



Testimony of Walter Smith, Executive Director, DC Appleseed

Public Roundtable on “Auditor’s Review of Compliance with the Living Wage Act and First Source Act Requirements Pursuant to the Compliance Unit Establishment Act of 2008”

July 8, 2010

Good morning Chairman Brown. My name is Walter Smith and I am the Executive Director of DC Appleseed. Thank you for allowing me to testify on the very important topic of compliance with the First Source Act for projects previously managed by the Anacostia Waterfront Corporation. DC Appleseed has long supported the District’s goal to connect DC residents to jobs created by the Anacostia Waterfront Initiative, and has testified several times about this commitment before your Committee on Economic Development. We appreciate your leadership on this important issue.

At a time of near record unemployment rates, it is critical for the District to improve its strategy for connecting our residents to DC jobs—especially those created with government subsidies. Accordingly, my testimony today will address why the First Source program—the current system for placing DC residents into jobs created on publicly-subsidized projects—is inadequate, and will suggest that a Workforce Intermediary be established immediately as a new approach for ensuring that DC residents fill DC jobs.

Testimony Summary

The DC Auditor’s review of compliance with First Source Act requirements makes it very clear that the program had several problems, including insufficient monitoring, inadequate program procedures, and a lack of internal controls. While these are all serious issues, we believe that the deficiencies of First Source go well beyond poor program management. The First Source system is designed to place residents who already have appropriate skills into jobs. While there are certainly DC residents who have the appropriate skills and qualifications to job openings available with employers who have first source contracts, some of the District’s unemployed residents lack the education and skills necessary to even qualify as candidates for these jobs.

DC Appleseed has long held the view that the District needs a Workforce Intermediary to coordinate the needs of employers with the efforts of workforce development organizations. An intermediary would ensure that less-skilled residents get the training and support necessary to become qualified, work-ready candidates for the jobs our city is creating. We appreciated your support for the establishment of a Workforce Intermediary, which is required by the National Capital Revitalization Corporation and Anacostia Waterfront Corporation Reorganization Act of 2008 (the “Reorganization Act”).

As you know, initial discussions about starting a Workforce Intermediary focused on jobs that would be created in the Anacostia Waterfront Development Zone. While the timeline for that development has slowed, we have strongly encouraged the Office of the Deputy Mayor for Planning and Economic Development (DMPED) and the Department of Employment Services (DOES) to start a Workforce Intermediary with a broader focus as means of addressing the city’s dire unemployment problem. In particular, we made three key recommendations:

1. **Start the Intermediary in an industry with job growth, such as health care or green jobs.** By building adequate organizational infrastructure now, the District can ensure that an established, practiced intermediary is ready to start new industry programs targeted at employers in the Anacostia Waterfront when the time comes. An immediate focus on green jobs—most of which are related to construction and landscaping—would set a strong foundation for an intermediary to later address jobs created by development of the Anacostia Waterfront.
2. **Expand the intermediary’s geographic scope beyond the Anacostia Waterfront.** The District’s job opportunities in health care, green jobs, and construction will be spread throughout the city. While an

intermediary can certainly serve employers who create new jobs in the Anacostia Waterfront Development Zone, there is no reason why it cannot also serve employers within the identified sectors who are not located in the Anacostia Waterfront.

3. **Establish the intermediary as a 501(c)3 organization outside of government.** Doing so would provide the intermediary with the ability to raise funds from a variety of public and private sources, allow the organization to respond to employers' changing needs in a flexible and responsive manner, and provide insulation from changes in political leadership.

We were very pleased to hear Director Walsh of the DOES testify in his department's FY2011 budget hearing that he plans to use \$500,000 of Workforce Investment Act funds to seed a Workforce Intermediary with a focus on the health care and green jobs sectors. We believe that these funds should be used to hire an Executive Director—in our view, this is the next critical step for starting the Intermediary. A great deal of thought has gone into research and planning for an Intermediary; now we need an experienced and well-respected leader who can focus full-time on starting and building the organization.

I. It is Critical for DC Residents to Fill DC Jobs¹

For years, the District has had more jobs than people; yet the vast majority of those jobs are filled by non-residents. This year, DC's labor market weathered the recession better than other major cities, gaining nearly 11,000 jobs over the past year. But the data show that this job growth hasn't helped our more than 35,000 unemployed residents. DC's March unemployment rate of 11 percent was one-and-a-half times the unemployment rate of the surrounding suburbs. And these numbers don't even count the thousands of jobless residents who have given up on finding work. At a time of near record unemployment rates, it is critical for the District to improve its strategy for connecting city residents to DC jobs—especially those created with government subsidies.

II. First Source Does Not Prepare DC's Less-skilled Residents for DC Jobs

Many DC residents have consistently expressed concern that job opportunities created through the District's economic development investments pass them by. The DC Auditor's report bears out this concern, finding that only four of the 16 projects reviewed met or exceeded the First Source requirement for 51 percent of new hires to be DC residents. The First Source program deficiencies identified by the DC Auditor, including insufficient monitoring, inadequate program procedures, and a lack of internal controls, clearly contributed to the employment shortfalls documented in the report. Yet the deficiencies of First Source go beyond poor program management.

