



Community Outlook Survey



Community Development Studies & Education Department

Second Quarter 2016

Identifying key challenges and promising opportunities in workforce and economic development

The Federal Reserve Bank of Philadelphia's *Community Outlook Survey* (COS) monitors trends affecting the well-being of low- and moderate-income (LMI) households and communities in the Third Federal Reserve District, which encompasses Delaware, southern New Jersey, and the eastern two-thirds of Pennsylvania. Beginning in 2016, each quarterly survey focuses on one of four topical areas: housing and neighborhood development; workforce and economic development; health, wellness, and family services; and household financial stability.

The 2Q2016 COS, focusing on the theme of Workforce and Economic Development, was sent to participants in April 2016. Survey responses were welcomed from representatives of organizations engaged in expanding economic opportunity for LMI individuals and communities through job training, workforce development, employment placement services, economic development planning, commercial development, and community development finance. A total of 40 organizations responded, with 80 percent servicing Pennsylvania, 15 percent servicing New Jersey, and 5 percent servicing Delaware. Respondents were asked to describe the most pressing workforce and economic development challenges in the communities they serve in a series of open-ended questions. Qualitative research methods were used to identify key challenges and promising solutions reported by survey respondents. The findings are summarized here and include direct quotes from the respondents.

Pressing challenges

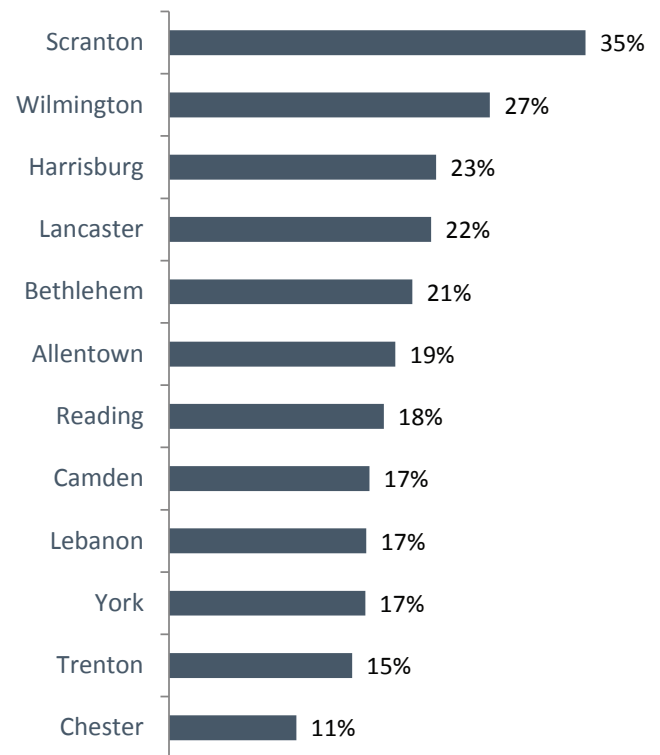
1. There is an ongoing mismatch between the skill requirements of local jobs and the skill levels of local workforces.

Respondents' most commonly cited challenge was that,

despite generally improving local job markets, many of their clients do not possess the skills or educational credentials required for existing employment opportunities. Examples given of positions that employers struggled

