Legislative Analysis

HOUSE FISCAL AGENCY

NEW JOBS TRAINING PROGRAM

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Senate Bill 70 Substitute (H-1) Draft 1
Sponsor: Sen. Peter MacGregor

Senate Bill 71 Substitute (H-1) Draft 1
Sponsor: Sen. Phil Pavlov

House Committee: Appropriations
Senate Committee: Education

Complete to 11-3-15

A SUMMARY OF SENATE BILLS 70 (H-1) DRAFT 1 AND 71 (H-1) DRAFT 1

New Jobs Training Program

The New Jobs Training Program was enacted in late 2008 and commenced in 2010 under complementary amendments to the Community College Act and the Income Tax Act. Under the program, a community college and an employer can enter into an agreement under which the community college trains workers for new jobs in Michigan and training costs are recouped at least in part through diversion of income tax withholding on the new jobs. A college may issue revenue bonds to cover training costs in anticipation of payments to be received under the agreement.

An agreement must:

- Provide for program costs to be paid from a new jobs credit from withholding, or from tuition and fees or special charges.
- Include an estimate of the number of new jobs to be created by the employer.
- Provide for the minimum quarterly amount of new jobs credit from withholding that is to be paid for program costs, and for the employer to make up any shortfall if the withholding amounts are insufficient to meet the amount specified by the agreement.
- Provide for the community college to receive an administrative fee of 15% of the aggregate amount to be paid under the agreement.

To qualify as a "new job" under the program, a job has to be a full-time job in Michigan for which the wage is at least 175% of the state minimum wage, and which results in a net increase in employment in Michigan for the employer involved. The job cannot be any job that existed in the employer's business within a year preceding the date of the agreement, nor can it be a job moved from one location to another in Michigan.

The total aggregate outstanding obligation of agreements established under the program may not exceed $50.0 million in a calendar year. A community college may not enter into any new agreements after December 31, 2023, nor may it authorize, issue, or sell any new jobs training revenue bonds after December 31, 2018. (The sunset on new agreements was extended from 2018 to 2023 by enrolled SB 69, 2015 PA 130, which also clarified that “minimum wage” under the act would be the one in effect at the time an agreement was created, and, for new agreements, prohibited participating employers from claiming Michigan Business Tax credits.)

Senate Bill 70 (H-1) Draft 1 would postpone until December 31, 2023 a sunset provision that currently bars issuance of new jobs training revenue bonds after December 31, 2018. MCL 389.164

Senate Bill 71 (H-1) Draft 1 would double the limit on the dollar value of agreements, allowing the aggregate outstanding obligation of all agreements to be up to $100 million in any calendar year.
MCL 389.166

Neither bill could take effect unless both were enacted.

FISCAL IMPACT:

Based on information reported by the Michigan Department of Treasury, almost $4.9 million in income tax withholding was diverted to community colleges as reimbursement for training costs under the program in 2014 alone, and the cumulative amount from 2010 through 2014 has totaled slightly more than $12.8 million. However, because the outstanding contract balance has remained near $45 million in each of the past two or three years, it is likely that the cumulative fiscal impact in diverted withholding will more than exceed this amount as old contracts expire and new contracts replace them.

Since the extent to which employers and community colleges enter into additional agreements cannot be known in advance, it's not possible to accurately estimate the fiscal impact of the bills. However, there were 93 outstanding contracts at the end of 2014, and thus far in 2015 an additional 22 contracts have been awarded, the value of which (for the most part) has offset existing contracts that expired. Because the ongoing liability has been growing even under current law, increasing the cap on aggregate outstanding obligations to $100 million as well as extending the sunset would be expected to result in additional revenue reductions that could be significant.

Under current law, the School Aid Fund receives approximately 23.8% of gross income tax revenue (income tax revenue before refunds). Because the diversion of Individual income tax withholding reduces gross income tax revenue, the reduction affects both the School Aid Fund as well the General Fund.

The bills would have a minimal fiscal impact on community colleges, as any training costs incurred under

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