

Legislative Analysis



COMMUNITY COLLEGE JOB TRAINING PROGRAM

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House Bill 5957 (Substitute H-2)
Sponsor: Rep. Richard Hammel
Committee: Education

First Analysis (6-14-10)

BRIEF SUMMARY: The bill would revise the definition of a "new job" for which a community college's Job Training Program funding is available, to specify that the compensation for the new job either (1) pays wages that are equal to or exceed 175 percent of the state minimum wage, or (2) includes family health benefits provided and paid for by the employer and pays wages that are equal to or exceed 150 percent of the *federal* minimum wage.

FISCAL IMPACT: The bill could have any number of impacts, depending on what effect the current wage standard has in encouraging participation in the program. See ***Fiscal Information***.

THE APPARENT PROBLEM:

During the 2007-2008 legislative session, the Legislature enacted Public Acts 360 (House Bill 6185) and 359 (Senate Bill 1342) of 2008. Those acts authorized community college districts to operate a new jobs training program by entering into training agreements with Michigan employers to train and educate new employees.

The new job training program--modeled after a successful program in the state of Iowa--is financed by diverting the income tax withheld on the wages of the new employees directly to the community colleges rather than to the state treasury. (This is referred to as a "new jobs credit from withholding.") The community colleges then use the revenue to finance customized training programs for employers--both local and those new to the area--who create new jobs through business expansions. The laws also allow community colleges to issue bonds to finance training programs, with the bonds financed by the income tax withholding payments.

Since the laws have been enacted, Grand Rapids Community College has taken the lead to partner with area employers and offer customized job training--both on campus and on the job site. According to spokespersons for the program, one contract has been finalized creating 550 new jobs, and that contract is intended to expand after January 1, 2011, to add training for an additional 750 new jobs. Further, two contracts are pending, and combined they will add an additional 1,400 new jobs. The Grand Rapids program managers report strong economic development ties to the state's job expansion efforts, having forged working relationships with officials in the Department of Energy, Labor, and Economic Growth, and also in the Michigan Economic Growth Authority.

Currently under the law, to be eligible for the new employee job training program, an employer must pay a wage to the new employees pegged at 175 percent of the state's minimum wage--currently \$12.95 an hour. Some employers who would like to participate in the Grand Rapids Community College program, report that wage level is too high as a starting wage (although all potential participants report their new employees will reach that level within a year of employment).

To accommodate more employers, legislation has been proposed to lower the wage eligibility threshold to 150 percent of the federal minimum wage--currently \$10.88 an hour--and require employer-paid family health benefits, as an alternative to the current threshold.

THE CONTENT OF THE BILL:

House Bill 5857 (H-2) would amend the Community College Act (MCL 389.161) to revise the definition of a "new job" for which a community college's Job Training Program funding is available.

Currently under the law, "new job" means a full-time job in Michigan that meets all of the following:

- (1) Except as provided in subparagraph (2) or (3), is a new, existing, or expanding business of an employer.
- (2) 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 between an employer and a community college.
- (3) 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 of the employer formerly located in another municipality in Michigan, the employer moved that business operation or substantially similar business operation to its current location, and the employer closed or substantially reduced that former business operation or substantially similar business operation.
- (4) Results in a new increase in employment in this state for that employer.
- (5) The wage paid for the job is equal to or exceeds 175 percent of the state minimum wage.

House Bill 5857 (H-2) would retain these provisions but modify provision (5) to read:

- (5) The compensation for the job meets either of the following:
 - (a) it pays wages that are equal to or exceed 175 percent of the state minimum wage; or

(b) 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 *federal* minimum wage.

FISCAL INFORMATION:

The bill would reduce the wage requirements of eligible employees subject to training through the New Jobs Training Program from 175% of the state minimum wage (\$12.95) to 150% of the federal minimum wage (\$10.88).¹ This change could have any number of impacts, depending on what impact the current wage standard has in encouraging participation in the program. Given that the program is relatively new, there are few MNJTP agreements in place.²

Community colleges officials indicate that, while the demand for worker training exists, many of the jobs for which training is needed do not have a starting salary at the current wage standard of \$12.95 per hour. This discourages employers from participating in the program or could require that they hire fewer employees than planned. If this is the case, lowering the wage standard to \$10.88/hour would tend to encourage employer participation in the program. This impact increases the operating costs of the community colleges to carry out the training activities. Under the act, these costs can be financed by the college through self-funding means or the issuance of revenue bonds. These costs would in turn be supported by capturing the income tax withholding on the new jobs that are created as a result of the training program, directing the funds to the community college rather than the Department of Treasury.³ Any funding shortfall is supported by the resources of the employer rather than the community college. Approximately 23.3 percent of gross income tax revenue is earmarked to the School Aid Fund (SAF). To the extent the increased capture of income tax withhold reducing gross income tax collections, the SAF would be reduced accordingly. The remaining reductions (76.7%) would impact the General Fund.

ARGUMENTS:

¹ Under the Minimum Wage Law of 1964, 1964 PA 154, MCL 408.381 et seq., the state minimum wage is \$7.40. Under the federal Fair Labor Standards Act, 29 USC 206, the federal minimum wage is \$7.25. The 150% of federal minimum wage standard used by the bill is also the wage standard typically used for various MEGA tax credits under the Michigan Economic Growth Authority Act, 1995 PA 24, MCL 207.801 et seq.

² Grand Rapids Community College is the only college that has formal MNJTP agreements in place. Through the MNJTP program, the college has provided training to Energtext Corp. in Holland for composite technicians, and has agreements in place with furniture maker Haworth and auto supplier Johnson Controls-Saft. Other colleges are still exploring potential projects and have established preliminary agreements. See the Michigan Community College Association website for blank copies of the final agreement, preliminary agreements, and program application forms, [<http://www.mcca.org/content.cfm?m=46&id=46&startRow=1&mm=0>].

³ For each new jobs credit from income tax withholding paid to a community college district, the employer must certify to Treasury that the payment was made under an agreement. Each employer is required on Form 4756, New Jobs Training Program (NJTP) Credit Report, to distinguish between the amount of income tax withholding paid to the State and the amount paid to the community college. This report must be faxed to Treasury on the 20th of the month following the return period, [http://www.michigan.gov/documents/taxes/4756_318851_7.pdf].

For:

When the legislature enacted the community college job training program late in the 2007-2008 legislative session, 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."

Since that time, the Michigan New Jobs Training Program (MNJTP) has been implemented by officials at Grand Rapids Community College where customized job training has already been provided for 550 new employees (soon to expand to 750 new employees), and two pending contracts with employers promise an additional 1,400 jobs. Further, more jobs can be created, if the wage compensation threshold is lowered for entry level employees.

This legislation changes the wage compensation requirements of the New Jobs Training Program. The bill makes the program affordable to more employers who hope to expand their workforces through customized training, by taking full advantage of a community college's authority either to self-fund or issue debt on an employer's behalf, for the purpose of funding job training for new employees.

Against:

Some who oppose the community college job training program for new employees say that it treats unfairly those long-time employers who cannot expand their workforces. Since the program is limited to employers who create new jobs, it can give an advantage to the potential competitors of long-term employers who are overtaxed and undervalued.

Response:

According to committee testimony, several job training programs are offered by Michigan Works! for so-called "incumbent" employees of local employers--that is, those whose skills need to be upgraded on existing jobs. In contrast, this customized training program is the only one available for employers creating new jobs.

POSITIONS:

Grand Rapids Community College supports the bill. (6-10-10)

The Michigan Community College Association supports the bill. (6-10-10)

The Michigan Department of Treasury is neutral on the bill. (6-10-10)

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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.