements describe above, and they also receive 60 percent of the federal WIA allocations, which do not attach training expenditure requirements.

### ***Eligibility***

In general, the Dislocated Worker Program is designed to help workers who have been, or are about to be, terminated from long-held jobs due to changes in

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<sup>17</sup> Minnesota's Statutes 2000: 268.98, Subd. 3. Other expenditure requirements outlined in the statute include: (1) a maximum of 10 percent for administration of dislocation service grants and 15 percent for WSA's worker adjustment service plans; (2) a maximum of 15 percent for supportive services (with a waiver available for up to 20 percent); (3) the balance used for basic readjustment assistance.

technology, investment strategies, and changes in consumption or competition. Dislocated workers are distinguished from other unemployed workers because they have demonstrated a substantial attachment to the workforce. Although they typically have a considerable work history, their skills are often not in demand or they cannot find stable employment without experiencing a substantial drop in income. Under WIA, eligibility requirements for the dislocated worker program were amended such that they differ slightly from Minnesota's eligibility criteria. Long-term unemployed individuals, or those who have been unemployed for 26 weeks or more, are no longer eligible for the federal program, while Minnesota has chosen to continue to serve this population. In addition, displaced homemakers, or individuals whose principal job has been homemaking and who have lost their main source of income, were granted eligibility under the federal program, but in Minnesota they are served under the state's separate Displaced Homemaker Program.

### **Performance Management**

Performance standards are designed to promote program quality and respond to recipients' service needs. Under WIA, states, local WSAs, and service providers are required to measure the performance of dislocated worker programs in four key areas: job placement, job retention, earnings, and skill attainment. The U.S. Secretary of Labor negotiates the expected level of performance for each indicator with each state. Criteria for the development of performance levels incorporate special economic and demographic factors, and state performance is linked with federal technical assistance, sanctions, and incentive funds.

The negotiated expected level of performance for Minnesota's Dislocated Worker Program under WIA for Program Year 2000-2001 are as follows:

- job placement rate of 83 percent,
- job retention rate of 83 percent,

- replacement wage rate of 83 percent, and
- skill attainment of credentials 60 percent.

These performance standards are renegotiated annually as required by the U.S. Department of Labor, showing the agencies commitment to quality improvement. While the level of performance required by the U.S. Department of Labor has increased under WIA, Minnesota has been tracking and meeting the required levels and standards for a long time.

### **Minnesota Dislocated Worker Program's Performance Outcomes**

To assess the extent to which the Minnesota Dislocated Worker Program is achieving its goals of assisting dislocated workers with the services they need to become reemployed at wage level at or near their pre-layoff earnings, BPA reviewed program data on performance outcomes. Specifically, BPA considered job placement rates, replacement wage rates, total cost per enrolled worker, and cost effectiveness.

#### ***Job Placement Rates***

Job placement rates assess the degree to which a program is able to succeed in assisting a dislocated worker in becoming reemployed. Figure 2-1, shows the job placement rate for those that terminated from the Minnesota Dislocated Worker Program in Program Years 1997-1999. As shown, reemployment rates have increased each year. For 1999, the most recent year available, 84 percent of those who completed services with the program had obtained a job. This job placement rate exceeded the WIA performance standard set at 83 percent for Minnesota.

### *Replacement Wage Rates*

Although reemployment is one of the primary goals of the dislocated worker program, another program goal is to assist workers in finding jobs that offer workers wages commensurate with their pre-dislocation wages. Therefore, a key measure of program success in achieving this goal is the replacement wage rate. Prior research has shown that on average, dislocated workers can expect to have long-term income losses of 25 percent per year.<sup>18</sup> Thus, replacement wage rates for dislocated workers in national studies have averaged 75 percent. Figure 2-1 shows the replacement wage rate for terminees from the Minnesota Dislocated Worker Program for Program Years 1997-1999. These replacement rates have averaged over 90 percent each year. For the most recent year, replacement wage rates averaged 93 percent. This is well over the WIA performance standard of 83 percent set for Minnesota, indicating that the Minnesota Dislocated Worker Program is very successful in assisting its participants in finding jobs with pay at or near dislocation wages.

