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## FISCAL IMPACT REPORT

SPONSOR HAFC ORIGINAL DATE 3/8/07  
LAST UPDATED \_\_\_\_\_ HB 1280/HAFCS  
SHORT TITLE Workforce Solutions Department Act SB \_\_\_\_\_  
ANALYST Lucero

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		\$50.0		\$50.0	Non- Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates, Relates to, Conflicts with, Companion to  
Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
New Mexico Department of Labor (NMDOL)  
Attorney General Office (AGO)

### SUMMARY

#### Synopsis of Bill

House Appropriations Finance Committee substitute for House Bill 1280 enacts the "Workforce Solutions Department Act" with the stated purpose of establishing a single, unified department to administer all laws and exercise all functions currently administered and exercised by the Labor Department and the Office of Workforce Development. The act creates a new Workforce Solutions Department in the executive branch pursuant to the Executive Reorganization Act. The new department is authorized to cooperate with the Federal Government in the administration of employment, training and public assistance programs and may be designated by the Governor or the Secretary of the department as the single state agency for the administration of those programs.

The Department of Workforce Solutions will be a Cabinet-level agency and will be comprised of five Divisions organized by functional area rather than by program: the Administrative Services Division, the Business Services Division, the Labor Relations Division, the Workforce Technology Division, and the Workforce Transition Services Division. The Department will administer the unemployment insurance program, the Wagner-Peyser program, the Workforce Investment Act, Veterans' programs, etc.

## **House Bill 1280/HAFCS – Page 2**

All statutory references in state law to the Labor Department or any divisions of the Labor Department and Office of Workforce Training and Development are deemed to reference the workforce solutions department after July 1, 2007. The bill transfers all functions, personnel, appropriations, property, contractual obligations, etc. from the Labor Department and the Office of Workforce Training and Development to the new department effective July 1, 2007.

Administratively attached to the department are the human rights commission, the labor and industrial commission and the state workforce development board. In addition, the Secretary, with consent of the Governor may create advisory committees as needed to assist in carrying out agency responsibilities.

The Governor or the Secretary may designate the department as the single state agency for federal grants relating to employment, training or public assistance. The secretary shall be a member of the Interagency Committee on Long-Term Care, the Governor's Commission on Disability, the Information and Referral Task Force, the Martin Luther King, Jr. Commission and the Coordination Oversight Committee to assist the state board in fulfilling its responsibilities.

The secretary is authorized to identify overlapping functions amongst cabinet departments and make recommendations to the Legislature on changes to eliminate these overlaps.

The new department is authorized rule-making functions providing that a rule affecting persons or agencies outside the department is subject to a public hearing held in Santa Fe.

The bill provides for sharing of information on clients amongst state agencies.

The substitute bill also repeals language in NMSA Section 50-14-10 of the Workforce Development Act which currently prohibits the Office of Workforce Training Development (or the new Workforce Solutions Department under the substitute bill) from competing for a contract to provide one-stop services, act as a one-stop operator, accept revenues for one-stop contractor services for a local area of the state or receive funding from residual set-aside funds other than for usual and customary office activities.

### **FISCAL IMPLICATIONS**

NMDOL states that with the major operations, majority of personnel, and available space located in Albuquerque, it is assumed the new agency would also be located in Albuquerque.

The bill does not include an appropriation. Expenses in moving personnel, equipment and changing offices are anticipated. While this is difficult to quantify without assessing the actual requirements, it is estimated at \$50.0.

HB 1280 does not include an appropriation. Some expenses will occur especially for reprogramming computer systems to printout the new agency letterhead on correspondence for the unemployment insurance program. Costs are estimated at \$100.0 but would be paid out of the NMDOL and OWTD operating budget appropriations.

### **SIGNIFICANT ISSUES**

It is unclear how this bill improves on the issues that led to the separation of OWTD from the Labor Department in 2004. At that time, an LFC audit noted that:

1. NMDOL's dual role of service provider and program oversight complicated independence issues which was the primary reason cited for separating the agencies. This bill will allow the dual role to continue. Today, NMDOL is a WIA service provider and receives approximately \$2 million from WIA and employs 42 FTE to provide services for the Central and Southwest Boards. NMDOL also receives an additional \$220.0 in administrative overhead revenue from WIA. NMDOL would have to audit and monitor itself, something that was elusive in 2004, under this substitute bill.
2. "An original audit objective was to identify how WIA program funding was expended. This was impossible due to NMDOL's inadequate, fragmented and poorly structured financial system. Further, the related document tracking system did not allow examination of overall expenditures because of inadequate internal controls over expenditure data." Much of the same fiscal dysfunction continues:
  - a. The 2005 annual independent financial audit, although completed, is being questioned and independently reviewed.
  - b. The 2006 annual independent financial audit has not been completed.
  - c. Federal reports for quarters ending in September and December have not been submitted or have been submitted late, causing concern USDOL.
  - d. Long wait times, call center staffing problems, Unemployment Insurance Information System crashes have frequently been reported in the news media.
  - e. NMDOL requested \$500,000 to hire a contractor to minimize the continued decrease in funds resulting from poor performance and inadequate management systems. The contract would encompass an analysis of all financial management functions including: management information systems and the review of procurement, contracts management, and staff training to insure grant funds are effectively and efficiently managed.
3. The Office of Workforce Training and Development has spent much of its first two years improving past deficiencies in WIA program. The creation of OWTD by Governor Richardson and the Legislature has proven an effective catalyst in correcting previous deficiencies and making improvements to the WIA program, including program finances and information technology. OWTD has made some progress setting up one-stop centers, though more progress is needed.

OWTD has shown improvements in three key areas of the workforce development system.

