



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on  
Economic Development and Business Concerns

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by  
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S.B. 1366 Relating to Innovation in Workforce Development

Chair Fukunaga and Members of the Committee:

I am here today to testify in support S.B. 1366, which proposes to establish and fund a number of new initiatives in response to Hawai'i's growing workforce development problems.

Hawai'i is facing a number of critical workforce issues that if left unresolved can derail our future economic growth. In 2003-2005, Hawai'i was selected as one of eight states to participate in the National Governors Association (NGA) *Pathways to Advancement Policy Academy* project focusing on the need to change state higher education, workforce development, and welfare policies to help more adults obtain postsecondary credentials. This initiative was supported within the state by an inter-departmental team that I had the opportunity to lead. The team compiled a detailed analysis of related demographic, workforce, and education data, and identified a number of critical issues confronting the State. These issues included: a job quality gap, a worker preparation gap that is a reflection of our underperforming

education to work pipeline, and a worker supply gap. A number of recommended actions to address these issues are detailed in Attachment 1.

The issues are statewide and critical impediments to the state's economic future. In response to these issues, the community colleges have developed a set of initiatives such as the Pacific Center for Advanced Technology Training (PCATT), the Culinary Institute of the Pacific (CIP), the Cisco Networking Academy, and the Construction Industry Academy that need to be sustained. In addition, we have requested additional state resources to increase our enrollment, to support the preparation of more nurses, and for the establishment of a rapid response customized training capacity within the community colleges to meet employers growing need for job upgrade training. We believe the initiatives proposed in S.B. 1366 will also contribute to alleviating a number of our current workforce problems. We also believe that the proposed Rapid Response Training fund in DBED&T will be an excellent complement to the Community Colleges Rapid Response program.

## Hawai`i's Critical Workforce Issues

In 2003-2005, Hawai`i was selected as one of eight states to participate in the National Governors Association (NGA) *Pathways to Advancement Policy Academy* project focusing on the need to change state higher education, workforce development, and welfare policies to help more adults obtain postsecondary credentials. This initiative was supported within the state by an inter-departmental team who compiled a detailed analysis of related demographic, workforce, and education data, and identified the following critical issues confronting the State:

**A Job Quality Gap.** Hawai`i's job quality gap results from higher-paying jobs in agriculture and manufacturing being replaced by lower-paying jobs in tourism-related service sectors. Hawai`i's per capita personal income fell from 100% of the U.S. average in 1970 to 79% of the U.S. in 2005 in terms of purchasing power, adjusting for the higher price-levels of our island economy. This decline is consistent with the growth in sectors such as retailing and food service that offer mostly part-time, low-wage jobs, which have trapped Hawai`i in a predominantly low-wage, low skilled workforce profile. In its 2007 Development Report Card, the Corporation for Enterprise Development ranked Hawai`i 49th in the nation for the cost of urban housing, 48th in home ownership, 47th for industrial diversification, 46th for crime rate, and 39th in involuntary part-time employment. These trends must be reversed by revitalizing the capacity of our business and entrepreneurial sectors to generate new, high-valued goods and services and higher-skilled jobs; all of which will require a better educated and trained workforce.

**A Worker Preparation Gap.** Too many of Hawai`i's people are not prepared for the types of higher-skilled jobs that are currently being created as a result of the State's targeted economic development initiatives. According to the National Center for Educational Statistics (NCES), Hawai`i's average graduation rate for high school freshmen (2002-2003) is about 64%, compared to a national average of 74%. NCES and Census data for 2000 show that only 34% of high school freshmen in the state will enroll in post-secondary education within four years, compared with 52% among the top states in this category. The community college first-year drop out rate in the state is nearly 20 percentage points higher than top states. Only 46% of Hawai`i college students will complete a bachelor's degree within six years compared with 64% in top states.

These gaps are related to a poorly performing education to work pipeline that is failing to ensure an adequate supply of educated and trained workers. At every point of the education-to-work process, Hawai`i under-performs the national average. For example, based on 2002 data (National Center for Public Policy and Higher Education), only 12% of 9<sup>th</sup> graders will finish high school and graduate from a post-secondary institution within 150% of the expected time, compared with 18% nationally and 29% for the best performing states.

Beyond the school-aged youth, an insufficient number of incumbent workers are entering post-secondary educational training to build their skills and earning potential. In 2004, only 3.4% of adults aged 25 to 44 were enrolled in a post-secondary education program, compared with 5.2% for the top ten performing states.

For Hawai`i's economic diversification to occur, the education to work pipeline must be replaced with one that is capable of producing a more talented and skilled workforce to meet the demands of our emerging knowledge-based economy. Far larger number of youths must remain in school

and be better prepared and equipped to enter and complete post-secondary educational training. Similarly, Hawai'i's working adults (incumbent workers) need more opportunities to re-enter the training and educational pipeline to enhance their skills and talent.

**A Worker Supply Gap.** Hawai'i is also experiencing a worker supply gap as the baby boomers begin to leave the labor market. Hawai'i's situation is exacerbated due to the significant migration of its predominantly younger workers to the U.S. mainland and Asia in search of higher-paying jobs. This "brain drain" occurred during the past several decades. The 2000 Census reported that only 60.4% of Hawai'i's civilian population was in the workforce, compared with a national average of 63.4% and the top state, Minnesota, at 71.1%. An individual's level of education is a key variable. Only 36% of adults (111,000) with less than a high school diploma are in the workforce, and only 59% of adults (107,000) with only a high school diploma are in the workforce. By comparison, approximately 78% of those individuals (62,000) holding an associate, baccalaureate, or graduate degree are participating in the workforce.