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<sup>18</sup> “Training Programs for Dislocated Workers,” Duane Leigh, in *Improving the Odds*, Edited by Burt Barnow and Christopher T. King, Urban Institute Press, February 2000.

**Figure 2-1**  
**Minnesota Dislocated Worker Program Outcomes**

	1997	1998	1999
Workers Enrolled	11,862	11,347	14,345
Workers Terminated	7,309	6,608	7,087
Job Placement Rate (of Enrollees that Terminated)	76.3%	83.2%	84.0%
Average Wage at Dislocation	\$13.62	\$13.75	\$15.44
Average Wage at Placement	\$12.40	\$12.82	\$14.34
Wage Replacement Rate	91.0%	93.0%	92.9%

Source: Minnesota Department of Economic Security.

***Program Cost Per Participant***

Minnesota’s Dislocated Worker Program performance is reviewed annually in Performance Indicator reports prepared by the Department of Economic Security. These reports examine the program’s performance on several measures, including the average program cost per participant served and the average cost per participant placed.<sup>19</sup> Per participant costs are calculated by dividing the total enrollments by the total program expenditures. Per placement costs are calculated by dividing the total number placed in employment by the total program expenditures. Figure 2-2 shows these costs broken out by formula and discretionary funding.

<sup>19</sup> Performance Indicator Reports for the Minnesota Dislocated Worker Program were prepared by the Minnesota Department of Economic Security while the program was housed under that Department. The most recent performance indicator report available is for Program Year 1998.

**Figure 2-2  
 Per Participant and Per Placement Costs by Program Funding Source**

<b>Program Indicator Report</b>	<b>1997</b>	<b>1998</b>	<b>% Change</b>
Cost Per Participant (Formula Funds)	\$1,901	\$1,977	4.0%
Cost per Participant (Discretionary Funds)	\$3,069	\$2,779	-9.4%
Cost Per Placement (Formula Funds)	\$4,571	\$4,110	-10.1%
Cost Per Placement (Discretionary Funds)	\$3,843	\$3,402	-11.5%

Although data does not support this, examining the difference in per participant and per placement costs between formula and project funds was important, in part because of some concern in the State that competition for discretionary funds was creating a sharp rise in the cost to serve participants. The theory behind this argument is that providers were proposing more expensive and potentially excessive services in their responses to the RFIs issued by Employer Management Committees, in an effort to out bid the other providers. As a result, critics argued that managed competition for discretionary funds was driving up costs.

Again, we did not find data to support this argument. As shown in Figure 2-2, in 1998, the cost per participant for discretionary funds (large-scale dislocations) was \$2,779 down nine percent from the prior year. The cost per participant for formula funds was even lower at \$1,977 in 1998, up slightly from the prior year (four percent increase over 1997).

Although the per participant costs were higher for discretionary funds than formula funds in both years, the reverse was true for the per placement cost where the cost was lower for discretionary funds both years, then for formula funds. Since job placement is the desired outcome from services it appears that any extra costs expended with discretionary funds are producing the desired outcomes, thus reducing the per placement costs.

### *Cost Effectiveness*

Although a cost-effectiveness study is beyond the scope of this program review, BPA conducted a limited cost-effectiveness analysis of the Minnesota Dislocated Worker Program in a prior evaluation of the program completed in 1997.<sup>20</sup> This analysis estimated that the program generated a net social benefit of \$2.45 (in 1997 dollars) for every dollar invested into the program, a fair return on investment.

## **Conclusions**

Conclusions from the review of DWP organization, management, and services include the following:

**Providing comprehensive services to dislocated workers has been a priority in Minnesota for many years.** Minnesota's DWP program reflects the broad directive set forth in previous and current national legislation that dislocated workers need targeted services to assist them in rapid reemployment at wage rates approximating wages at dislocation. Further, the state-specific innovations

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<sup>20</sup> *Evaluation of Minnesota's Dislocated Worker Program*, Final Report, Berkeley Policy Associates, September 1997.

implemented over the ten years of state contribution to the program have expanded the services provided to dislocated workers in Minnesota.

