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## FISCAL IMPACT REPORT

<b>SPONSOR</b> <u>HAFC</u>	<b>LAST UPDATED</b> <u>2/14/2024</u>
	<b>ORIGINAL DATE</b> <u>1/18/2024</u>
<b>SHORT TITLE</b> <u>Workforce Development and Apprenticeship Fund</u>	<b>BILL NUMBER</b> <u>CS/House Bill 5/HAFCS/aHAFC</u>
	<b>ANALYST</b> <u>Torres, Ismael/Garcia</u>

### REVENUE\* (dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
Investment Earnings		\$1,800.0	\$1,670.0	\$1,620.0	\$1,565.0	Recurring	Workforce Development and Apprenticeship Trust Fund
Distribution		\$2,500.0	\$2,500.0	\$1,500.0	\$1,500.0	Recurring	Public Works Apprentice and Training Fund
Distribution		\$2,500.0	\$2,500.0	\$1,500.0	\$1,500.0	Recurring	Workforce Solutions Department

Parentheses ( ) indicate revenue decreases.

\*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 4  
Relates to the General Appropriation Act

### Sources of Information

LFC Files  
Workforce Solutions Department Apprenticeship Website

Agency Analysis Received From  
Workforce Solutions Department (WSD)  
State Investment Council (SIC)  
Regulation and Licensing Department (RLD)

## SUMMARY

### Synopsis of HAFC Amendment to HAFC Committee Substitute for House Bill 5

The House Appropriation and Finance Committee amendment to the House and Finance Committee Substitute for House Bill 5 strips out the appropriation.

### Synopsis of HAFC Committee Substitute for House Bill 5

The House Appropriation and Finance Committee substitute for House bill 5 (HB5) creates the workforce development and apprenticeship trust fund (WDATEF or trust fund) to be invested by

the State Investment Council and to distribute annually to the public works apprentice and training fund and the Workforce Solutions Department. The committee substitute for House Bill 5 makes an appropriation of \$50 million from the general fund to the newly created trust fund.

Subject to the availability of funds, HB5 provides for distributions of \$2.5 million from the newly created trust fund to the currently existing public works apprentice and training fund in FY25 and FY26, and \$1.5 million annual distributions, thereafter. HB5 also creates a continuing appropriation to the Workforce Solutions Department of \$2.5 million in FY25 and FY26, and \$1.5 million thereafter from distributions of the WDATF. Furthermore, HB5 provides legislative authorization to tap the fund in the event of a general fund deficit and exhaustion of available reserves.

The bill makes amendments to Section 13-4D-3 NMSA 1978, the Public Works Apprentice and Training Act, changing the name of federal Department of Labor office that recognizes approved apprentice and training programs to the federal office's current name and changing the Workforce Solutions Department program that administers the Public Works and Training Act from a specific agency division to the Workforce Solutions Department in its entirety, giving greater latitude to the agency to administer the fund.

In addition, the bill would prohibit distributions from the fund to programs that are not in compliance with their approved standards.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

The General Appropriation Act contains a nonrecurring appropriation of \$30 million, contingent upon the passage of House Bill 5.

