

Legislative Analysis



NEW JOBS TRAINING PROGRAMS: ALLOW QUALIFYING ISDS TO OPERATE

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House Bill 4750 (reported as substitute H-1)
House Bill 4751 (reported as substitute H-2)
Sponsor: Rep. Phil Potvin
Committee: Workforce and Talent Development
Complete to 4-15-16

Analysis available at
<http://www.legislature.mi.gov>

BRIEF SUMMARY: Taken together, House Bills 4750 and 4751 would allow a qualifying intermediate school districts (ISD) to operate New Job Training programs in the same way community colleges currently can, and would extend an existing diversion of income tax revenue so that it would apply to the new job training programs operated by the qualifying ISDs. Both of the bills would go into effect 90 days after the bill being enacted. The bills are tie-barred, meaning that neither can take effect unless both are enacted into law.

Specifically, House Bill 4750 would amend the Revised School Code by adding a new Part 7c, which would allow a qualifying ISD to enter into an agreement with an employer in Michigan to operate a jobs training program. The provisions in the new Part 7c would mirror language in Part 2, Chapter 14, of the Community College Act, under which community colleges can conduct a new jobs training program.

House Bill 4751 would amend the Income Tax Act to address the extension of the "new jobs credit from withholding" to ISD-based programs. As mentioned earlier, those provisions enable employers to redirect income tax withholdings for new employees in the training program from the state to a qualifying ISD, with the revenue to be used for that ISD's new jobs training program. These provisions currently exist for community college programs.

FISCAL IMPACT: To the extent that income tax withholding is diverted to intermediate schools districts, the bill would have a negative, but likely small, impact on state income tax collections. Under current law, approximately 23.8% of gross income tax revenue is earmarked to the School Aid Fund, with the remaining amount accruing to the General Fund. Without knowing the extent to which the program will be utilized, the fiscal impact cannot be determined. However, a similar program partnering businesses and community colleges diverted \$4.9 million in 2014, bringing the total since 2010 to just under \$13 million.

THE APPARENT PROBLEM:

According to testimony presented in committee, while the New Jobs Training Program is being utilized, it presents a challenge to individuals living in rural areas, especially those areas which fall outside of a community college district, and therefore are subject to the higher out-of-district tuition rates.

THE CONTENT OF THE BILL:

As with the current community college program, a qualifying ISD could enter into an agreement with an employer who engages in business activities anywhere in Michigan, under which the ISD trains workers for new jobs in Michigan with the training costs recouped at least in part through a diversion of income tax withholding from the new jobs. An ISD, like a community college, could issue revenue bonds to cover training costs in anticipation of payments to be received under the agreement.

Qualifying Intermediate School District

HB 4750 would define a "qualifying intermediate school district" as an ISD that does not have a majority of its territory located in a community college district. At present, there are 56 intermediate school districts and 28 community college districts in Michigan. Based upon the most recent maps available of intermediate school district and community college district boundaries, the following ISDs appear to qualify under the bill:

- Allegan Area ESA
- Alpena-Montmorency-Alcona ESD
- Barry County ISD
- Branch County ISD
- Cheboygan-Otsego-Presque Isle ESD
- Copper County ISD
- Delta-Schoolcraft ISD
- Dickinson-Iron County ISD
- Eastern Upper Peninsula ISD
- Eaton County ISD
- Gogebic-Ontonagon ISD
- Gratiot-Isabella ISD
- Hillsdale County ISD
- Huron County ISD
- Iosco County RESA
- Lapeer County ISD
- Lenawee County ISD
- Livingston County ESA
- Ottawa Area ISD
- Marquette-Alger RESA
- Mecosta-Osceola ISD
- Menominee County ISD
- Newaygo County RESA
- Sanilac County ISD
- Shiawassee County ISD
- Traverse Bay Area ISD
- Tuscola County ISD
- Ionia County ISD
- Wexford-Missaukee ISD

New Jobs Training Program

Under the agreements with employers, projects would involve the ISD providing such program services as training or retraining for new jobs; adult basic education and job-related instruction; development, readiness, and remedial education; vocation 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; and contracted or professional services.

"New Job"

A "new job" means a full-time job in this state that:

- Is a new, existing, or expanding business of an employer and 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 and results in a net increase in employment in Michigan for that employer.