**The effects of the new WIA legislation on DWP in Minnesota are still unclear.** The new federal legislation introduces new performance measures and requirements and a service structure that focuses on immediate re-employment. It remains unclear whether this will impact the services provided to dislocated workers, as the state funds still support training expenditures.

**Merging the DWP and all WIA Adult and Youth programs, with Economic Development is a promising idea.** The legislature, after originally moving the DWP away from the majority of the workforce development programs, has decided to locate all WIA Adult and Youth programs and DWP with Economic Development. We believe this is a positive step. Further integration of workforce development programs and Economic Development may help both employers searching for workers and workers in need of reemployment. Other strategies such as linking the dislocated worker program with programs serving incumbent workers may provide greater opportunities for early intervention and dislocation prevention.

**Program outcomes reported by the DWP reflect a strong program.** Both job placement rates and replacement wage rates are relatively high, with the replacement wage rate of 93 percent far exceeding national averages for dislocated workers of 75 percent,<sup>21</sup> as well as the WIA performance standard set for Minnesota at 83 percent. Finally, a prior cost effectiveness study found that the program produced a fair return on investment with \$2.45 in social benefit for every dollar expended.

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<sup>21</sup> “Training Programs for Dislocated Workers,” Duane Leigh, in *Improving the Odds*, Edited by Burt Barnow and Christopher T. King, Urban Institute Press, February 2000.

## Chapter 3: Other States Respond to the Needs of Dislocated Workers

The Workforce Investment Act (WIA), like previous federal legislation, mandates that every state provide services to dislocated workers using federal funding. Minnesota is no different from other states in this regard. However, Minnesota is a leader in its commitment to serving dislocated workers with the level of state funds it allocates for this purpose. In 1999 and 2000, Minnesota's employer tax provided dislocated workers with more than two times the amount of funding as the state received from the federal government.

In this chapter, we present the results of a survey of states that operate programs similar to Minnesota's.<sup>22</sup> The goal of this chapter is to compare Minnesota's approach to serving dislocated workers with that of other states. We begin by examining the types of programs states operate, noting their similarities or dissimilarities to the Minnesota Dislocated Worker Program. We also examine sources of funding and the level of funding supporting other state dislocated worker programs.

### Types of State Programs

Due to the limited time and resources available for this report, we limited the scope of our survey to include only those state programs that were truly comparable to Minnesota's. All states fund training programs of some sort, and all operate economic development programs. Rather than catalogue the full range of services funded by each state in every related program (an enormous task, and one beyond the scope of our program review), we sought to identify

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<sup>22</sup>See Appendix A for a description of how the survey was conducted.

state-funded programs that target dislocated workers. This criteria led us to ignore or downplay many other state-funded workforce development programs of potential interest to Minnesota, including a great variety of customized training programs and programs serving incumbent workers at existing businesses.

Our survey identified nine states, in addition to Minnesota, that fund services targeted to dislocated workers: Alaska, California, Delaware, Indiana, New Jersey, North Carolina, Pennsylvania, Utah, and Washington. Figure 3-1 provides the names of these state programs and summarizes their basic features.

Most state programs supplement WIA services to dislocated workers. In eight of the nine states, state funding was combined with the WIA Title I program for dislocated workers to either increase the level of services or expand eligibility categories. Washington was the only state that used its state funds outside of the WIA funding and program framework. In Washington, state funds were provided to community colleges to build training capacity, and to provide financial aid and supportive services for unemployed and dislocated workers, although participants meeting the WIA dislocated worker eligibility requirements receive priority for these funds.

State services to dislocated workers have been initiated for many reasons. North Carolina's program was implemented in response to cuts in federal funding for dislocated workers. New Jersey's program was developed to complement UI profiling efforts (an initiative to reduce the time individuals receive unemployment benefits by helping them to become reemployed) and to supplement inadequate federal funds. Other state programs began as responses to perceived increases in the level of dislocation or need. Utah's program was designed to address what had become an outstanding need for displaced homemaker services, and Washington's program was initiated at a time of great concern over dislocation in the timber and aerospace industries.