An estimated 28,000 jobs will need to be filled in Hawai'i each year through 2012, due to economic expansion and worker replacement due to anticipated retirements. Most of the jobs will require a higher level of education and training than that offered in high school. By contrast, an estimated 13,000 youths are graduating from high school (public and private in 2004) each year, and only 38% are going on for further education or training within the state. This gap is expected to widen after 2012, as the baby boomers begin to reach full retirement age.

**A Growing Worker Shortage.** Hawai'i's unemployment rate is currently 2.6%, the lowest in the nation. An increasing number of employers are finding it difficult to employ and retain qualified workers. The combination of an overall labor shortage and out-migration of educated youth is an impending crisis within the next five to ten years for Hawai'i's economy as an increasing number of individuals will be expected to leave the workforce due to age. Dealing with a worker shortage is not new to Hawai'i; in fact most immigrants to the state came as a result of previous worker shortages. However, given the growing gap between wages and the cost of housing, this no longer appears to be a successful strategy. If Hawai'i is to be successful in enhancing our quality of life in the rapidly changing global economy, we must narrow the Worker Preparation Gap, the Worker Supply Gap, and the Job Quality Gap. Doing so requires that we make changes in our current education to work pipeline.

**Increasing Education and Training Opportunities.** Closing these gaps will require that we prepare a greater portion of our resident population to participate in the workforce, and that we retrain our current workforce so more individuals are qualified to take higher skilled (and higher paying) jobs. Both of which will require an increased investment in workforce education and training, and related support services, and the development of state policies that encourage increased adult participation in those education and training opportunities.

**A Growing National Problem.** Hawai'i is at the leading edge of a growing national problem, and we can benefit from some of the national research and development efforts to address the various elements that can play a significant role in the education to work pipeline. In 2002, the National Governor's Association (NGA) published *A Governor's Guide to Creating a 21st-Century Workforce*. The NGA Guide projected that the nation can be expected to face many of the issues confronting Hawai'i today, "The major challenge to the U.S. economy in the 21st century is the **shortage of skilled workers**. This shortage constrains the productive capacity of key industries and jeopardizes the quality of services in others. The Bureau of Labor Statistics projects that by 2020, there will be a 22-percent increase in the number of jobs requiring some postsecondary education. Yet, during the next 20 years, we will lose 46 million skilled workers as baby boomers retire.

By 2020 we will have achieved a net gain of 3 million people with postsecondary education entering the workforce. However, this increase will not offset the 15-million new jobs that will require some postsecondary education. This means that potentially 12 million skilled jobs will go unfilled. Specific industries that are critical to our economic growth, including education, health care, and information technology, will continue to suffer disproportionately large shortages of skilled workers, with unfilled job openings numbering in the hundreds of thousands.”

The NGA Guide also set forth a number of policy recommendations to deal with these critical issues and gives examples of effective state practices related to the specific recommendations. The following recommendations and model state practices appear to be related to Hawai`i’s current situation:

- **Connect workforce development to economic needs through education;**
  - Organize workforce development around industry clusters.
  - Work with networks of firms to promote cooperation and leverage private-sector investment.

#### **Indiana’s Regional Skill Alliance**

Indiana has developed the Regional Skill Alliance grant program for training incumbent workers using WIA discretionary resources. The state is working with employers, the Community College of Indiana, and each WIB to help small and medium-sized businesses that face difficulties in organizing training programs for their own employees. In each community the WIB’s Incumbent Worker Council convenes firms experiencing skill shortages to identify the specific skill sets they require. A regional development specialist then prepares a grant application, which packages training and support services needed by individuals to meet employer specifications. Grants are approved by an internal review committee and are awarded on a competitive basis.

- **Expand/create incentives for continuous learning;**
  - Increase the use of community colleges for workforce training.
  - Link adults with low skills and language problems to continuous learning.
  - Direct welfare- and workforce funded programs to allow greater participation in education and training activities.
  - Support e-learning and other innovative delivery systems.
  - Promote workplace learning opportunities.

#### **North Carolina’s Community College System**

North Carolina’s community college system uses a comprehensive approach to workforce training to address key sectors of the state’s economy. State legislation identifies the community college system “as the primary lead agency for delivering job training, literacy, and adult education programs in the state.” The system seeks to link adult education, human resource development, and job-readiness training to more advanced skills training. The state’s Pathways Program offers training in four sectors: manufacturing, biotech-pharmaceuticals, boat building, and industrial maintenance. Each program combines basic skills remediation with job-readiness and occupational skills training. This short-term, fully integrated approach is supported with resources that include state funds on a per-student basis for adult literacy, human resource development, and noncredit career or occupational training.

- **Strengthen work supports (including education and training) to promote employment retention and career advancement;**
  - Work with the private sector to develop flexible work rules and benefits policies.
  - Simplify access to work supports.
  - Promote the use of earned income tax credits and develop other policies to make work pay.

- Expand strategies to encourage asset-building and investments in training, such as individual development accounts (IDAs) and individual training accounts (ITAs).

**State Earned Income Tax Programs**

Colorado, the District of Columbia, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Wisconsin, and Vermont have refundable state EITCs. Illinois, Iowa, Maine, Oregon, and Rhode Island have nonrefundable state credits. Montgomery County, Maryland; and Denver, Colorado, also have programs.