- Is not a job that is part of an employer's business operation located in a municipality in this state if that job existed in a business operation or a substantially similar business operation of the employer that was formerly located in another municipality in this state, the employer moved that operation to its current location, and the employer closed or substantially reduced that former operation.

- The wage paid for the job is equal to or exceeds 175% of the state minimum wage, (which, assuming the bill goes into effect in 2016, would mean for hourly, non-tipped workers the job must pay at least \$14.875 per hour, equivalent to \$30,940 annually based on a 40-hour work week.)

[Note: Michigan's minimum wage is scheduled to increase from its current \$8.50 per hour to \$8.90 per hour on January 1, 2017; and from \$8.90 per hour to \$9.25 per hour on January 1, 2018. Starting January 1, 2019, the minimum wage would rise with inflation, up to a maximum annual increase of 3.5% per year.]

Agreement between ISD and Employer

An agreement must meet all of the following requirements:

- Provide for program costs that may be paid from a "new jobs credit from withholding," to be received or derived from new employment resulting from the project, or from tuition, student fees, or special charges fixed by the board of the qualifying ISD to defray program costs in whole or in part.

- Contain an estimate of the number of new jobs to be created by the employer.

- Include a provision that fixes, on a quarterly basis, the minimum amount of "new jobs credit from withholding" to be paid for program costs, and provide that if the amount received from the "new jobs credit from withholding" was insufficient to pay program costs, then the employer would agree to provide money, at least

quarterly, to make up the shortfall so that the ISD received (for each quarter) the minimum amount of a "new jobs credit from withholding" provided in the agreement.

- Include the employer's agreement to mortgage, assign, pledge, or place a lien on any real or personal property as required by the ISD as security for its obligations under the agreement.
- Provide for the payment of an administrative fee to the ISD in an amount equal to 15 percent of the amount to be paid under the agreement.

Additionally, if any part of the program costs of a new jobs training program are to be paid from money received from the "new jobs credit from withholding", then the agreement must contain additional provisions described in detail in the bill. Among those provisions is one that specifies that for each employee in a new job, the employer would each month pay the amount required to be deducted and withheld by the employer under the Income Tax Act to the ISD in the same manner as the employer pays withholding payments to the Revenue Division of the Department of Treasury. The amounts received would go into a special fund to pay program costs and to pay the principal and interest on any bonds issued by the ISD to finance or refinance the project.

Any payments required to be made by an employer under the agreement would be a lien on the employer's business property, real and personal, until paid; have equal precedence with property taxes; and not be divested by a judicial sale. An ISD would file a copy of an agreement with the Department of Treasury promptly after its execution. There could be no new agreements after December 31, 2023, nor could a qualifying ISD authorize, issue, or sell any new jobs training revenue bonds after that date. HB 4750 also places a limit of \$50 million in any calendar year on the aggregate outstanding obligations of all agreements authorized by the bill, a cap that also exists in the Community College Act.

ISD Report to Treasury

At the end of each quarter, the ISD receiving money from employee withholding would have to certify to the Department of Treasury the amount received for each of its employer-partners. By April 1 of each year, each ISD that received money from a "new jobs credit from withholding" in the preceding calendar year would have to report certain specified information to the Department of Treasury, including the name of each employer; the amount of withholding that had been remitted to the ISD; the amount of revenue bonds the authorized, issued, or sold; the total amount of the ISD's debt related to agreements; the number of certificates or credentials awarded to program participants; the number of individuals entering the program in the calendar year, completing the program in the calendar year, and enrolled at the end of the calendar year; and the number of individuals who completed the program who were hired to fill new jobs.

DISCUSSION:

While there were some initial concerns over duplication of services between community colleges and ISDs in areas where the two share a lot of overlapping territory, no committee members or other individuals expressed concerns over either the H-1 substitute for HB 4750 or the H-2 substitute for HB 4751. The bills were reported with recommendation unanimously, with all 15 members of the House Workforce and Talent Development Committee in support.

POSITIONS:

The following indicated support for the HB 4750 and 4751:

Michigan Association of Intermediate School Administrators (4-14-16)

Mecosta-Osceola Intermediate School District (10-8-15)

Oakland Schools Technical Campus- Northeast (10-8-15)

The following indicated no position on the bills:

Michigan Department of Talent and Economic Development (10-8-15)

Legislative Analyst: Josh Roesner

Fiscal Analyst: Jim Stansell

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