Figure 1. Share of working city residents employed within city, 2014

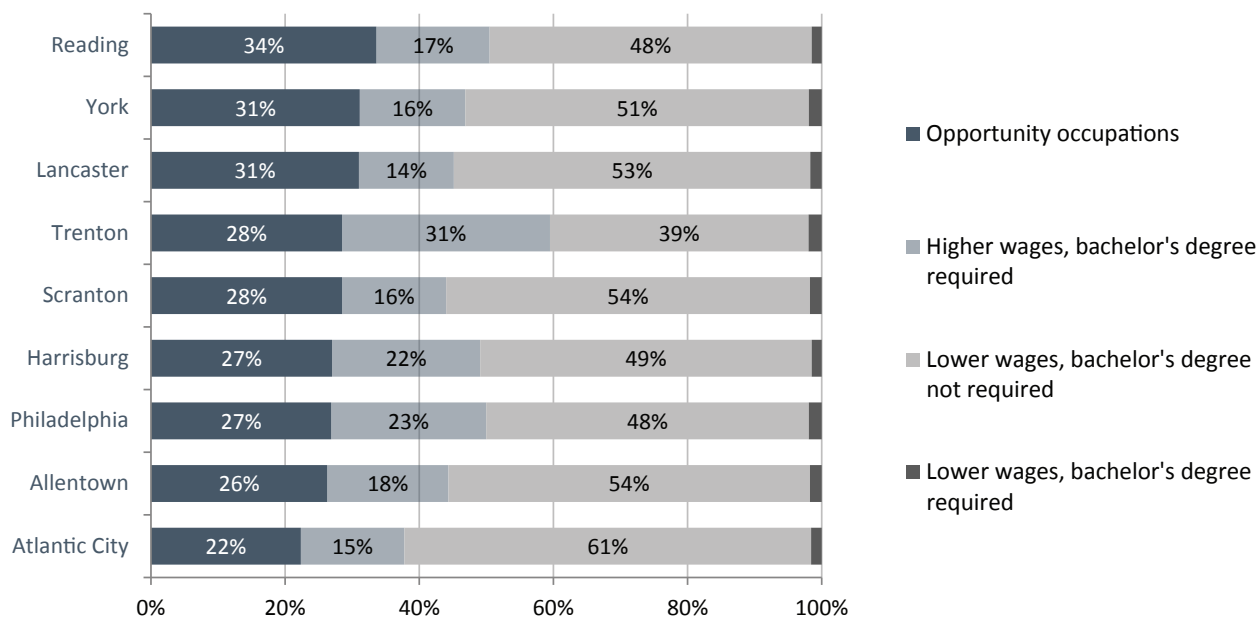
Selected Third District Cities



Source: Authors' calculations using U.S. Census Bureau Longitudinal-Employer Household Dynamics accessed via the OnTheMap Application.

Figure 2. Distribution of local employment by wages and minimum education requirements, May 2014

Selected Third District MSAs



Source: Adapted from Keith Wardrip, "Identifying Opportunity Occupations in Pennsylvania, New Jersey, and Delaware," Special Report by the Community Development Studies & Education Department, Federal Reserve Bank of Philadelphia, September 2015.

MSA = metropolitan statistical area

to fill included middle- to high-skill jobs in construction, health care, technology, and manufacturing. As Figure 1 illustrates, in a number of Third District cities, only a small share of residents were employed locally in 2014.

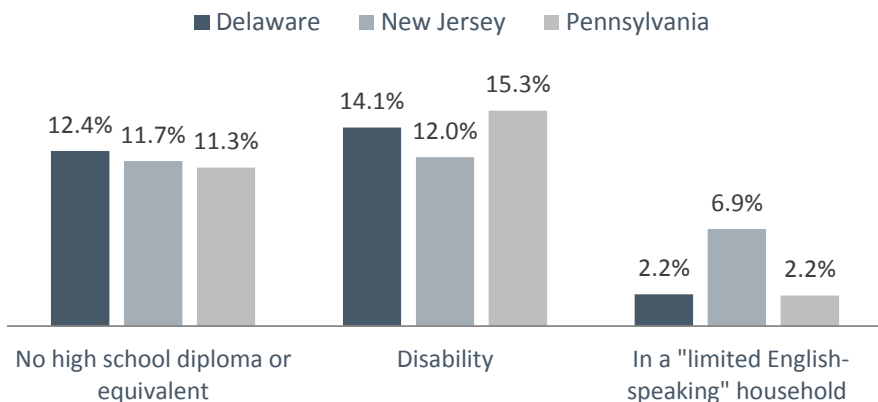
The explanations for this mismatch ranged from institutional and policy factors down to firm practices and individual qualifications. Some respondents felt that local economic development efforts had not taken into account the needs and abilities of the existing local workforce. Others expressed concern over employer hiring practices, suggesting that requested credentials sometimes exceeded what was necessary for a position. Further, some respondents expressed that employers with specialized skills needs should assume more responsibility for training employees given resource constraints on the public workforce system. Still, many acknowledged that the LMI communities they serve face substantial skills gaps, noting that youth and long-term unemployed residents often lack sufficient work experience, that rates of high school completion and postsecondary attainment are low, and that a significant number of their clients struggle with literacy and numeracy.

