



Memorandum

To: Panel Members

Date: June 27, 2014

From: Jill McAloon, Acting Executive Director

File:

Subject: FUNDING & CAPS FISCAL YEAR 2014-15

This Memo outlines ETP funding and proposes a subsequent reduction in the amount of all core program funding caps for Fiscal Year (FY) 2014-15. Staff recommendation is based on evaluation of ETP's appropriation under the Budget Act; obligations in prior year contracts; and, anticipated funding demand.

Funding

The Budget Act of FY 2014-15 appropriates \$63.2M to the Employment Training Fund (ETF). Adjusting this amount down \$5.6M for Employment Training Fund (ETF) expenditures for EDD Tax Collections Branch and \$42K for the Financial Information Systems for California (Fi\$CAL) Project, and upward for \$3M estimated ETP program funds to be reinvested - ETP will have approximately \$60.6M available for FY 2014-15. This is \$10M more in core program funds than were available last FY.

However, given further adjustments down for ETP's prior year contract obligation (\$24M), Program Administration (\$9.5M), EDD Support (\$650K), Marketing & Research (\$300K), Pro Rata (\$649K), and ETMS (\$875K) - there will be \$24.6M available to fund training projects. Through incremental encumbrance, this will yield nearly \$51M in contract value for new training contracts in FY 2014-15.

ETP's prior year contract obligations (\$24M) are much higher and available training funds are lower than anticipated for several reasons:

- **Low Encumbrances:** ETP historically has worked to maximize funds, stretching its training funds in any given FY to meet demand and serve as many employers as possible. ETP exhausted training funds early in this and prior FY's due to high demand for funds, necessitating that many projects be encumbered at a lower than normal rate, pushing the majority of the funding obligation for those contracts forward into FY 2014-15.

- **Accelerated Invoicing:** Contractors have been invoicing for training reimbursement at unprecedented rates. ETP paid more progress payment invoices in FY 2013-14 than in any of the past five years. Contractors are invoicing immediately, rather than later in the contract term, which has been the historical trend. This is in part due to ETP's antiquated MIS system which was frequently crashing over the past few years, spurring contractors to invoice quickly while the system was up and running – and before it finally fails. Also, anticipation of ETP's halting the invoicing process before implementation of the new Employment Training Management System (ETMS) in August spurred an onslaught of invoices. Because we paid more invoices, there were less funds available, resulting in more projects being funded at a lower encumbrance rate.
- **Record High Project Performance:** Projects have been performing at record-high rates due to the Panel's diligent efforts to right size projects over the past couple of years. While high performing projects are excellent, the unanticipated high performance required more funds be paid than anticipated in the given FY, requiring other projects be encumbered at lower rates and their contract liability pushed forward.
- **Mega Panel Packets:** The Panel has been averaging Panel Meetings of approximately \$8M. June's mega Panel Packet includes 93 projects totaling \$16.6M. The number of projects is primarily in response to the announcement that the Panel would cancel its August Meeting for implementation of ETMS – and the subsequent push by applicants to have their projects approved before the August Meeting. Staff estimates that July's Panel Packet will be nearly as large due to the same phenomenon. June and July projects are being funded out of FY 2014-15 funds, consuming a substantial portion of available training funds for the new FY.

Funding Caps

To maximize training funds in FY 2014-15, it is prudent to reduce current project funding caps. As an equitable base line for Panel consideration, staff recommends a 50% reduction to all caps (excepting small business), rolling caps back to those established in prior FY's. Following are the proposed reduced funding caps:

<i>Core Program Contract Type</i>	<i>FY 14-15 Reduced Project Caps</i>	<i>Compare to FY 13-14 Project Cap</i>
Single Employer	\$425,000	\$850,000
Single Employer: Job Creation Only	\$350,000	\$700,000
Single Employer: Retraining and Job Creation	\$750,000	\$1,500,000
Single Employer: Multiple Facilities	\$750,000	\$1,500,000
Multiple Employer	\$625,000	\$1,250,000

Core Program Contract Type	FY 14-15 Reduced Project Caps	Compare to FY 13-14 Project Cap
Small Business (<i>may not exceed cap</i>)	\$50,000	\$50,000
Fast Track – Eliminated <i>There is no longer a Delegation Order for Fast Track projects. All Small Business projects must comply with the Small Business cap. Large business must comply with the Single Employer cap.</i>	NA	\$100,000
Apprentice Training: Per program sponsor <i>Projects with multiple sponsors may not exceed MEC cap</i>	\$225,000	\$450,000
Critical Proposals	\$750,000	\$1,500,000
<u>Alternative Funding Caps</u>		
<i>AB118: Caps determined case-by-case basis</i>		
<i>Drought: Caps determined case-by-case basis</i>		
<u>Amendments</u>		
<i>Funding for active contracts may be increased, in conformity with these caps, on a case-by-case basis depending on performance.</i>		
<i>Projects funded in April 2014 that were reduced 30% and are subsequently scheduled for a 30% increase at the July Panel may be amended - up to the project caps only.</i>		

Future Panel Meetings

Given available funds in FY 2014-15, it will not be possible to schedule a full year of monthly Panel Meetings. As in years past, funding will be depleted prior to the end of the FY. Staff plans to coordinate some Panel Meeting cancellations with implementation of ETMS when staff and stakeholders will be testing and training in the new system. Presently, the Panel is scheduled to meet in July and August. We will revisit the issue Panel Meetings at the July Panel meeting.

Pre-Applications

ETP is currently receiving Pre-Applications at a phenomenal rate – up to 30 per day – likely in response to cancellation of the August Panel. Based on the number of Pre-Applications received and assigned to the Regional Offices for development, and the number of projects already submitted for July Panel, staff

estimates that we are close to full contracting capacity for FY2014-15. Thus, it is prudent to impose a deadline for submission of all Pre-Applications for FY 2014-15.

Risk Mitigation

The practice of stretching available funds to meet demand and encumbering projects at lower level, pushes contract liability forward into future fiscal years. Moving forward, to mitigate the risk of high prior year contract liabilities in FY 2015-16 and beyond, staff will consistently and conservatively encumber projects at higher levels, adjust its project performance metric upward, and establish better controls to balance available funds, demand, and project performance. Many of these controls will be managed in the new ETMS.

Recommendation

As an equitable base line for Panel consideration, staff recommends a 50% reduction to all core program caps (excepting small business) for FY 2014-15. The reduced caps would be effective for (1) all projects approved beginning with the June 2014 Panel Meeting; (2) all amendments to restore projects that were approved and reduced 30% at the April Panel Meeting; and (3) all amendments to active projects. Staff also recommends a deadline be imposed for submission of all Pre-Applications for FY 2014-15.