While there are certainly DC residents who have the appropriate skills and qualifications to job openings available with employers who have first source contracts, there are many under-employed residents who would like to take advantage of such job opportunities, but lack appropriate skills and/or access to the labor market. The Brookings Institution estimates that upwards of 50,000 low-income, working-age District residents lack the skills needed to get a job that pays family-sustaining wages.² While 28 percent of this population holds full-time, year round jobs, a significant majority has no more than a high school diploma and works sporadically throughout the year or not at all. Roughly half of the 50,000 residents in need of workforce development live east of the Anacostia River where unemployment rates in some neighborhoods near 30 percent. In addition to low skills and spotty work histories, some under-employed residents may face work barriers like limited childcare, transportation problems, and criminal records. However, with appropriate training, job coaching, access to employers, and work supports, the District's under-employed residents could become qualified for First Source jobs.

¹ All statistics in this section are from the DC Department of Employment Services, Labor Market Information division available at <http://www.does.dc.gov/does/cwp/view,a,1233,q,538345,doesNav,|32064|.asp>

² Martha Ross and Brooke DeRenzis. "Reducing Poverty in Washington, DC and Building the Middle Class from Within" (Washington: Brookings, 2007).

Despite this need, residents, employers, and community organizations alike have indicated that the District's current workforce development system fails to match the efforts of education and training programs with the needs of employers. Employers with First Source agreements have claimed that DC residents are often not appropriately trained and prepared for available jobs or do not stay on the job once they are hired. Some training programs respond that they do not have access to employers' hiring networks or a clear sense of their skills requirements and hiring cycles. While improved First Source procedures are important, they will *only* help those residents who already have the right job skills. The District needs to take additional steps to ensure that less skilled residents are participating in job training and placement programs that are closely coordinated with and meet employers' needs.

III. A Workforce Intermediary: A New Approach to Getting DC Residents Jobs

The Auditor's report recommended that going forward, "the Deputy Mayor for Planning and Economic Development ensure that developers associated with the former AWC and NCRC properties meet their First Source obligations as required by D.C. Law, LDAs, and other contractual documents."³ We strongly support this recommendation.

The Reorganization Act requires District residents to fill at least 51 percent of new jobs created in connection with Anacostia Waterfront Initiative projects, with a preference for at least 20 percent of those jobs to be designated for Ward 8 residents. In recognition of the First Source program's limitations, the Reorganization Act also requires the Mayor to establish a workforce intermediary as the primary means of meeting those hiring requirements.⁴

Workforce Intermediaries are proven vehicles for matching the needs of employers with the efforts of training organizations, and have become an integral tool in cities like Seattle, Boston, Austin, and Baltimore. Workforce Intermediaries typically focus on a few growth industry sectors. They convene industry employers to determine their aggregate demand for labor and associated hiring cycles, job descriptions, and standard skills requirements. Workforce Intermediaries then use this information to contract with training and social service organizations that provide job training and case management programs responsive to the needs identified by employers. Intermediaries also work to place program graduates in jobs and provide post-placement case management.

Workforce Intermediaries provide a human resources service to employers by supplying them with qualified and work-ready job candidates and providing post-placement retention services to ensure that hired candidates stay on the job. Intermediaries' strong relationships with employers also mitigate many of the barriers that less-skilled residents face when looking for work, including weak ties to the labor market and limited information about skills requirements, application processes, and career opportunities.

The success of sector-focused workforce development initiatives—like Workforce Intermediaries— is well-documented. A recent rigorous evaluation of three sector-based programs in Boston, Milwaukee, and the Bronx, New York found that participants in sector-focused training programs earned more, worked more, and were more likely to hold jobs with benefits compared to control group members.⁵

Given this documented success, DC Appleseed strongly supports the Reorganization Act's directive to establish a workforce intermediary for the Anacostia Waterfront Development Zone, and thanks you for your leadership on that important piece of legislation. The Workforce Intermediary concept had broad support from both the District's workforce development and employer communities. In fact, the development team chosen for the Southwest

³ Office of the District of Columbia Auditor. "Auditor's Review of Compliance With the Living Wage Act and First Source Act Requirements Pursuant to the Compliance Unit Establishment Act of 2008," May 18, 2010.

⁴ The Reorganization Act defines a workforce intermediary as, "an entity established or chosen by the Mayor, or the former AWC, that is modeled on similar, successful entities in other cities and is designed to meet the hiring goals of [the act] by coordinating the needs and capacities of businesses that are creating new jobs in the Anacostia Waterfront Development Zone, workforce development organizations that serve residents of the District, and residents of the District who are seeking jobs in the Anacostia Waterfront Development Zone."

⁵ Sheila Maguire, Joshua Freely, Carol Clymer, and Maureen Conway. "Job Training that Works: Findings from the Sectoral Employment Impact Study." Public/Private Ventures in Brief. Issue 7. May 2009.