## State-Funded Programs for Dislocated Workers

	Name of program	Use	Rationale/History	Funding Source	Funding Level
<b>Alaska</b>	State Training and Employment Program	Training and support services for gaining or retaining employment, targeting individuals with a strong attachment to the workforce, including dislocated workers.	Begun in 1989 as job development program to prevent future UI claims and foster new jobs through workforce development.	Tax on employee share of UI contributions (0.01%)	4.6 million per year
<b>California</b>	Employment Training Panel	The bulk of funds provides customized training for incumbent workers. A smaller portion serves unemployed workers, a population which includes dislocated workers.	Begun in 1982 as business-labor program to prevent dislocation. It has evolved into a customized training program.	Tax on employer share of UI contributions (0.1%)	\$93.5 million collected last year. \$18 million used for services to unemployed workers.
<b>Delaware</b>	Blue Collar Tax Funding	Supplements all WIA Title I programs, including the dislocated worker program. Training providers and programs are awarded funds through an RFP process.	Begun in 1984 to supplement training programs.	Tax on employer share of UI contributions (0.15%)	\$3-\$4 million per year
<b>Indiana</b>	Public Law 38 Funding	Supplements WIA Title I allocations to the state by funding for special /emergency projects.	Begun in 1983 as state match to JTPA funds.	General revenues	\$350 thousand (decrease from previous \$3.7 million now focusing on incumbent workers)
<b>Minnesota</b>	Dislocated Worker Program	Supplements WIA Title I Dislocated Worker funding.	Begun in 1990 to expand services to dislocated workers.	Tax on employer share of UI contributions (0.1%)	\$30 million per year
<b>New Jersey</b>	Workforce Development Program	Supplements WIA Title I funding. The bulk of program funds go towards customized	Begun in 1992 with implementation of UI worker profiling to supplement JTPA	Payroll tax and tax on employee share of contributions (0.025%)	\$19 million per year

	Name of program	Use	Rationale/History	Funding Source	Funding Level
		training for incumbent workers. A smaller portion funds Individual Training Grants, which primarily serve dislocated workers. Training for disadvantaged adults is also provided under this program.	funding.		
<b>North Carolina</b>	Employment and Training Grant Program	Supplements WIA Title I funding for Adult and Dislocated Workers	Begun in 1989 in response to JTPA cuts.	UI Trust Fund interest	\$2-\$3 million per year
<b>Pennsylvania</b>	State Needs-Based Payments	Expands Funding for WIA Title I dislocated worker support services	Begun in 1989 as a response to need for additional support services.	General Revenues	\$2.5 million per year
<b>Utah</b>	Utah Displaced Homemaker Program	Supplements WIA Title I Dislocated Worker funds	Begun in 1986 as a response to demand for displaced homemaker services	Percentage of the marriage license tax	\$450-\$480 thousand per year
<b>Washington</b>	Worker Retraining Program	Provides community and technical colleges with funds to provide training and support services to unemployed and dislocated workers	Begun in 1993 to expand training opportunities to dislocated worker population	General Revenues	\$28 million per year

Source: Survey of States.

Minnesota, like many other states, established a state fund when federal funding appeared insufficient to meet the needs of the state's dislocated workers during the late 1980s and early 1990s. In some respects, the Minnesota program also follows the structure of most other state programs. For example, workers receiving services under Minnesota's program meet similar eligibility requirements of participants in the federally funded dislocated worker program. Although our focused survey of other states' programs did not generate the same level of detail as our review of Minnesota's program, major programmatic differences of the Minnesota Dislocated Worker Program appear to be: (1) the use of Employee-Management Committees, (2) the competitive process for selecting service providers, and (3) expenditure requirements for training. In most cases where state funds are used to supplement federal WIA funds, the service delivery mechanisms for the two funding streams are identical. The service delivery mechanisms for the two funding streams in Minnesota are also very similar, but the participation of private, non-profit organizations as major substate grantees is an innovation we did not see elsewhere. In addition, although most state programs supplement general WIA services, and others provide training funding specifically, no other state program supports retraining for dislocated workers by attaching training expenditure requirements.