With little access to local employment opportunities, many residents must look elsewhere in their regions for work. A number of respondents cited long commutes and limited transportation options as barriers to employment, particularly for transit-dependent households. Further, the lack of affordable housing options near entry-level employment opportunities was repeatedly identified as an impediment to job access.

We suffer from high levels of unemployment, even in neighborhoods with high levels of job growth. This is due to the mismatch of skills and job requirements and to the lack of resident knowledge of training and job opportunities.

In the City of Camden there is a large population of unemployed low-skilled individuals. The economic development planning and allocation of incentives are targeting firms with jobs that require advanced degrees. This lack of alignment with available workforce will leave few parcels of land available for the development of firms with entry level, low-skilled labor jobs.

Figure 3. Share of adults (18+) facing selected employment barriers, 2010–2014



Source: Authors' calculations base on U.S. Census Bureau 2010–2014 American Community Survey, Tables B1001, B15001, S1810, and B16003.

"Limited English-speaking" households are defined as households in which no one age 14 or older speaks English only or speaks English "very well." Disability includes hearing, vision, cognitive, ambulatory, self-care, and independent living difficulties.

Further, one respondent working in a high-poverty Philadelphia neighborhood suggested that some clients fear that if they pursue higher-paying opportunities, the potential loss of needed supports (such as food assistance and subsidized child care) would outweigh their wage gains.

There are many people who cannot afford to take advantage of training or educational programs. They are forced to make a choice between low-wage employment to earn an income and

education that may result in a job with higher wages.

The skills level of the workforce is reflective of the low-skills/low-wage economy. We have a chicken and egg problem. For our workforce skills level to increase, our supply of higher-level employment opportunities must increase. Of course, for the supply of higher-level employment opportunities to increase, the skills level of our labor force must increase. This is an iterative situation that the region will deal with into the next generation.

2. Many available jobs do not pay a family-sustaining wage.

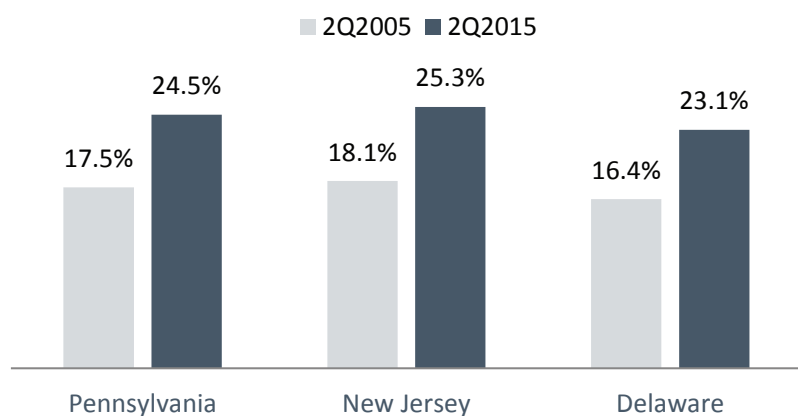
Numerous respondents reported that the jobs their clients are able to obtain are typically low-wage and do not foster economic security, particularly for individuals with families. Figure 2, adapted from a recent report from the Community Development Studies & Education (CDS&E) Department of the Federal Reserve Bank of Philadelphia, titled "Identifying Opportunity Occupations in Pennsylvania, New Jersey, and Delaware," illustrates the underlying challenge for less-skilled workers. An *opportunity occupation* is defined as one that pays workers on average at least the national annual median wage, adjusted for differences in local costs of living, and is generally considered accessible for workers without a bachelor's degree. As Figure 2 illustrates, while opportunity occupations constituted a significant share of employment in many Third District metropolitan statistical areas (MSAs) in 2014, this share was consistently exceeded by the share of jobs that were lower-wage.

