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JOBS LOSS: STATES' RESPONSES

SUMMARY

States have suffered massive jobs loss as a result of the Great Recession. Federal budget sequestration has delivered an additional blow to New Mexico, whose economy in recent decades has been propelled substantially by federal spending. According to the Bureau of Labor Statistics, since 2008, New Mexico has lost approximately 40,000 non-farm jobs. Its seasonally adjusted unemployment rate increased from 4.0 percent in 2008 to 6.8 percent in 2014.

This information bulletin examines what states have done, and have proposed to do, to generate jobs and improve their post-recessionary employment rates, in both the short term and the long term.

TAX INCENTIVES

The range of measures that states have recently taken to improve their business climates continues to expand. Following are some of those measures and their costs.

- Eliminate sales tax on the purchase of manufacturing equipment and machinery for three years; raise from $5,000 to $50,000,000 the exemption of taxable income (Florida).
- Exempt all manufacturing and biotechnology equipment from the sales tax for eight years; replace enterprise-zone tax credits with credits for businesses located in places designated in the highest quartile on both unemployment and poverty scales (California).
- Reduce the property tax rate on business equipment (Montana).
- Give companies new to the state an up-to-30% discount on energy rates (which diminishes over time) (Nevada).
- Cut the corporate income tax rate (several states, including New Mexico).

<u>**States' Job-Creation and Job-Retention Initiatives**</u>

Many state initiatives to generate jobs and reduce unemployment can be characterized as targeted pushes for near-term job growth. That is, they are based on the premise that a particular action will have the direct or near-direct effect of creating more jobs or keeping people employed. Following is a sampling of focused measures that states have taken to increase the number of jobs available for their job seekers or to stem job loss.

<u>Increase Business Activity Through Tax Policy</u>

Most, if not all, states have **revised the tax scheme** in an effort to generally promote job growth and improve their economies. For example, wanting to encourage the out-of-state sale of goods and services (thereby expanding the state economic "pie") while making their state a more welcome place to do business, some states, including New Mexico, have revised their corporate income tax apportionment formulas. The benefit of such changes might be realized in the form of landing out-of-state businesses, cementing existing businesses' presence in the state or spurring in-state business creation.

Some tax-based initiatives are targeted to promote either a particular industry or business growth in a particular geographic area. For instance, New Mexico and other states (including Nevada, New York and Maryland) recently increased the subsidy offered to film companies, and Indiana has phased in a reduction of the tax on financial institutions, reasoning that banks' and credit unions' savings would allow those institutions to lend more to businesses. New York recently primed for development the areas around certain colleges and universities by creating virtually tax-free communities — zones in which, for a defined period, certain businesses enjoy not paying corporate, sales or property taxes and certain employees enjoy a five-year income tax holiday.

Even in times of relative prosperity, states have jockeyed to attract particular out-of-state businesses or to retain particular in-state businesses that are considering relocating out of state. To these ends, states have devised **targeted incentive packages**. Incentives can take the form of a lower tax rate, inexpensive loans, worker training arrangements or infrastructure improvement. As the average size of incentive packages has grown — leading to the coining of the term "megadeal" to denote some packages' scale — states have incorporated more safeguards to protect their investments.

INCENTIVE PACKAGES

Some of the larger targeted incentive packages have helped to:

- keep Nike in Oregon ($2 billion*);
- bring Lexus to Kentucky ($146.5 million*);
- bring a Japanese tire plant to Mississippi ($130 million*);
- expand Boeing in South Carolina ($120 million*); and
- build a natural gas-to-diesel-fuel conversion plant in Louisiana ($135 million*).

* approximate cost

Some states have employed an even more aggressive tactic to increase business presence and, consequently, jobs: **sending delegates** to another state or country to attract jobs by advertising their state's business-climate friendliness.

Other Job-Creation or Job-Retention Strategies

Immigrants appear for job-creation purposes to be a promising addition to a state's resident mix; studies have found that they earn a high proportion of the advanced degrees in the burgeoning science, technology, engineering and mathematics (STEM) fields and that they start businesses at a higher rate than their American-born counterparts. Eyeing the goal of increasing entrepreneurship and building a more educated work force, states have enacted measures to appeal to immigrants. In that vein, for instance, Michigan has created an "Office for New Americans" to encourage foreign students to stay in Michigan. A New Mexico Senate bill introduced in the 2014 regular session would have created an opportunity for international students in STEM fields to pay resident tuition rates at state schools.

MEGADEALS

A **megadeal** is a state-offered incentive package costing taxpayers $75 million or more.