### **Funding Sources, Levels, and Allocations**

State funding for services to dislocated workers has come from two basic sources: state general revenues and Unemployment Insurance-related funds. Three states supported programs directly out of the state general fund. UI-related funding sources included interest on the UI Trust Fund balance (one state) and shares of both employer contributions to UI (three states) as well as employee contributions (two states). In total, six states (in addition to Minnesota) funded programs from UI-related sources.

Payroll tax rates ranged from 1/100ths to 25/100ths of one percent. Total funding levels ranged from \$350,000 to \$28 million per year for services to dislocated workers. One state, California, actually collected \$93 million in its last program year from UI taxes, but expended the vast majority of these funds on customized training for incumbent workers.

Because states vary in population and levels of dislocation a simple comparison of absolute funding levels can not adequately explain relative states' level of commitment to serving dislocated workers. To examine the relative funding levels of state programs we developed two additional measures: (1) state funds compared to initial WIA allotments for Program Year 1999-2000, and (2) the amount of state funds per labor force member. Since WIA allotments to states are made proportionally on the basis of unemployment levels, the denominator for the first measure reflects the relative economic conditions of states in addition to their overall size. The denominator for our second measure, number in the labor force, is a truer measure of the size of state economies, and is less influenced by differences in levels of dislocation across states.

For state funds, the numerator in both measures, we relied on estimates of annual funding levels as indicated by survey respondents. Where funding levels were reported as a range, we calculated an average amount.<sup>23</sup> We obtained initial WIA allotments from U.S. Department of Labor sources, using the first official allocations made under the new law for program year 1999-2000. Measures of labor force size were obtained from the Bureau of Labor Statistics, Local Area Unemployment Statistics, and indicate average state civilian labor force size for calendar year 2000, which are not seasonally adjusted.

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<sup>23</sup>The estimates we received from states are imprecise reports of state expenditures. The levels reported are based on a variety of definitions and therefore require that readers use caution when interpreting results.

Figure 3-2 presents the results from the two measures. When state funds are compared to WIA allotments, Minnesota's program appears to be the most generously funded. Minnesota's state funds were 229 percent of its WIA allotment, with only one other state, Delaware (210 percent), spending more than the federal program. In fact, most other states only contributed a fraction of their WIA allocation to serve dislocated workers, with an average expenditure ratio for those programs being 35 percent. Washington's program, funded at 99 percent of its WIA allotment, was the next in size after Minnesota and Washington.

Minnesota's funding levels appear somewhat less exceptional when compared to the relative size of its labor force. Minnesota spent \$6.72 on services to dislocated workers per labor force member, compared to \$14.29 in Alaska, \$9.19 in Washington, and \$8.56 in Delaware. While these results certainly demonstrate a strong state commitment to workforce development in these states, it may be misleading to characterize them as spending more for dislocated worker services. In Alaska, Washington, and Delaware, dislocated workers are among the population served with the state funds, but they are not the exclusive recipients. Regardless, Minnesota's Dislocated Worker Program is among the best-funded programs in the country. Of the remaining states that provide any state funds for dislocated workers, none spent more than \$1.00 per labor force member.

**Figure 3-2**  
**State Investments in Services to Dislocated Workers**

State	WIA 1999-2000	State Funds	Size of Labor Force 2000	Ratio of State Funds to WIA Funds	State Funds per Labor Force Member
Alaska	\$6,719,943	\$4,600,000	321,964	0.68	\$14.29
California	\$297,723,349	\$18,000,000	17,090,815	0.06	\$1.05
Delaware	\$1,664,457	\$3,500,000	409,058	2.10	\$8.56
Indiana	\$10,502,473	\$350,000	3,084,135	0.03	\$0.11
Minnesota	\$8,023,090	\$18,400,000	2,738,685	2.29	\$6.72
New Jersey	\$30,833,430	\$19,000,000	4,187,899	0.62	\$4.54
North Carolina	\$16,906,622	\$2,500,000	3,958,354	0.15	\$0.63
Pennsylvania	\$38,179,716	\$2,500,000	5,971,913	0.07	\$0.42
Utah	\$4,343,544	\$480,000	1,104,208	0.11	\$0.43
Washington	\$28,220,707	\$28,000,000	3,045,244	0.99	\$9.19

