# Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

**MICHIGAN NEW JOBS TRAINING PROGRAM: COMMUNITY COLLEGE BOND PROGRAM**

**House Bill 6185 as enrolled**
**Public Act 360 of 2008**
**Sponsor: Rep. Richard Hammel**

**Senate Bill 1342 as enrolled**
**Public Act 359 of 2008**
**Sponsor: Sen. Mark Jansen**

**House Committee: Education**
**Senate Committee: Commerce and Tourism**
**Second Analysis (1-6-09)**

***BRIEF SUMMARY:*** The bills would authorize community college districts to operate a new jobs training program that would involve entering into training agreements with Michigan employers to train and educate new employees. The program would be financed by diverting income tax withholding of those new employees directly to the community colleges, rather than to the state treasury. (This would be referred to as a "new jobs credit from withholding.") The community colleges could issue bonds to finance training programs, with the bonds financed by the income tax withholding payments.

***FISCAL IMPACT:*** By allowing community colleges to issue bonds to initially finance the projects, and mandating that businesses reimburse the community college by capturing a portion of the taxes withheld that are attributable to the new employees' wages and redirecting it to the college, there will be an indeterminate fiscal impact to the state. To the extent that the capture of withholding reduces gross income tax revenue, the School Aid Fund would be reduced accordingly. The remaining reductions would accrue to the General Fund. For more detail, see ***Fiscal Information***.

***THE APPARENT PROBLEM:***

Michigan's economy is in recession; its unemployment rate high; its loss of manufacturing jobs steady and severe.

Historically, in good economic times and bad, administrators from Michigan's 29 community colleges have partnered with local businesses to prepare workers for jobs in their communities. However, the community college faculties have not educated specific new employees requested by prospective companies.

In 1983, the state of Iowa faced a similar economic downturn in its manufacturing sector. There, state policymakers created a program in which companies adding new jobs can enter into training contracts with local community colleges for a predetermined number of employees. The community colleges issue bonds to pay for the training. The cost of that training is then diverted from the employees' state income taxes, with that money going back to the community college to pay debt service on the bonds. The employee incurs no cost for the training, and the company shoulders the responsibility for repayment, if the contract is broken. According to committee testimony, during its 25-year history, the Iowa community college job creation program has had less than a three percent default rate. Further, companies are obliged to pledge personal assets to repay the bonds if the employment contract is violated.

According to official reports from Iowa, since 1983 employers working with community colleges have received over $560 million from the Iowa New Jobs training Program for 2,000 training projects and more than 138,000 planned new jobs, some of which pay salaries averaging nearly $40,000 annually. See ***Background Information***.

Legislation has been introduced in Michigan to establish a similar community college job training program, authorizing community colleges trustees to issue debt on behalf of employers who are creating new jobs, or expanding operations in Michigan.

## *THE CONTENT OF THE BILL:*

The bills would authorize community college districts to operate a new jobs training program that would involve entering into training agreements with Michigan employers to train and educate new employees. The program would be financed by diverting income tax withholding of those new employees directly to the community colleges, rather than to the state treasury. (This would be referred to as a "new jobs credit from withholding.") The community colleges could issue bonds to finance training programs, with the bonds financed by the income tax withholding payments.

<u>Senate Bill 1342</u> would amend the Community College Act (MCL 389.1 et al.) by adding a new Chapter 13, entitled "New Jobs Training Program."

<u>House Bill 6185</u> would amend the Income Tax Act (MCL 206.351 et al.) to enable employers to redirect income tax withholdings for new employees from the state to a community college, for a college's new jobs training program. Payments made by an employer to a community college or the fund would be considered income taxes paid to the State of Michigan.

The bills are tie-barred so that neither could go into effect unless both are enacted into law.

Following is a more detailed description of the bills.

<u>Senate Bill 1342</u>

<u>Senate Bill 1342</u> would amend the Community College Act (MCL 389.1 et al.) by adding a new Chapter 13, to be entitled "New Jobs Training Programs."

Definitions. The bill defines "new jobs training program" to mean the project or projects established by a community college district for the creation of jobs by providing education and training or retraining of workers for new jobs.

The bill defines "new job" as a fulltime job in Michigan that meets all of the following:

- Is a new, existing, or expanding business of an employer.
- Is *not* a job of a recalled worker, a replacement job, or any other job that existed in the employer's business within the one-year period preceding the date of an agreement.
- Is *not* a job that is part of an employer's business operation located in a municipality in Michigan, if that job existed in a business operation (or a substantially similar business operation) located in another municipality in Michigan, the employer moved that business operation to its current location, and the employer closed or substantially reduced that former business operation.
- Results in a net increase in employment in Michigan for that employer.
- The compensation for the job meets either of the following: it pays wages that are equal to or exceed 200 percent of the state minimum wage, or it includes family health benefits provided and paid for by the employer, and pays wages that are equal to or exceed 150 percent of the state minimum wage.

