F I S C A L I M P A C T R E P O R T

ORIGINAL DATE 3/07/09
SPONSOR Sharer **LAST UPDATED** **HB**

SHORT TITLE Development Training Fund Uses **SB** 617

ANALYST Lucero

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	Indeterminate	Recurring	Development Training Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 617 proposes to amend Section 21-19-13 NMSA 1978 to require that twenty-five percent of the money dispersed annually from the development training program be dedicated to development training in energy exporting industries.

FISCAL IMPLICATIONS

Although the short title indicates the bill makes an appropriation, there is no actual appropriation contained in the bill. Rather, the bill mandates a certain percentage of the disbursements from the development training program be made specifically for energy exporting industries.

The DFA General Appropriation Act (GAA), or House Bill 2, recommendation for this program is $3 million, which is half of the appropriation allocated in previous fiscal years. The appropriation for the program has decreased over the last several years, while the demand has increased.

Given that recent appropriations to the fund have decreased, combined with an earmark for film, further attempts to earmark funds for other industries such as energy exporting industries may hamper the effectiveness of this program.

SIGNIFICANT ISSUES

Money appropriated to the development training fund is administered by the Economic Development Department's (EDD) Job Training Incentive Program (JTIP). While EDD administers JTIP funds, the Industrial Training Board, which is statutorily created, is responsible for establishing policy, promulgating rules and making expenditure decisions. As of January 1, 2009, the development training fund had a cash balance of $13.2 million. Of this amount all but $790-thousand is obligated. This balance will not begin to cover the projects in the pipeline for JTIP and film for the remainder of the fiscal year.

Requiring that a minimum of twenty-five percent of disbursements be dedicated to energy exporting industries will be difficult to guarantee because the oil and gas industry is relatively small in regard to employment and personal income (2 percent of employment and 3 percent of personal income in 2006), but important to state and local revenue. In 2006, oil and gas revenue made up 18 percent of all state and local revenue. The current recession and falling energy prices have left the state with an estimated $454 million budget shortfall for fiscal year 2009. Due to this downward trend, the EDD can not guarantee that it will be successful in identifying, recruiting or expanding this industry; therefore, the mandate contained in this bill may not be feasible. According to EDD, a more practical approach would be to ask the EDD and the JTIP board to establish policies which align with industries that are predicted to grow within the next two to three years.

A recent study, suggests that many program trainees move on to higher-wage jobs. Wages in the year immediately after JTIP participation were, on average, $5,812 (37 percent) higher than they were in the year immediately before; more significantly, the wages of rural trainees increased by almost 49 percent, or $4,124 per year. The average wages of urban trainees increased by 35 percent, or $6,418. These results demonstrate a long-term, positive impact on earning for trainees who remain with their JTIP employer as well as those who move on.

According to the aforementioned EDD report, a four-year analysis demonstrates that of the 272 projects that were funded, 28% were in rural areas while the remaining 72% were in urban areas.

Funds made available by JTIP are often instrumental in companies' 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 have committed to create approximately 5,500 jobs over the next few years.

ADMINISTRATIVE IMPLICATIONS

The Economic Development Department administers JTIP funds, the Industrial Training Board, which is statutorily created, is responsible for establishing policy, promulgating rules, and making expenditure decisions. This bill reduces the authority of the board.

RELATIONSHIP

Relates to: HB7, HB312, SB175, and SB318

OTHER SUBSTANTIVE ISSUES

EDD notes that the demand for JTIP has increased significantly since the late 90's when JTIP funded an average of 30 projects per year. The number of projects per year now averages 65. EDD is also focused on creating quality jobs for New Mexicans. JTIP reimburses a percentage of the wage paid to trainees and as the wage increases, so does the demand for funds. The average wage of JTIP participants has increased from $11.94 in 2006 to $18.98 (59%) in 2009.

By statute, EDD 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% since 2005; the number of projects funded in rural parts of New Mexico has increased by 44% and the average wage of trainees employed by companies located in rural areas of the state has improved by 8% in 3 years.

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 or expand operations in New Mexico. JTIP reimburses qualifying companies 50 to 80 percent of the wages paid to newly hired employees for up to six months. The program 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.

According to EDD:

> 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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> 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 for the remainder of FY09. This balance may not be sufficient to cover the projects in the pipeline for JTIP and film industry for the remainder of the fiscal year.

ALTERNATIVES

Allow the board to enact policies to target industries sectors which will be adding new jobs in the next two to three years.

DL/svb