Many states that provide funding for services to dislocated workers distribute it in a manner similar to their federal funds. Alaska, New Jersey, Utah, and North Carolina distribute their funds to local areas using a formula similar to that used for WIA allocations to the local areas. Other states use application processes to address specific needs. In Indiana and Pennsylvania local areas can apply to the state for special funding. Special or emergency projects, similar to those funded under National Emergency Grants (NEGs), are funded by state dollars in Indiana. In Pennsylvania, state funds can only be used for needs-related

payments, and substate areas apply for these as needed. Service providers in Delaware apply to the state (Delaware has only one workforce investment area) to provide programs solicited by the Workforce Investment Board. In California, employers, provider agencies, and local workforce investment boards can all apply to a state panel to provide training for eligible participants. There is no set formula for distributing funds in these states, and agency officials review each funding application on its own merits.

In Washington, allocation mechanisms are independent of the existing WIA structure. Funds are allocated by the State Board for Community and Technical Colleges (SBCTC) directly to public community and technical colleges and private career schools. The Board considers historical data on the number of dislocated workers in the area and the local need for capacity building when allocating funds to the various educational institutions.

It is unclear what advantage any of these allocation alternatives would offer Minnesota. Some would require major changes in how DWP funding is used. For example, applications by employers make little sense unless the program is amended to target services to this group. In addition, allocating DWP funds directly to state educational institutions might be feasible, but it implies a commitment to long-term training at the expense of basic readjustment services, which seems inconsistent with Minnesota's policies as they currently stand.

### **Innovative Strategies Among Selected Other States**

To assist Minnesota with recommendations for program improvement and refinement, BPA supplemented the research conducted on states with state-funded dislocated worker programs with additional research to identify innovative dislocated worker programs that were federally funded. To identify innovative dislocated worker programs, BPA interviewed some participants serving on the U.S. Department of Labor's National Dislocated Worker Task

Force. Task force members identified two states as having particularly innovative Dislocated Worker Programs that might have some practices relevant for Minnesota. These states included Oregon and Louisiana.

Dislocation prevention was a critical component of both Oregon and Louisiana's Dislocated Worker Programs. Below we describe how dislocated worker program funds were used in each state to assist with efforts to avert layoffs

### *Louisiana*

Louisiana's innovative dislocated worker program is characterized by collaboration and leveraging of resources to best serve employers and workers. This is particularly evident in their program philosophy which emphasizes dislocation prevention first and when dislocation prevention is not possible, a focus on rapid reemployment.

In Louisiana, the state does not supplement its federal dislocated worker funds with state dollars. However, collects an employer payroll tax to fund an incumbent worker program. Incumbent workers are those workers at-risk of becoming dislocated without additional training or retraining. This tax was initiated in 1998 and generates \$50 million annually.

In an effort to avert layoffs, the State's Dislocated Worker Unit works together with the Incumbent Worker Program and the State's Economic Development Department for the initial Rapid Response meeting with an employer. Rapid Response meetings take place immediately after the State is notified that layoffs are possible. Louisiana approaches Rapid Response with a goal of layoff aversion. During the initial meeting representatives from all three departments are present. At this meeting, the employer is asked if the layoffs could be averted if resources from the incumbent worker program were made available to the employer. Having an incumbent worker representative there at the table during this meeting shows that the state is committed to helping the employer if possible.

If it is determined that the layoffs are unavoidable, there is also a representative from Economic Development at the table to learn about the skills of the workers who may be laid off. In Louisiana, Economic Development Department representatives view dislocated workers as a selling point to employers in the state. Dislocated workers are viewed as a trainable workforce with a strong work ethic. This is very desirable to employers in a tight labor market. The Economic Development markets the dislocated workers to employers and assists the Dislocated Worker Program with rapid reemployment efforts. Economic Development is also there to make available Department resources as appropriate.

