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FISCAL IMPACT REPORT

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|--------------------|--|----------------------|-----------------|-----------|------------|
| SPONSOR | <u>Lujan, B.</u> | ORIGINAL DATE | <u>02/04/09</u> | HB | <u>312</u> |
| SHORT TITLE | <u>Industrial Training Board Members and Funds</u> | LAST UPDATED | <u></u> | SB | <u></u> |
| | | ANALYST | <u>Lucero</u> | | |

Relates to HB 7 and SB 175
Relates to the General Appropriations Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)
Workforce Solutions Department (WSD)
Public Education Department (PED)
Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 312 amends several sections of the Industrial Training Program (21-19-7 NMSA 1978), which is administered by the Economic Development Department (EDD). This bill amends the Act to update the industrial training board membership language to reflect changes in other sections of statute which have occurred over the past few years. Specifically this bill:

- Adds that the director of the economic development division at EDD can designate a board member,
- Updates the Agency name from “vocational education division” to instructional support and vocational education division of the PED
- Updates and specifies the business services division of the Workforce Solutions Department or the director’s designee is a member of the board,
- Updates and specifies the secretary of Higher Education or the secretary’s designee is a member of the board,
- Deletes the member from the Department of Labor as a member of the board.
- Name change from “manpower to “work force.”

Additionally, the bill amends Section 21-19-13 NMSA to specify that at least one-third of the total number of development training projects approved in any fiscal year shall be in nonurban communities. Within the same section, the bill defines “nonurban community” as a municipality with a population of less than 40 thousand according to the most recent federal decennial census and deletes the definition of “urban community” to conform with definition of ‘nonurban community.’

The bill declares an emergency.

FISCAL IMPLICATIONS

HB312 will not have any additional fiscal impact on the program. However, EDD notes that as of January 1, 2009, the development training fund had a cash balance of \$13.2 million. Of this amount \$12.5 is obligated, leaving a balance of about \$790 thousand available for the remainder of FY09. This balance is not sufficient to cover the projects in the pipeline for the remainder of the fiscal year.

According to recent data provided from Economic Development Department (EDD) statistics, a three-year analysis demonstrates that of the total 200 projects funded statewide, 35 percent were in rural areas while the remaining 65 percent were in urban areas. A breakdown of the data provided by the EDD is presented in the tables below.

| 2006 | # Projects | % | Allocation | % | Jobs | % |
|-------------|------------|-----|--------------|-----|------|-----|
| Rural | 21 | 31% | \$2,586,259 | 17% | 626 | 18% |
| Urban | 46 | 69% | \$12,821,317 | 83% | 2872 | 82% |
| Total | 67 | | \$15,407,576 | | 3498 | |

| 2007 | # Projects | % | Allocation | % | Jobs | % |
|-------------|------------|-----|--------------|-----|------|-----|
| Rural | 26 | 36% | \$3,034,070 | 25% | 597 | 24% |
| Urban | 47 | 64% | \$9,284,085 | 75% | 1872 | 76% |
| Total | 73 | | \$12,318,156 | | 2469 | |

| 2008 | # Projects | % | Allocation | % | Jobs | % |
|-------------|------------|-----|--------------|-----|------|-----|
| Rural | 23 | 38% | \$2,451,786 | 21% | 514 | 26% |
| Urban | 37 | 62% | \$9,136,839 | 79% | 1437 | 74% |
| Total | 60 | | \$11,588,625 | | 1951 | |

An analysis of the data above concludes that shifting the funding distribution from a 2/3 share of funding in favor of urban areas to a 2/3 share of projects funded in favor of urban areas appears to have little impact on the current funding decisions.

The Industrial Training Program which is more commonly referred to as the Job Training Incentive Program (JTIP), has focused on promoting incentives to rural businesses and thus, the overall rural performance has improved significantly. The percentage of jobs created in rural areas has steadily increased as well as the percentage of projects funded in rural parts of New Mexico in 3 years.

SIGNIFICANT ISSUES

While EDD administers the Job Training Incentive Program (JTIP), the Industrial Training Board establishes policies and makes expenditure decisions at monthly meetings. HB312 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 Workforce Training & Development. The bill further allows 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.

More than ever, the Economic Development Department has focused on promoting incentives to rural businesses and thus, the overall rural performance has improved significantly. The number of jobs created in rural areas has increased by 64 percent since 2005; the number of projects funded in rural parts of New Mexico has increased by 44 percent and the average wage of trainees employed by companies located in rural areas of the state has improved by 8 percent in 3 years. Further, the Industrial Training Board has increased reimbursement rates from 60 percent to 65 percent 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 percent rate.

Additionally, NMEDD spun-off an incumbent worker training program called Step-Up to provide funding only to rural businesses. So far, six projects have been funded using the Step-Up program, providing enhanced skills training to 69 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.

PERFORMANCE IMPLICATIONS

Current legislation defines performance measures based on the dollar amount appropriated in rural and urban areas, requiring one-third of the appropriation 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.

ADMINISTRATIVE IMPLICATIONS

This bill imposes no new duties, obligations or responsibilities on the Department of Workforce Solutions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 7 and SB 175

TECHNICAL ISSUES

With the new definition of nonurban community, the unincorporated area of any county would meet the standard for a nonurban community. Conceivably, this could apply to the unincorporated area of Bernalillo County.

OTHER SUBSTANTIVE ISSUES

In the past, the distribution of training funds was based on a formula directing that up to two-thirds of the funds could be expended in urban communities. With the wording of earlier versions of the development training legislation, at least one-third of the funds were to be expended in rural communities. HB 312 departs from the previous legislation by changing from specifying a percentage of funding to specifying a percentage of projects. With this act, one third

of the projects approved for funding will be in nonurban communities. Recent experience has shown that projects submitted from nonurban areas are generally much smaller in scope, number of employees, and amounts of funds requested than those submitted by firms in urban areas.

According to the New Mexico Economic Development Department (EDD), the Job Training Incentive Program (JTIP) is a major incentive tool used to create jobs in New Mexico, both for existing New Mexico companies and companies that relocate or start-up in New Mexico. EDD is focuses on creating quality jobs for New Mexicans. The program is considered an incentive because it is primarily used to reimburse qualifying companies 50 to 80 percent of the wages paid to newly hired employees for up to six months. JTIP also provides an incentive for companies to hire eligible trainees; those that have lived in New Mexico for one continuous year at any time of their lives.

JTIP is often instrumental in a company's decisions to locate or expand in New Mexico. The following companies are among the many that have located and/or expanded in New Mexico based in large part on the availability of JTIP funds Signet Solar (Belen), Results (Las Vegas), Pre-Check (Alamogordo), American Medical Alert Corp. (Clovis), Menlo Logistics (Santa Teresa), Hewlett Packard (Rio Rancho), Fidelity Investments (Albuquerque), Schott Solar (Albuquerque), and Verizon Wireless (Albuquerque). These companies alone have committed to create approximately 5,500 jobs over the next few years.

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