

MSF: AGREEMENTS WITH EMPLOYERS TO TRAIN WORKERS USING STATE INCOME TAXES

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House Bill 6722 (Substitute H-1)

Sponsor: Rep. Joan Bauer

Committee: Education

First Analysis (12-3-08)

BRIEF SUMMARY: The bill would allow the Michigan Strategic Fund to make agreements with employers to finance job training/retraining programs and related activities by making loans or issuing bonds to employers and capturing the income tax withheld from the wages of the employees in the new jobs.

FISCAL IMPACT: The bill would reduce funding for the General Fund and the School Aid Fund below the amount they otherwise would have received from income tax revenues for new wages earned. 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.

The Michigan House of Representatives and Senate have passed bills to establish a similar community college job training program--House Bill 6185 and Senate Bill 1342. This bill would allow the Michigan Strategic Fund to participate in that Michigan New

Job Training Program--the program to be created by the bills passed earlier in the legislature, but not yet enacted into law.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Strategic Fund Act (MCL 125.2001 et al) to allow the Fund to enter into agreements with respect to employers and to make loans and issue bonds with respect to an employer who has entered into an agreement with the Michigan Economic Growth Authority for any of the following purposes:

- Training or retraining for new jobs.
- Adult basic education and job-related instruction.
- Development, readiness, and remedial education.
- Vocational 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.

The bill specifies that an agreement or bonds issued could provide for state income taxes to be pledged to finance the cost of providing services.

Under the bill, the MSF board could delegate to the MSF president the authority to make loans and enter into agreements for loans of \$2 million or less.

Finally, the bill would cap the aggregate outstanding obligation of all agreements entered into by the Fund with employers, under this section at \$10 million in any calendar year.

FISCAL INFORMATION:

House Bill 6722 would allow the Michigan Strategic Fund (MSF) to make agreements with employers to finance job training/retraining programs and related activities by making loans or issuing bonds to employers and capturing the income tax withheld from the wages of the employees in the new jobs. The bill says that these agreements may allow the MSF to capture the income taxes generated by the new positions to finance the cost of providing services. If the agreements allow income taxes to be captured, the bill would reduce income tax revenue that the state would have received by an indeterminate amount, depending upon how many job training programs are initiated and how many new jobs are created. The bill would increase revenue to the MSF since the portion of income tax revenue that would have gone to the state would be directed to the MSF.

Of the income tax revenue collected by the state, 76.7 percent is directed to the General Fund and 23.3 percent is earmarked to the School Aid Fund. While it is not possible to estimate the amount of fiscal impact from the bill at this time, the provisions of the bill would cause both the General Fund and the School Aid Fund to have reduced funding from the amount they would have received from income tax revenues for any new wages earned.

ARGUMENTS:

For:

This legislation allows the Michigan Strategic Fund to participate in the Michigan New Jobs Training Program, providing a low-risk funding tool that can significantly increase the competitiveness of Michigan's workforce. The bill would help to improve Michigan's economy by allowing the Fund to participate in job training agreements. Those agreements would be similar to the customized job training programs located in community colleges that aim to ready new employees for work with local employers. In order to monitor the effectiveness of this program--modeled after a similar job training program in Iowa now in its 25th year--the bill would cap the aggregate outstanding obligation of all agreements entered into by the Fund with employers, at \$10 million in any calendar year.

Against:

Although the goal of this bill--job creation--is sound, its passage would decrease the amount of potential revenue paid to the state treasury by Michigan employers. That is because the job training program would be financed by diverting income tax withholding of new employees directly to community colleges or to the Michigan Strategic Fund, rather than to the Department of Treasury. With a projected shortfall in the Fiscal Year 2009 state budget of several millions of dollars, Michigan can ill-afford any loss of revenue directed to the General Fund or the School Aid Fund.

Response:

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...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.*"

POSITIONS:

The Michigan Economic Development Corporation supports the bill. (12-2-08)

The Department of Treasury supports the bill. (12-2-08)

The Michigan Chamber of Commerce opposes the bill. (12-2-08)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.