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FISCAL IMPACT REPORT

ORIGINAL DATE 1/18/08

SPONSOR B. Lujan LAST UPDATED _____ HB 8

SHORT TITLE Development Training Board and Projects SB _____

ANALYST Earnest

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
	\$10,000.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 8 appropriates \$10 million from the general fund to the development training fund for the Job Training Incentive Program (JTIP), administered by EDD, to provide incentives for companies to relocate or expand operations in New Mexico.

The bill also makes technical amendments to the development training act (Section 21-19-7 through 21-19-13). In particular, the bill changes a requirement that one-third of development training appropriations be expended in rural areas; under this bill, at least one-third of development training projects must be located in rural areas.

FISCAL IMPLICATIONS

The appropriation of \$10 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2009 shall no revert to the general fund.

The General Appropriation Act (House Bill 2) includes \$6 million for this purpose, as recommended by LFC. The executive recommended \$8 million.

SIGNIFICANT ISSUES

The Job Training Incentive Program (JTIP) is primarily a company recruitment tool. EDD and the Economic Development Partnership, a private nonprofit created in statute, market the program to prospective companies as an incentive to relocate to or expand operations in New Mexico. JTIP reimburses companies 50 percent to 80 percent of the wages paid to newly hired employees for up to six months. This training incentive is commonly considered one of the most generous in the country.

As of December 4, 2007, the development training fund had a cash balance of \$16.9 million. Of this amount, \$15.9 million is encumbered, dedicated for film projects, or already obligated, leaving a balance of about \$1 million. About half of the amounts awarded (and encumbered) to companies is returned to the fund when jobs are not filled as anticipated. Assuming similar usage rates, about \$7 million will be reverted to the fund.

According to EDD:

JTIP is a major incentive tool for job creation in New Mexico, both for existing New Mexico companies and companies considering relocating to New Mexico. In 2007, JTIP has assisted in the creation of 2,500 jobs at an average wage of \$13.90. Since 2003, the Industrial Training board has obligated an average of \$10.5 million per year. The overall demand for JTIP funds from companies expanding in New Mexico and re-locating to New Mexico has increased and the project volume (number of projects funded) annually has increased from 25 in 2002 to 77 in 2007. Additional funding is required to continue job creation and economic growth.

While the New Mexico Economic Development Department (NMEDD) administers the Job Training Incentive Program (JTIP), the Industrial Training Board establishes policies and makes expenditure decisions at monthly meetings. HB8 updates the designation of Industrial Training Board members to reflect changes in agencies which have occurred recently; i.e. the creation of the New Mexico Department of Workforce Solutions from the New Mexico Department of Labor and the Governor's Office of Training & Development. The bill further allows certain members of the Industrial Training Board to appoint designees. This provision provides flexibility which makes achievement of a quorum at monthly funding meetings and broadens representation from various agencies and organizations.

PERFORMANCE IMPLICATIONS

In December 2006, EDD conducted a job retention study. The JTIP survey of 89 businesses that participated in the program from 2002 to 2006 found 34 percent of trainees were still employed by the company that received JTIP funds. These results are not distinguishably different from a similar study in 2003. EDD also reports on the number of projects funded, the average wage funded jobs, and the total amount of grants.

According to EDD:

Current legislation defines performance measures based on the dollar amount appropriated in rural and urban areas, requiring one-third of the appropriate to be used in

rural areas. By their nature, rural communities have smaller populations and thus smaller workforces which cannot support the large companies which are located and seek to locate in urban areas. Because rural projects are smaller, the amount expended per project is often less than for urban projects. While the amount awarded to rural projects may be less, the impact on the community is often equal to or greater than the impact in an urban area. Adding three new jobs in a small community has a greater impact than adding ten in an urban community. Measuring performance based on projects, rather than jobs is a more appropriate standard.

The Economic Development Department has focused on promoting incentive tools to rural business and thus, the number of projects funded in rural areas has increased. Rural job creation through JTIP has increased by 71% from 2005 to 2007 (from 313 jobs in 2005 to 538 jobs in 2007). In 2006, of the total projects funded, 21% were in rural areas of the state. In 2007, 36% of the projects funded were in rural areas. Further, the Industrial Training Board has increased reimbursement rates from 60% to 65% for rural areas and has created a “frontier” area, where businesses in communities with population less than 15,000 can be reimbursed at a 70% rate.

Additionally, NMEDD spun-off an incumbent worker training program called Step-Up to provide funding only to rural businesses. So far, four projects have been funded using the Step-Up program, providing enhanced skills training to 63 employees of companies located in Farmington, Bloomfield (2), and Santa Teresa. With additional funds, NMEDD intends to ramp up marketing efforts to continue to improve utilization rates of the Step-Up Program.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The General Appropriation Act (House Bill 2) includes \$6 million for this purpose, as recommended by LFC. The executive recommended \$8 million.

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