Some respondents noted that, for low-wage workers, the pursuit of more gainful employment can lead to difficult tradeoffs. While job training and postsecondary education can open the door to higher-wage opportunities in the future, the need for income in the present makes it difficult to divert time away from their current jobs.

3. Despite a tightening labor market, many continue to face substantial barriers to finding and maintaining employment.

Even as the broader job outlook improves, respondents shared that certain segments of their communities continue to face substantial barriers to employment. The most commonly cited included lack of a high school diploma, disability, limited English proficiency, homelessness, and prior criminal convictions. Figure 3 illustrates the prevalence of some of these barriers in Third District states from 2010–2014. Overall, disability and high school noncompletion were more common, though the share of

Figure 4. Share of workforce 55+ years old, Third District states



Source: Authors' calculations using U.S. Census Bureau Quarterly Workforce Indicators. Accessed via the QWI Explorer application.

adults in limited English-speaking households may understate the total share with limited proficiency in English.

Respondents cited a number of challenges they face supporting individuals with these barriers. Many were skills-based, such as low educational attainment and limited workplace experience. Others saw the need for greater engagement with private employers to encourage them to consider nontraditional employees. Some noted that while individuals who secure employment often needed ongoing support, funding typically only covers job placement activities.

The employers may not know how to employ those with barriers so they have a better chance for success. We need more facilitation, translation, programs, and support in this gap.

The statuses of these individuals were certainly barriers to gainful employment ... when there was a labor surplus in Berks County. ... [T]he transition to local labor shortages has reduced these barriers but many/most of the individuals in these categories lack the skills, education, work habits, and work history to meet the minimum hiring needs for entry-level jobs in key local industries, such as manufacturing and health care.

4. As the workforce ages, employers are increasingly concerned about losing skilled workers to retirement.

As the baby boomer generation approaches retirement age, a large portion of experienced employees may soon exit the workforce. In particular, respondents from mid-sized cities in Pennsylvania expressed concern that advanced manufacturers in their region may soon face skill shortages unless they invest in talent development and retention for younger workers. While this challenge may be more acutely felt in certain industries, the demographic trend is widespread. As shown in Figure 4, in each of the Third District states, workers aged 55 years or older made up roughly one-quarter of the workforce in mid-2015.

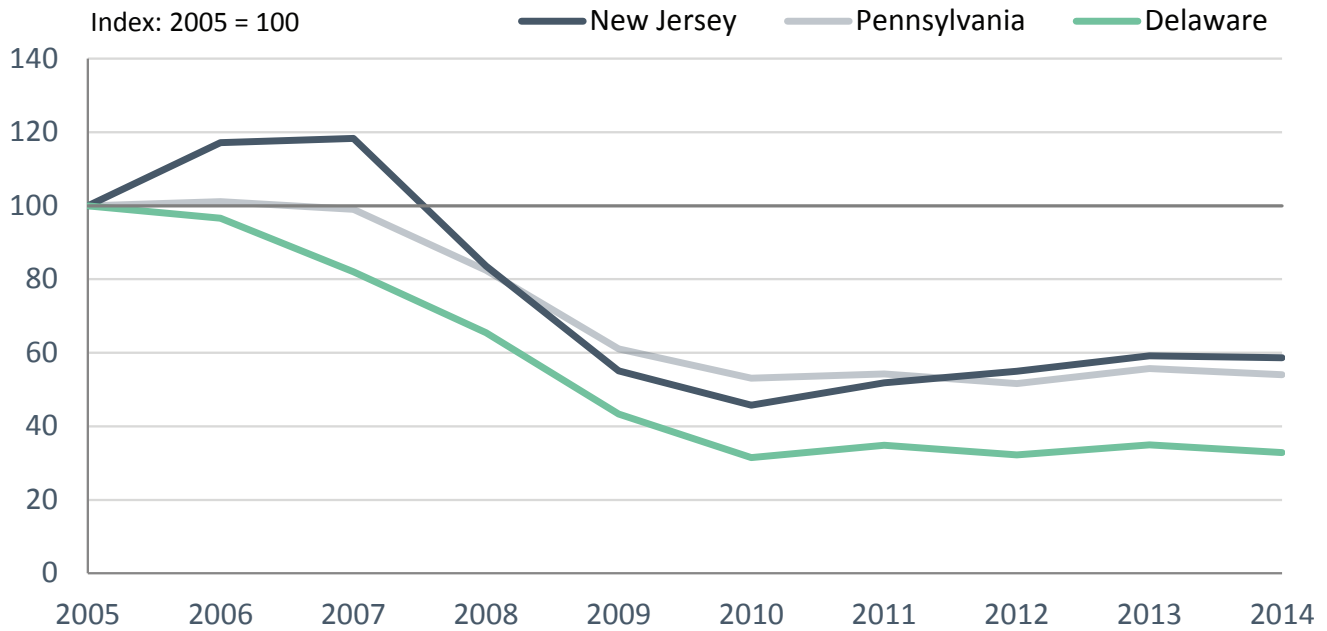
With the loss of senior workers, there may be a need for companies to proactively consider collecting and documenting institutional knowledge.

