**Out-of-School Youth Expenditure Rate Waiver**

**Discussion Paper**

**Background**

The Workforce Investment Act (WIA) of 1998 established a formula-funded youth program that served eligible low-income youth who faced barriers to employment. The Workforce Innovation and Opportunity Act (WIOA) of 2014 replaced WIA and set forth several changes for the formula-funded youth program. The most significant change was to shift the focus of youth resources primarily to out-of-school youth (OSY). WIOA raised the minimum OSY expenditure rate for governor’s reserve funds and youth formula funds from 30 percent to 75 percent. This shift is intended to refocus the program to serve OSY during a time when large numbers of youth and young adults have left school and are not connected to the labor force.

In July 2004, the US Department of Labor (DOL) established OSY as a priority population. Congress then proposed WIA reauthorization legislation that would increase minimum OSY expenditure requirements. On June 22, 2006, in response to that proposed legislation, the Texas Workforce Commission’s (TWC) three-member Commission (Commission) approved an incremental increase of the minimum expenditure requirement for OSY in Texas to 45 percent for Program Year 2006 (PY’06) and 60 percent for PY’07. In December 2007, the Commission voted to maintain the 60 percent OSY expenditure rate beginning with PY’08 and to continue until Congress and the president reauthorized WIA.

By 2013, WIA had not been reauthorized. In response to suggestions from Local Workforce Development Boards (Boards), on February 27, 2013, the Commission approved the reduction of the OSY minimum expenditure requirement to 30 percent to allow full flexibility in operating OSY programs, consistent with then-current federal law.

Texas continued operating under the reduced expenditure rate until July 2015, when WIOA increased that rate to require that at least 75 percent of governor’s reserve and youth formula funds be used to provide workforce investment activities for OSY.

**Issue**

TWC determined that the 75 percent expenditure requirement made it difficult for the state and Boards to serve OSY and in-school youth (ISY) in ways that best meet each local workforce development area’s (workforce area) needs, which vary according to each workforce area’s population, resources, economy, employment outlook, and other labor market factors. In June 2018, TWC requested that DOL waive the requirement, as it impeded TWC’s ability to implement its state plan to improve the workforce development system. Specifically, TWC requested this waiver for increased state and local flexibility so that up to 50 percent of youth funds could be directed to delivery of workforce and educational services to ISY while continuing to serve OSY as a priority population.

On September 20, 2018, DOL approved TWC’s request to reduce the minimum OSY expenditure rate to not less than 50 percent. DOL approved the waiver for PY’18 and PY’19 (July 1, 2018, through June 30, 2020).

The waiver authorizes TWC to reduce the 75 percent minimum OSY expenditure rate to not less than 50 percent of both youth formula funds and the governor’s reserve funds. The waiver also allows TWC to calculate the OSY expenditure target at the state level rather than by each workforce area.

**Decision Point**

Staff seeks direction on reducing the minimum OSY expenditure rate applicable to Boards from 75 percent to TWC’s pre-WIOA expenditure rate of 60 percent.