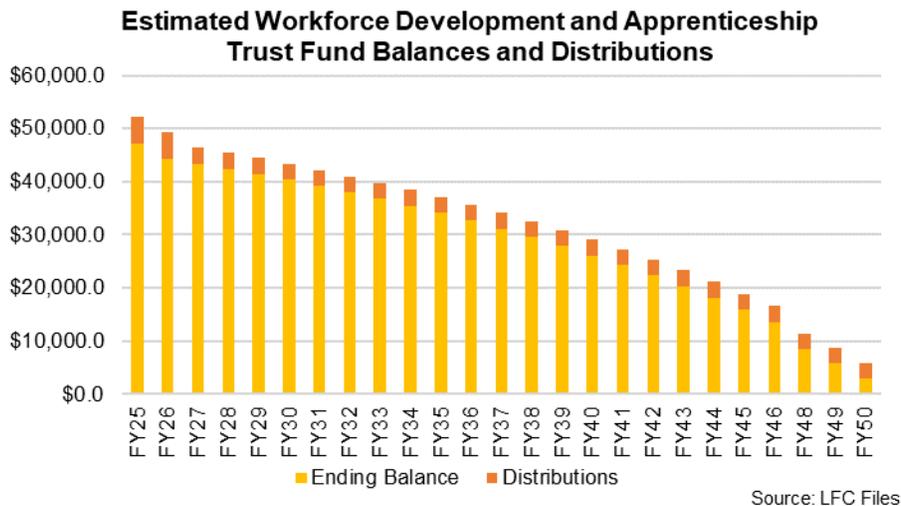
## **FISCAL IMPLICATIONS**

The HAFC committee substitute for House Bill 5 as amended strips the \$50 million appropriation from the bill. However, the HAFC committee substitute for the General Appropriation Act of 2024 as passed by the House and Senate includes an appropriation of \$30 million for apprenticeships, contingent on enactment of HB5 or similar legislation. With distribution levels outlined in the bill, the fund will become insolvent at an even faster rate than outlined below.

Provisions of the bill distribute WDATF revenues annually (beginning in FY25). For FY25 and FY26, the distributions are set at \$2.5 million to the public works apprentice and training fund and \$2.5 million to the Workforce Solutions Department, annually. In FY27 and beyond, the distributions to each of those beneficiaries fall to \$1.5 million, each.

The bill charges SIC with management of the fund. This allows higher investment earning potential than if managed as part of the state's treasury balances. However, the relatively lower balance of the fund, the lack of dedicated revenues into the fund, the size of the annual distributions, and the reserve risk of the fund suggest investment returns will likely be much smaller than other funds invested by SIC. Assuming an aggressive return of 5 percent for the size and distributional characteristics of the fund, LFC staff estimate the fund will provide flat distributions to the two beneficiaries for about 25 years. Because the balance of the new trust

fund is not expected to grow under the current structure, the fund will likely become insolvent over time. Furthermore, in the absence of significant long-term growth that exceeds both the distribution rate and inflation, the real value of distributions from will decrease every year. The following chart shows balances and distributions had the fund been appropriated \$50 million (as it would have pre-amendment).



This bill creates a new fund and provides for continuing appropriations. LFC generally has concerns with including continuing appropriation language in the statutory provisions for newly created funds because it reduces the ability of the Legislature to establish spending priorities in the future.

## SIGNIFICANT ISSUES

Apprenticeship programs combine paid on-the-job training with related classroom instruction, aiming to prepare individuals for skilled occupations. Federal funding is available to support registered apprenticeship programs, distributed through the Workforce Solutions Department, and eligible employers may receive funding to reimburse a portion of the apprentices wages. Registered apprenticeship programs must meet standards established by the U.S. Department of Labor. Apprenticeships range between one year and five years in length and typically receive a minimum of 2,000 hours of on-the-job training and 144 hours of related classroom instruction. According to the Workforce Solutions Department, more than 50 apprenticeship programs operate in New Mexico.

In addition, registered apprenticeship employers may be able to leverage Workforce Innovation and Opportunity Act (WIOA) funding to support apprentice-related technical instruction and support services, such as childcare and supplies. Federal WIOA funding flows through the Workforce Solutions Department and is administered by local workforce boards. Providers on a state’s Eligible Training Provider List (ETPL) may receive WIOA funding to support apprentice-related technical instruction. However, there is no dedicated funding stream for apprenticeships through local workforce boards, though WIOA participants may receive a portion of related technical instruction costs covered.

The Workforce Solutions Department reports three funding streams support apprenticeships programs overseen by the department:

- The Public Works Apprenticeship and Training Fund (PWAT),
- The Apprenticeship Assistance Act (AAA), and
- Federal Apprenticeship Grants.

*Apprenticeship Assistance Act.* Section 21-13A-1 NMSA 1978 outlines state policy related to apprenticeship programs in New Mexico and provides the department the authority to distribute funds appropriated under the Apprenticeship Assistance Act. WSD leverages a \$1 million transfer of other state funds from the Workers' Compensation Administration to fund apprenticeships.