Even if the economic recovery softens or stalls, the retirement of our experienced local baby boomers will require employers in Berks County to continue focusing on recruitment, retention, and engagement activities to replace the retiring talent that they have relied on for the past 10–15 years. We have never seen anything before like this demographic change.

5. Small businesses have difficulty accessing the capital and support needed to expand and create more jobs.

Many respondents identified entrepreneurship and small business development as key economic development priorities. However, others noted that small business owners often have difficulty managing day-to-day operations, planning for expansion, and accessing financial capital appropriate for their needs. Figure 5 shows relative changes in the volume of lending to businesses with less than \$1 million in revenue across the three Third District states, illustrating that volume declined substantially from 2007 to 2010 and has not recovered. Several respondents noted a recent rise in predatory small business lending and a growing use of online lenders, though none explicitly connected these trends to the decline in lending by conven-

Figure 5. Indexed volume of lending to small businesses, Third District states, 2005–2014



Index values: DE, 100 = \$0.57 billion; NJ, 100 = \$3.95 billion; PA, 100 = \$6.14 billion (2014 dollars)

Notes: Small business defined as businesses with gross annual revenues of \$1 million or less. Includes only lending activity by banks subject to the Community Reinvestment Act. Based on 2014 dollars adjusted using U.S. Bureau of Economic Analysis Implicit Price Deflators.

Source: Authors' calculations based on FFIEC 2005–2015 CRA Aggregate Flat Files, Table A1-1.

tional banks. Other impediments to creating a supportive environment for small business development included lack of infrastructure investment and limited coordination among economic development stakeholders.

Our clients typically have trouble finding available/developable land and buildings for their businesses; there are often capital gaps in their business and development plans.

Individuals looking to start-up or expand their businesses need help with a variety of issues ranging from knowing what licenses they need to operate to preparing financial statements to assess how they are doing in their business to obtaining the right sort of capital to grow.

Opportunities

When asked, “Over the past year, have you seen any promising trends or changes?” the following were cited

as promising opportunities for improvement by survey respondents.

1. New opportunities under the Workforce Innovation and Opportunity Act

Many respondents expressed cautious optimism about the implementation of the Workforce Innovation and Opportunity Act (WIOA) of 2014, the most significant federal workforce legislation in recent years. Under WIOA, states were required to develop plans that prioritize serving individuals with barriers to employment, implement new performance metrics, and integrate best practices (such as career pathways strategies) and sector partnerships into their programming. State plans have been submitted to the federal government and are scheduled to take effect on July 1, 2016.

Local workforce boards were also required to develop WIOA plans, for which respondents expressed varying degrees of enthusiasm. Some reported that their local boards had seized on the opportunity to implement

more innovative programming. Others felt there had been some improvements but that opportunities for more substantial reforms had been missed. A number of respondents shared that their new plans would expand on-the-job training, apprenticeships, and work-based learning programs that enable participants to maintain their income as they increase their skills.