The bill would define "state minimum wage" to mean the minimum hourly wage rate under the Minimum Wage Law of 1964, 1964 PA 154, MCL 408.381 to 408.398.

The projects would involve a community college providing training or retraining for new jobs; adult basic education and job-related instruction; development, readiness, and remedial education; vocation and skill-assessment services and testing; training facilities, equipment, materials, and supplies; administrative expenses for the new jobs training program; sub-contracted services with public universities and colleges in Michigan, private colleges or universities or any federal state, or local departments or agencies; and contracted or professional services.

Employer-Community College Agreements. Under the bill, a community college district may enter into an agreement to establish a project with an employer engaged in business activities anywhere in Michigan. The agreement must include seven provisions, described fully in the bill, including:

- The estimated number of jobs to be created.
- The program costs that would be paid from a new jobs credit from withholding, to be received or derived from new employment resulting from the project, or from tuition, student fees, or special charges fixed by the board of trustees to defray program costs.
- The promise that if the amount received from the new jobs credit from withholding was insufficient to pay program costs, then the employer would agree to provide money, at least quarterly, to make up the shortfall so that the community college district received (for each quarter) the minimum amount of a new jobs credit from withholding provided in the agreement.

- The employer's agreement to mortgage, assign, pledge, or place a lien on any real or personal property as required by the community college as security for its obligations under the agreement.
- An administrative fee to the community college district in an amount equal to 15 percent of the amount to be paid under the agreement.

Any payments required to be made by an employer under the agreement would be a lien on the employer's business property, real and personal, until paid; have equal precedence with property taxes; and not be divested by a judicial sale.

A community college would file a copy of an agreement with the Department of Treasury promptly after its execution. There could be no new agreements after December 31, 2018.

New Jobs Credit from Withholding. The bill creates a "new jobs credit from withholding." Under the bill, if any part of the program costs of a new jobs training program are to be paid from money received from the new jobs credit from withholding, then the agreement must contain six provisions described in detail in the bill. Among those provisions is one that specifies that for each employee in a new job, the employer would each month pay the amount required to be deducted and withheld by the employer under the Income Tax Act to the community college district in the same manner as the employer pays withholding payments to the Revenue Division of the Department of Treasury. The amounts received would go into a special fund to pay program costs and to pay the principal and interest on any bonds issued by the community college district to finance or refinance the project.

At the end of each quarter, the community college receiving money from employee withholding would have to certify to the Department of Treasury the amount received for each of its employer-partners. By April 1 of each year, each community college district that received money from a new jobs credit from withholding in the preceding calendar year would have to provide information to the Department of Treasury, including:

- The name of each employer, organized by major industry group under the standard industrial classification code, as compiled by the U. S. Department of Labor.
- The amount of money that had been remitted to the community college.
- The amount of new jobs training revenue bonds the community college had authorized, issued, or sold.
- The total amount of the community college district's debt related to agreements.
- The number of degrees or certificates awarded to program participants.

New Jobs Training Revenue Bonds. A community college board of trustees could authorize, issue, and sell its new jobs training revenue bonds in anticipation of payments to be received under an agreement with an employer, in order to finance costs of new jobs training programs and to pay costs of issuing those bonds. The bonds would have to be authorized by resolution of the board of trustees, bear the date and time of maturation, and could not exceed 20 years from the date of issue. A community college district could issue bonds for a single project or for multiple projects, as determined by the board of trustees in their authorizing resolution.

Bonds issued under this program would not be subject to the Revised Municipal Finance Act but would be subject to the Agency Financing Reporting Act.

The bill specifies a number of provisions that could be (but are not required to be) included in a resolution authorizing any bonds; if those provisions were included in the resolution, they would be part of the contract with the holders of the bonds. The bill also specifies how any pledge of money or other assets made by the community college district to secure any bonds or issue of bonds would be considered.

<u>No Board Liability</u>. Under the bill, neither the trustees of the community college district board nor any person executing bonds would be personally liable on the bonds, or subject to any personal liability or accountability, by reason of the issuance of the bonds.

<u>Bonds Don't Count Toward Debt Limit</u>. Bonds issued under this program would not be considered to be within any limitation of outstanding debt limits applicable to the community college district, but instead would be considered to be authorized *in addition* to any limitation.

<u>Refunding Bonds</u>. The bill specifies that a community college district could refund all or any part of its outstanding bonds that are issued for this program, by issuing refunding bonds. The community college could issue refunding bonds in a principal amount greater than the principal amount of the outstanding bonds to be refunded, if that is necessary for the refunding plan.