The AAA provides employers with reimbursement for technical instruction. The reimbursement rate is subject to the availability of funds. In FY24, the WSD reimbursed employers \$2.01 per apprentice related instruction hour. In FY23 the reimbursement rate was \$2.47 per apprentice-related instruction hour, and the rate was \$2.58 in FY22. The bill would provide a \$2.5 million distribution to the program in FY25 and FY26 and \$1.5 million in subsequent years.

*Public Works Apprenticeship and Training Fund (PWAT).* PWAT provides costs of the apprenticeship program, totaling \$1.9 million in FY24, and the distribution rate is subject to the availability of funds. In FY24, WSD distributed \$1,700 per apprentice, and WSD distributed \$1,729 per apprentice in FY23. The bill would distribute \$2.5 million to the program in FY25 and FY26 and \$1.5 million in subsequent years.

*Federal Apprenticeship Grants.* In FY24, WSD reports budgeting \$388.6 thousand from federal apprenticeship grants for apprenticeship programs. These funds are used to support outreach, technical assistance for new programs, and direct payments to apprentices for supplies, childcare, and fees.

WSD reports distributions from the Workforce Development and Apprenticeship Trust Fund would allow the department to fund increased apprenticeship enrollment, expand apprenticeship programs in new areas, including electric vehicles, healthcare, and teacher apprenticeships, and provider a higher reimbursement rate for apprenticeship employers.

The Workforce Solutions Department tracks and reports the number of apprentices registered and in training in the agency's performance measures. In FY22, WSD reported 1,883 apprentices registered and in training. In FY23. The agency reported 2,273 apprentices registered and in training, a 21 percent increase.

## PERFORMANCE IMPLICATIONS

SIC notes, "The State Investment Officer, with the approval of the State Investment Council would manage the new Trust Fund in accordance with the Uniform Prudent Investor Act and would seek to ethically optimize risk-adjusted returns and grow the fund over time."

SIC also notes, "The Council does not currently have a "boilerplate" asset allocation for any fund, including the proposed Trust Fund, but it is a fair assumption that the new fund could/would be constructed in a manner similar to other permanent/trust funds managed by the SIC. However, given the fund's spending policy, the Trust Fund may need to be invested

more conservatively than other permanent/trust funds, which could reduce the fund’s performance relative to other funds.”

## **ADMINISTRATIVE IMPLICATIONS**

Section 13-D-5 NMSA 1978 allows the Workforce Solutions Department to use no more than 15 percent of the PWAT fund to hire staff to administer the fund, and so WSD could use a portion of distributions to support administration.

SIC indicates the bill will require additional time from investment and administrative staff at the State Investment Office but the office can address the additional resources required through their ordinary budget process.

The Regulation and Licensing Department reported no fiscal or administrative impact to the department.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 5 relates to House Bill 4: Apprentice and Training Program Contributions, which amends Section 13-4D-4 NMSA 1978, the “Public Works Apprentice and Training Act,” to remove the exclusion of street, highway, bridge, road, utility, or maintenance contracts from public works projects that require employers to make contributions to apprentice and training programs. House Bill 5 does not remove the exemption. WSD indicates these bills are not in conflict and either could stand alone.

The LFC budget recommendation includes \$80 million in the government accountability trust fund over four years to Higher Education Department for workforce development training.

The General Appropriation Act of 2024 as passed by the House and Senate includes a nonrecurring appropriation of \$30 million for apprenticeships, contingent on enactment of HB5 or similar legislation.

## **TECHNICAL ISSUES**

Agency analysis highlighted it is not entirely clear if the intent of the proposal is to distribute \$2.5 million to each beneficiary or \$2.5 million total from the newly created trust fund in the first two years. Similarly, in FY27 and beyond, it is unclear if distributions are intended to be \$1.5 million each or total. As currently written, the specified distributions will be made to each entity, which impacts the sustainability and solvency of the fund.

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