New federal WIOA workforce legislation has created opportunities to innovate around workforce programming, but these innovations have been realized to a limited extent to date as regulatory/policy/funding frameworks adapt to the new federal policy regime.

2. Leveraging resources for career and technical education

Several respondents emphasized the importance of implementing career and technical education (CTE) in high school and postsecondary programs, which serve as natural access points for job training and career services. They noted that effective CTE programs both connect individuals to career opportunities and meet the skills development needs of local employers. Respondents cited the willingness of companies to invest time and resources into these programs — including providing individual tuition assistance, sharing training facilities, and participating in curriculum development — as evidence of the value they produce for private employers.

We are very focused on promoting high-quality secondary career and technical education (CTE) that leads directly to postsecondary credentials and associate's degrees, particularly in technical areas. The Technical Academy career pathway from our two local high school Career and Technology Centers to Reading Area Community College are great preparation for local in-demand occupations and articulate to high-quality bachelor's degree programs — often with tuition assistance from employers.

[T]he cost of STEM [science, technology, engineering, and mathematics] labs for a small college like ours is prohibitive. To address that problem, we are working hard to develop programs in partnership with Career and Technology Centers so we can use their labs and the shops/labs of business partners in our region.

3. Growing interest in collaboration across stakeholders and organizations

While the fragmentation of local economic development stakeholders was cited as an ongoing challenge by some respondents, others identified growing interest in collaboration as a promising trend. Many recognized the limitations of working in silos and felt that greater coordination of these stakeholders was critical for scaling programs and maximizing impact. Some reported that large private employers were increasingly motivated to work with public and community-based organizations to develop staffing and training pipelines. On the public sector end, process enhancements facilitated by the adoption of shared online platforms and case management systems were improving access to services as well as the capacity for collaboration across public agencies.

We've seen significant interest in collaboration between shapers of supply (community colleges, workforce entities) and shapers of demand (economic development, employers).

Comprehensive graduation-tracking and college and career readiness support are essential for clients of all ages in order to move the needle on this. Deliberate engagement with employers and higher education by nonprofits is the only way to seek out these individuals and create real pathways to these options. Nonprofits alone cannot achieve this without strategic partnership and radical thinking.

Digging deeper: More resources from CDS&E

For a more in-depth look at topics discussed in this report, see the following publications from the CDS&E Department of the Federal Reserve Bank of Philadelphia:

- “Identifying Opportunity Occupations in Pennsylvania, New Jersey, and Delaware,” available at www.philadelphiafed.org/-/media/community-development/publications/special-reports/identifying_opportunity_occupations/identifying_opportunity_occupations_complementary_report.pdf?la=en.
- “Online Lenders Disrupt Small Business Lending,” available at www.philadelphiafed.org/community-development/publications/cascade/91/02_online-lenders.
- “Apprenticeships and Their Potential in the U.S.,” available at www.philadelphiafed.org/community-development/publications/cascade/90/01_apprenticeships.
- “Measuring the Quality, Not Quantity, of Job Creation,” available at www.philadelphiafed.org/community-development/publications/cascade/90/04_measuring-the-quality.

Authors



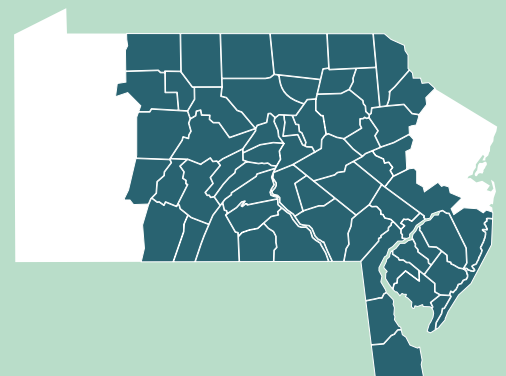
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The Third Federal Reserve District

The Federal Reserve Bank of Philadelphia serves the Third District, which covers eastern Pennsylvania, southern New Jersey, and Delaware. The Bank’s Community Development Studies & Education Department supports the Federal Reserve System’s economic growth objectives by promoting community development in low- and moderate-income communities and fair and impartial access to credit in underserved markets.





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