Such collaboration and leveraging of each program's expertise and resources has produced successful outcomes. The State reports that in many cases, workers have jobs lined up at the time of dislocation.

### ***Oregon***

Oregon's Dislocated worker program also maintains a job retention focus. Oregon uses federal Dislocated Worker funds through WIA along with WIA's 15 percent Governor's set aside for optional funding activities to fund incumbent worker activities.<sup>24</sup> Together these funds generate \$2. In addition, Oregon has a federal demonstration grant of \$1.6 million to train incumbent workers. Through these funding sources, Oregon allows businesses to submit proposals for incumbent worker retraining activities. The committee selecting the projects includes business, labor, and industry leaders. The State requires a 100 percent match by participating employers to try and prevent dislocations. If the project does not prevent layoffs, the Dislocated Worker Program finds that the new

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<sup>24</sup> WIA allows states to reserve 15 percent of their federal WIA allocation for optional funding activities at the discretion of the Governor .

skills acquired by the dislocated workers make them more marketable for reemployment.

## Conclusions

Our survey of state dislocated worker programs offers several major findings, described below:

**State-funded programs for dislocated workers are uncommon.** While most states fund employment and training programs, only ten states currently fund programs that serve dislocated workers.

**The Minnesota Dislocated Worker Program was developed for reasons similar to other state programs.** The program's history is similar to other states where-by state contributions to dislocated worker funds were a response to the increased frequency and size of dislocation events.

**The Minnesota Dislocated Worker Program distinguishes itself from other states in its programming.** The Minnesota program is unique in that it uses Employee-Management Committees, operates a competitive process for service delivery, and encourages training through expenditure requirements.

**Measures of overall and relative funding clearly indicate that Minnesota is a leader in focusing on the needs of dislocated workers.** Minnesota's program is among the most well-funded of all those funded in the country. Some other states commit state-funds at similar levels for workforce development programs targeting other populations.

**Other Dislocated Worker Programs have incorporated dislocation prevention strategies in their efforts to assist both employers and workers**

**before a layoff occurs.** Both Louisiana and Oregon have developed innovative measures for assisting workers prior to layoff by using dislocated worker funds or as part of a dislocated worker program strategy of rapid response in collaboration with incumbent worker services.

**Economic Development Departments can play a critical role in marketing dislocated workers to potential new employers.** Louisiana's Dislocated Worker Unit works closely with its Economic Development Department to view dislocated workers as a marketable resource to potential employers. This strategy has proven particularly successful during tight labor markets.

## Chapter 4: Recommendations for Program Improvement and Policy Options

Based on our research examining Minnesota's Dislocated Worker Program and similar programs operating in other states, Berkeley Policy Associates has developed a series of recommendations to assist the Minnesota Dislocated Worker Program. It should be noted that these recommendations were developed based on limited research due to the constrained time and scope for this project. Despite this caveat we present our recommendations below.

### Program Funding

State funding for the DWP is generated from an employer tax on Unemployment Insurance taxable wages. For years this fund ran a surplus, as DWP costs were far below the annual revenues collected. Although the fund surplus could have been saved for use in periods of increased demand for dislocated worker services, each year legislators have reallocated portions of the Workforce Development Fund for other projects. Further, these projects were not always workforce development-related.

In response to complaints by employers about the reappropriation of funds targeted for the DWP and the surplus in funding, the legislature reduced the employer tax from a 0.1 percent tax on taxable wages to a 0.07 percent tax, in 2000. Since that time there has been a softening in economic conditions nationally and in Minnesota. There has already been an increase in the number of unemployment insurance claims filed and in the number of dislocated workers seeking assistance.

Given the reduced funding due to the employer payroll tax reduction and the increase in demand for services, BPA recommends that no further reduction in funding be made at this time, so that the DWP can adequately meet the needs of dislocated workers.

### **Managed Competition for Project Funds**

Some respondents interviewed contend that the competitive process for awarding contracts to service providers unnecessarily delays the provision of services to dislocated workers. The solicitation of proposals from service providers through a Request for Information (RFI) process provides the Employer Management Committee (EMC) with the opportunity to select the service provider who will serve dislocated workers.

