

The Panel chose not to take action on the Broker Model at its meeting on March 25, 2016. Instead, this matter was held over for action at the next regularly-scheduled meeting. As such, this Memo to Panel will be re-dated and posted as part of the Panel Packet for the meeting on May 27, 2016. [Note: The April 2016 meeting has been cancelled.]



# Memorandum

To: Panel Members

Date: 3/25/16

From: Stewart Knox  
Executive Director

File: Panel Memo

Subject: MEC Broker Model

This memorandum outlines a new policy for Multiple Employer Contracts (MEC) when a third party (Vendor) performs all or most of the work required to earn funding. That scenario is referred to herein as the Broker Model.

The Broker Model is reflected in Development Fees, Support Costs, Administrative Fees and Training Costs for each MEC. It is typical for this model that development is by the Vendor, but fees are waived. Also, that Support Costs and Administrative Fees are split with the Vendor; and all training is by the Vendor, to be paid at the applicable hourly rate. The split of fees/costs is outlined in a subcontract between MEC and Vendor, and shown in the ETP130.

ETP experience shows that the Broker Model usually arises when the MEC is held by a Chamber of Commerce, a Community College or a Workforce Development Board (WDB). All of those entities are either public or non-profit.

For purposes of this discussion, only private schools and for-profit entities are considered Vendors. In other words, this discussion concerns public-sector contractors that act as a pass-through for ETP funds paid in large part to private, for-profit sector Vendors.

## **Background**

The Panel has expressed concern over the Broker Model for many years. This issue “came to a head” last month, when the Panel denied a proposal by South Orange County Regional Chamber of Commerce (SOCRCC) for almost \$1.2M including Support Costs at 6% (ET16-0340). The denial, by roll-call vote, was primarily based on the fact that half of the costs/fees and all training funds would be paid to one private-sector Vendor: Saisoft, Inc. [Note: Of the \$1.2M requested by SOCRCC, all but \$100K would have been paid to the Vendor.]

The Panel also considered that all training was for Computer Skills paid at the Class/Lab rate, although almost all delivery was web-based (E-Learning). Also, that the same Vendor had been retained by SOCRCC in a recent MEC; and, the same Vendor had been retained in other MECs during the same Fiscal Year 2015/16. However, these factors were not the primary basis of denial. (See Panel Meeting Minutes for February 22, 2016.)

## **Issue**

The Panel raised two primary issues in discussing the Broker Model last month:

1. If a contractor does not do development, administration or training then does it have sufficient “skin in the game” to justify fees/costs as a MEC? If so, at what percent?
2. If the same Vendor brokers its services to two or more MECs in the same Fiscal Year, does this “beat the system” when there are limited funding allocations?

The Panel also questioned whether the Class/Lab rate was justified for training when delivery is web-based (E-Learning). However, that subject requires research on rate-setting and is reserved for a later discussion.

## **Discussion**

The Broker Model raises policy concerns and funding priorities that can only be assessed in discussion by the full Panel. An outline of the work required to earn ETP funding is shown below, to foster such discussion:

Development work includes Needs Assessment, Marketing/Recruitment, and preparation of the Application/Proposal. Development fees may be waived or paid up-front. These fees are expected to be paid by a source other than ETP funds. [Note: The Panel put an informal cap on Development Fees at 10% of contract value, which is not at issue.]

Needs Assessment and Marketing/Recruitment is also directly reimbursed by ETP through Support Costs, typically 8% of contract value. Under the Broker Model, Support Costs may be passed-through to a Vendor even if Development Fees are waived.

Administrative work includes trainee enrollment, maintaining attendance rosters and tracking hours of training delivered, meeting with ETP monitoring staff, invoicing and fiscal close-out. These fees are capped at 13% of payment earned, for retraining.

Training delivery includes all methods but is primarily Class/Lab (including E-Learning) or Computer-Based Training. When the MEC is held by a community college or college district, it is unclear why a Vendor is needed to deliver training. Rather, a college may be expected to bring its own expertise to bear in the delivery of training. Payment is by hourly rate(s) based on trainee population, employer size and method of delivery.

## **Summary**

In general, performance under the Broker Model has been good. For example, payment earned is projected at 99% for the most recent contract held by SOCRCC (ET14-0303). As well, trainee surveys have demonstrated satisfaction with the quality of training delivered. [Note: Satisfactory training delivery under the Broker Model is not at issue.]

Under the Broker Model, a Vendor can earn the bulk of funding for multiple contracts in the same Fiscal Year. This “beats the system” when MEC funding allocations are limited. The purpose of the Broker Model becomes even more blurred when the Vendor is a training entity, capable of holding its own MEC with proper licensure and certification.

### **Recommendation**

Staff recommends that the Panel take action to restrict Broker Model MECs by one or more of the following methods, on a pilot basis.

- Restrict a single Vendor to  $\leq 50\%$  of total Training Delivery in a single MEC
- Exclude Development Fees for any Vendor that also receives part of Support Costs
- Reduce Support Costs for the MEC overall, regardless of split with any Vendor

Staff further recommends that the action(s) be implemented case-by-case as proposals are presented for funding in the next Fiscal Year (FY) 2016/17. The effectiveness of this approach would be subject to evaluation at the end of next FY, along with any other concerns about the Broker Model overall.