<u>Self-Funding</u>. A community college district would be authorized to pay all or part of the cost of new jobs training programs out of funds of the community college district, including self-funding methods. The use of the funds to pay the costs would be considered to be an authorized expenditure of public funds and would not be construed as an investment.

<u>Tax Exempt</u>. Bonds and notes issued by a community college, as well as interest and income, would be exempt from taxation by the State of Michigan or a political subdivision of the state.

<u>Limits and Caps</u>. The bill prohibits a community college district from authorizing, issuing, or selling any new jobs training revenue bonds after December 31, 2018.

Finally, the bill specifies that the aggregate outstanding obligation of all agreements entered into under this proposed chapter could not exceed $50 million in any calendar year. Further, in any calendar year, the sum of the aggregate amount of the outstanding obligations of all agreements entered into under this chapter of the act, pluls the aggregate amount of similar outstanding obligations of all agreements entered into under section 88r of the Michigan Strategic Fund Act, could not exceed $50 million.

<u>House Bill 6185</u>

<u>House Bill 6185</u> would amend the Income Tax act (MCL 206.351 et al.) to enable employers to redirect income tax withholdings for new employees from the state to a

community college, with the revenue to be used for a college's new jobs training program. Payments made by an employer to a community college would be considered income taxes paid to the State of Michigan.

For employers who enter into agreements with community colleges, a portion of the taxes withheld that are attributable to each employee in a new job would be accrue to the community college on the last day of the month in which the taxes are withheld, but would be returned and paid to the community college by the employer within 15 days after the end of any month for as long as the agreement remained in effect.

An employer who makes payments to a community college would be required, in its report or return to the Department of Treasury, to delineate between the amount deducted or withheld and paid to the state, and that amount paid to the community college.

By July 1 of each year, based on information received from each community college district, the Department of Treasury would be required to prepare a report, and submit it to the Governor, Clerk of the House, Secretary of the Senate, the chairperson of each legislative standing committee and legislative budget subcommittee with jurisdiction over economic developments issues, and the President of the Michigan Strategic Fund. The report would have to identify, among other things, the participants in the program; describe its size, scope, and impact, including the total amount of money from the new jobs credit; the total amount of the new jobs training revenue bonds each community college district had authorized, issued, or sold; and the number of degrees or certificates awarded to program participants.

***BACKGROUND INFORMATION:***

To read a host of reports about the Iowa experience, search the phrase "Iowa New Jobs Training Program" with your Internet website browser.

***FISCAL INFORMATION:***

Senate Bill 1342 would amend the Community College Act of 1966 by authorizing community college districts to operate a new jobs training program, enter into training agreements, and issue bonds to finance the training program. By allowing community colleges to issue bonds to initially finance the projects and mandating that businesses reimburse the community college by capturing a portion of the taxes withheld that are attributable to the new employees’ wages and redirecting it to the college, there will be an indeterminate fiscal impact to the state.

The portion of the income tax that would have gone to the state would now go to the community college operating the training program. The diversion of income tax revenue to the community college from the treasury would have a negative fiscal impact on state government. About 23.3 percent of gross income tax revenue is earmarked to the school aid fund (SAF). To the extent that the capture of withholding reduces gross income tax revenue, the SAF would be reduced accordingly. The remaining reductions would accrue to the General Fund. The bill also specifies that the aggregate outstanding obligation of all agreements entered into under this proposed chapter could not exceed $50 million in any calendar year.

Adding to the uncertainty of the fiscal impact, the number of community colleges and businesses, and the extent to which they would participate, is not known at this time. Finally, although the bill contains language specifying that the agreement between the community college and employer include a provision placing a lien, having equal precedence with property taxes, on the employer's business property, real and personal, and a provision requiring the employer to provide money, at least quarterly, to make up any difference in new jobs credit withholding and program costs, it is uncertain what impact an insolvent or bankrupt employer would have on the community college's ability to recoup costs to assist in debt financing on issued bond debt for the workforce training.

***ARGUMENTS:***

***For:***

As a spokesman for the Michigan Works! Association testified, "Michigan's economic transformation and competitiveness in this fast-changing global economy will require increased investment in a skilled and educated workforce. It is now critical that we accelerate our efforts to support employers that are looking to create new jobs in Michigan. Senate Bill 1342 will do just that, by establishing the Michigan New Jobs Training Program (MNJTP). This economic development incentive will authorize our state's community colleges to issue debt on behalf of employers creating new jobs for the purpose of funding job training. The principal and interest would then be paid by capturing the incremental increase in the state income tax associated with the new employees' wages--*wages that would likely not be realized without this very program*." The association argues, as do other proponents of the bill, that this legislation provides a low-risk funding tool that can greatly increase the competitiveness of Michigan's workforce.

Legislative Analyst: J. Hunault
Fiscal Analyst: Ben Gielczyk