However, the majority of respondents were positive about this competitive process. They cite the benefit of allowing the EMC to have some control in determining which provider can best serve their employees' needs as outweighing any delays the process may cause. Further, the RFI process is fast-tracked so that any delay in service is minimized.

Critics of the managed competition process for project funds suggest that this process leads to increased program costs. The theory behind this argument is that providers offer increasingly comprehensive and expensive services to the EMC in hopes of being selected. However, in examining per participant costs for project funds, BPA found no evidence to support this charge.

BPA recommends that the State's managed competition for project funds remain in place.

## Improving Early Intervention and Increasing Collaboration

The top priority for the Minnesota Dislocated Worker Program is early intervention so it can reach and assist dislocated workers as early as possible. However, the program relies on notification by employers regarding pending layoffs before it can begin to assist affected workers, and respondents report that it is difficult to get employers to provide early notification of pending layoffs.

There are several strategies that could assist the Minnesota Dislocated Worker Program in improving its early intervention efforts, and these are described below.

Berkeley Policy Associates recommends that the Minnesota Dislocated Worker Program work with workforce development partners to focus on dislocation prevention where possible and services for dislocated workers when dislocations are going to be unavoidable. Expanding into dislocation prevention would require the Minnesota Dislocated Worker Program to collaborate with workforce development partners such as the Job Skills Partnership Program (a program with funding to serve incumbent workers) and Economic Development. Initial Rapid Response meetings funded by the Minnesota Dislocated Worker Program could include representatives from each of the three agencies. The initial goal of the meeting would be to determine if retraining through incumbent worker funds could prevent layoffs or if layoffs were inevitable. If incumbent worker funds could be used to prevent a layoff, the Dislocated Worker Program would have succeeded in dislocation prevention while at the same time shared information with the employer about services that would be available should layoffs later become necessary.

If dislocations were unavoidable, it would help to have a representative from Economic Development present at any Rapid Response meetings with employers. Minnesota's labor market remains tight even with the small increase

in unemployment recently seen. Low unemployment means that employers struggle to find workers and Economic Development has the best connections to these employers. Dislocated workers represent a pool of workers with a good work ethic and strong attachment to the workforce. It is important that the Minnesota Dislocated Worker Program help Economic Development understand the valuable resource that dislocated workers offer for Minnesota employers. While some collaboration between Economic Development and the workforce development system in Minnesota has taken place. We recommend that relationships between the DWP and Economic Development be strengthened and formalized. The reorganization of the DWP, the rest of the workforce development system, and Economic Development into the same Department should support such collaborative efforts.

Finally, BPA recommends increasing outreach about the services provided by the Minnesota Dislocated Worker Program and the workforce development system in general to employers and workers. Data shows that dislocations may be on the rise. In order to reach those in need of assistance, as early as possible, it may help to educate employers and workers about the benefits and services they may be eligible to receive.

## **Accountability**

Tracking client outcomes holds programs accountable for the quality of the services they provide. WIA requires that the Dislocated Worker Program and other workforce development programs funded through WIA meet performance goals in the areas of job placement, job retention, earnings, and skill attainment.

Since 1996, the Department of Economic Security has produced a Minnesota Dislocated Worker Program Performance Indicator Report. This report provides a detailed analysis of the participant outcomes for the Dislocated Worker

Program by program, funding type, and provider. The information presented in these reports holds the program and its providers accountable for the outcomes they achieve. This information also assists EMC's in their selection of providers through the RFI process by providing them with the information needed to assess the prior performance of providers submitting proposals.

BPA recommends that the Performance Indicator Report continue to be produced annually. Further, BPA recommends that the Minnesota Dislocated Worker Program consider showing how the outcomes in the current program year compare to the prior year to provide a benchmark for program outcomes.

### **Overall Assessment of Program**

Although BPA has made several recommendations for program improvement, in general we found that the Minnesota Dislocated Worker Program provides important services in a timely manner. Services are provided to those in need of reemployment assistance and replacement wages are higher than national averages. State staff and service providers continue to work towards program improvement. The recommendations provided can only help to strengthen the program further.