Waterfront has agreed to provide \$1 million toward the operation of an Intermediary that provides it with qualified, work-ready candidates. However, with the Southwest Waterfront's groundbreaking two years away, we are concerned about the city's slow progress in establishing the Intermediary for two reasons. First, the city is experiencing a dire unemployment problem, and DC residents need better access to the city's job opportunities now. Second, building a new organizational infrastructure, planning new programs, and testing their effectiveness is not a short-term endeavor, and the city would be smart to start establishing an Intermediary now in order to ensure it can meet the needs of the Southwest Waterfront's developers and others.

IV. Implementing the Workforce Intermediary

For the past two years, we have worked closely with DMPED and DOES to develop a strategic plan for establishing a Workforce Intermediary. We have made four key recommendations to both agencies.

- 1. *Start small with a focus on one or two growth sectors.*** Best practices reveal that the most successful Intermediaries started with a focus on one or two industries. Starting small can help the organization master a given industry's workforce needs and challenges. It can also help the Intermediary test and refine approaches and develop a positive track record of success. Initially, the Workforce Intermediary was supposed to focus on jobs created in the Anacostia Waterfront, most likely in construction.

As the timeline for that development has slowed, we have encouraged the District to start the Workforce Intermediary in an industry with job growth, such as health care or green jobs. While not required by the Reorganization Act, the District could still start a Workforce Intermediary focused on in-demand industries like health care and/or green jobs at its discretion. By building adequate organizational infrastructure now, the District can ensure that an established, practiced Intermediary is ready to start new industry programs targeted at employers in the Anacostia Waterfront when the time comes. An immediate focus on green jobs—most of which are related to construction and landscaping—would set a strong foundation for an Intermediary to later address jobs created by development of the Anacostia Waterfront.

- 2. *Expand the intermediary's geographic scope beyond the Anacostia Waterfront.*** The District's job opportunities in health care, green jobs, and construction will be spread throughout the city. While an Intermediary can certainly serve employers who create new jobs in the Anacostia Waterfront Development Zone, there is no reason why it cannot also serve employers within the target industries who are not located in the Anacostia Waterfront. By serving employers throughout the entire city rather than just those located within the Anacostia Waterfront, the Intermediary would have access to more jobs in which to train and place residents.
- 3. *Establish the workforce intermediary as a 501(c)3 organization outside of government.*** A nonprofit organization outside of government would be preferable for several reasons:
 - While a nonprofit can accept city funds, it also has a greater chance of successfully raising foundation and private funds because philanthropic organizations typically do not fund government agencies, whereas this would have a mission and management structure that is separate and distinct from city government.
 - The Intermediary would not have to use the city's cumbersome procurement process to contract for training, support, and other services—substantially improving its ability to respond in a flexible and responsive manner to employers' changing needs.
 - The Intermediary would be insulated from changes in political leadership which could otherwise disrupt its ability to establish essential long-term, reliable relationships with employers, training programs, educational institutions, and other organizations.
 - The Executive Director and staff would be charged solely with managing and executing the Intermediary—giving the organization a sense of mission and focus.

- 4. Use government funds to hire an Executive Director and Sector Managers.** We were very pleased to hear Director Walsh of the DC Department of Employment Services (DOES) testify in his department's FY2011 budget hearing that he plans to use \$500,000 of Workforce Investment Act funds to seed a Workforce Intermediary with a focus on the health care and green jobs sectors.

These funds should be used to hire an Executive Director—a step that we believe is the next critical one to standing up the Intermediary. A great deal of thought has gone into research and planning; the District now needs an experienced and well-respected leader who can focus full-time on operationalizing the approach. The Executive Director will have to raise funds for the rest of the organization's operations, including contracting for high-quality skills training and case management services. The funds could potentially also be used to hire sector managers for health care and green jobs—each of whom should have deep expertise and significant professional networks in their respective industries.

We urge the Council to hold DOES accountable to its commitment to fund a Workforce Intermediary. Without it, jobs created by DC's economic development initiatives—including those in the Anacostia Waterfront—may continue to pass DC residents by.

Conclusion

We believe that establishing Workforce Intermediary is a crucial element of addressing the District's high unemployment rate, particularly east of the Anacostia River where in some neighborhoods unemployment hovers near 30 percent. However, we recognize that a Workforce Intermediary is only one policy initiative.

If the District is to truly mitigate the myriad of problems facing low-income residents, our elected officials must have a comprehensive plan for addressing poverty. That's why DC Appleseed has teamed up with several other organizations to form Defeat Poverty DC—a coalition of community organizations, businesses, and concerned citizens that are asking elected officials and candidates for political office to have a specific plan for addressing poverty. Persistent poverty such as that in the District increases crime, disintegrates families and neighborhoods, reduces tax revenues, increases the costs of social services, and harms education in the schools. We hope that these issues will be a high priority for you and your Council colleagues.

Thank you again for your leadership on this critical issue. I would be happy to take any questions you have.