According to Good Jobs First, Michigan has entered into the most megadeals (29) of any state. New York tops the list for overall megadeal spending ($11.4 billion) and for entering into the single biggest deal (worth $5.6 billion). Ranking behind New York in overall spending are Michigan ($7.1 billion) and then five states in the $3 billion range: Oregon, **New Mexico**, Washington, Louisiana and Texas.

New Mexico has entered into five megadeals at a total cost of $3.4 billion; $2 billion of that total is the value of a property tax abatement for the Intel plant.

States have also sought to tap the job-creation potential of **microenterprises** — businesses with between zero and four employees — by helping budding entrepreneurs. In this arena, nonprofits sometimes partner with states to issue loans, train entrepreneurs in business development and enlist business owners to mentor entrepreneurs. About 21 states, including New Mexico, have laws designed to foster microenterprise development. For example, Montana, Nebraska, Oregon and Washington sponsor programs that directly assist small-business entrepreneurs or subsidize local microenterprise development programs. In 2001, New Mexico lawmakers created the Small Business Investment Corporation (SBIC), whose objectives in part are to create job opportunities and enhance economic development. Recently, the SBIC has been extending lines of credit to New Mexico-based microlenders that in turn lend to microenterprises.

To slow their job-loss rates, about one-half of the states have created **work-share programs**. These encourage struggling business owners to forgo layoffs in favor of temporarily reducing employees' hours. In the work-share arrangement, a state pays partial compensation for an employee's lost work hours. According to the United States Department of Labor, these programs have saved about 460,000 jobs since 2008. New Mexico does not have a work-share program.

Meanwhile, some states have tried to reverse recession-induced job trends by appropriating money for **new infrastructure**, a move that has the direct effect of increasing employment in the construction sector and, some argue, has the indirect effect of encouraging general economic growth. For example, Maryland has set out to build new public schools; Minnesota will expand its Mayo Clinic; and Kentucky will undertake major construction projects at state universities. Since 2008, the New Mexico Legislature has appropriated approximately $1.5 billion for capital outlay projects that include construction.

Work-Force Development

Another area that some states are focusing on to combat unemployment and underemployment is **work-force development**. Relying on the notion that jobs are available, but that their job-needing residents lack the requisite skills for those jobs, these states have tried to identify and bridge their work-force gaps.

To identify work-force-related deficiencies, some states (e.g., Kentucky, Rhode Island, Tennessee and Vermont) have mandated that one or more agencies **assess industry-specific work-force gaps** in order to direct the focus of state job-training programs.

Other states that have identified their needs are **fueling programs to help plug work-force gaps**. Missouri has dedicated nearly $20 million for community colleges and universities to train more mental health professionals; South Dakota pays the salaries of preceptors (health care professionals who help guide recent graduates, like nurse practitioners and physician assistants); Delaware has enacted a two-year program in technology manufacturing (an industry with approximately 600,000 vacancies) for high school juniors and seniors; and several states have collaborated with car companies and colleges to help colleges graduate more skilled auto manufacturing technicians.

In a **broad-based effort both to assess needs and fill work-force gaps**, Maryland has designed a public-private partnership among higher education institutions, employers and nonprofit organizations. Together, the entities identify industry needs. Grant money is then used to support programs that fill work-force gaps. Along those lines, Kentucky overhauled its state work-force programs to strengthen efforts at connecting employers to job applicants. The initiative features grants for apprenticeship programs and free job-safety training.

Taking the work-force gap-filling measures one step further, some states have instituted **governmental structural changes to encourage cooperation between their education and labor departments**. Oklahoma, for instance, centralized the oversight of its education and work-force functions under one secretary, whose department's performance will be measured not by individual programs (as it was in the past), but by improvements in its individual regions' wealth building. Similarly, Tennessee has striven to more closely align its K-12, higher education and work-force agencies to improve its residents' preparedness for today's jobs and jobs of the future.

Several states have viewed their high schools and colleges as areas to exercise influence over their residents' preparedness for the work force. Many of these **school-based initiatives** also serve to strengthen the connection between education and work.

States have not overlooked those most acutely affected by recent declines in jobs numbers: the job-seeking unemployed. In this regard, states have **increased support for existing job-training efforts**. For instance, Connecticut increased its manufacturing apprenticeship tax credit; Nebraska, its reimbursement for job training and intern hiring; Louisiana, its welfare-to-work program; and Iowa, its apprenticeship programs. Some states have begun to invest in or have increased their investment in job training for veterans.

CONCLUSION

Whether through a standby or novel approach, state initiatives to increase employment have become robust in number and scale as a result of recent job loss. Most state job-creation efforts aim either to boost economic activity or to tighten the gap between supply (workers) and demand (job vacancies). Regardless of the approach, one truth emerges: many state policymakers perceive that they are able to influence the predicament of their states' job-seeking residents and will go to great lengths to tackle the pervasive and vexing unemployment problem.

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