*Fiscal Integrity.* During the 2003 review of WIA, Committee staff could not evaluate funding due to financial deficiencies. Since assuming administration of WIA, OWTD has spent considerable time resolving these financial problems and has reconciled program funding so that the state and local boards at least know how much funding they have for each year. OWTD has also implemented financial controls to help ensure funding is spent appropriately and unexpended balances do not lapse back to the federal government.

*Data Integrity.* Lack of data integrity proved problematic during the last Committee review as well. OWTD has resolved many of the data integrity issues, including correcting 18,000 data errors contained in the Virtual One-Stop System (VOSS). The agency has also instituted regular data integrity controls to remove human error data problems going forward. The state and local boards should have more confidence in the data contained in VOSS, though extracting data appears problematic for local boards. As with most information technology systems,

changes may be needed to make the system more user friendly for local administrators.

*One-Stop Career Center Planning.* OWTD has facilitated the development of a one-stop business plan that at the time of this report was being adopted by various local boards. This plan provides, among other benefits, a template for helping local boards work to establish consistent services for businesses and job seekers and allocate service costs across programs. OWTD expects implementation of six comprehensive one-stops by the end of FY06. Slow, but somewhat steady progress has been made implementing comprehensive one-stop career centers statewide. The workforce boards in the eastern area and central area have each established two comprehensive one-stop centers each. The state, as evidenced by the problems integrating TANF, still struggles to create a clear operational model for the one-stop that accommodates other state agencies and shows the value added-benefits of simple co-location for other programs, such as child care.

The 2004 executive order which created OWTD stated that under NMDOL tutelage “there is a current lack of coordination among each of the 15 agencies that receive workforce development funds and, as a result of such lack of coordination; there is a lack of accountability and efficiency in the development of New Mexico’s workforce”. This bill does not improve the structure of the current system to yield more coordination among the 15 agencies. OWTD has achieved some success coordinating other agencies through the Coordination Oversight Committee (COC). OWTD, PED, HED have worked together on the career cluster initiative and skill assessment tools.

## **PERFORMANCE IMPLICATIONS**

NMDOL states that:

- Programs and performance measures will have to be developed for the new agency. As much as possible existing measures will be incorporated but new measures will be required in the areas of the labor relations and workforce transition services divisions.
- Federal and state performance numbers would likely increase for the programs due to substantially better coordination of training dollars and job placement dollars.
- It will be easier to achieve integration of offices and staff into “One-Stop” service delivery system if WIA and WP are both under the direction of one cabinet secretary.
- Provide better ability to leverage dollars to support all operations and eliminate unnecessary duplication and fragmentation.
- Provides the ability to reinvent the Workforce System consistent with federal legislation.
- This will create an image consistent with Governor's vision for Workforce System.
- This will streamline WIA organizational structure using existing NMDOL brick and mortar infrastructure.

## **ADMINISTRATIVE IMPLICATIONS**

This bill would provide NMDOL with a dual role; one in which it would serve as grant recipient and serve as a service provider.

NMDOL is a WIA service provider and receives approximately \$2 million from WIA and employs 42 FTE to provide services for the Central and Southwest Boards. NMDOL also

receives an additional \$220.0 in administrative overhead revenue from WIA. This bill would prohibit NMDOL from being a service provider, resulting in a possible ruff of 42 FTE and the need for additional funding from the general fund.

SPO would assist the effort to reorganize the proposed Department including the creation of the Business Services Division.

The secretary will have to reassign staff according to the new organizational structure.

A new Business Services division is established. This will involve possibly the hiring or reassignment of employees with skill sets that match the needs of this new division as well as a division director with this specific skill set.

Write a plan to transition employees of program functions.

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

Relates to HB247

### **TECHNICAL ISSUES**

NMDOL's dual role of service provider and program oversight complicates independence and objectivity issues which was the primary reason cited for separating the agencies in 2004 and the financial disarray. On page 18, lines 11 through 25, deletes those sections which would've prohibited this potential conflict of interest. NMDOL plans to continue being a service provider. It would be very difficult for NMDOL to place itself under a corrective action plan for non-performance.

### **OTHER SUBSTANTIVE ISSUES**

The bill as drafted would not resolve issues facing the workforce system. An LFC performance review this past summer noted deficiencies in the workforce system and recommended an interim study in 2007 of options to consolidate workforce programs, not just from Labor or OWTD, into a new department. The report also recommended that OWTD develop and present policy options for streamlining the administrative role of local boards to the Governor, Legislature, and State Board by November 1, 2006. OWTD has not submitted policy options to the Legislature to date.

This analysis of HB1280 focuses only on the impacts to the New Mexico Higher Education Department (NMHED).

Per the provisions of HB1280, and as part of NMSA 1978:

- The Secretary of Higher Education would continue to be a member of the Industrial Training Board, overseeing the Development Training Program that was designed to assist any area in becoming more competitive economically.
- The State Workforce Development Board would continue in its function to assist the Governor in developing a five-year state plan, in accordance with the federal Workforce Investment Act (WIA) and the Carl D. Perkins Vocational and Applied Technology Education Act. The board would continue to develop appropriate linkages with NMHED to ensure coordination and non-duplication of vocational

education, apprenticeship, adult education, employment training programs and vocational rehabilitation programs with other workforce development and training programs.

- The Coordination Oversight Committee (COC) would continue to assist the State Workforce Development Board in fulfilling its duties. The Secretary of Higher Education would continue to be a COC member, as would a representative from community colleges.
- The Secretaries of Higher Education and Public Education would continue to propose appropriate education plans that facilitate a career pathways culture and include reference to foundation skills. The plans would also address the strategic plans proposed by the Secretaries of Economic Development, Human Services, and the new Workforce Solutions Department for COC consideration and possible recommendation for approval to the State Workforce Development Board as part of the state plan.
- The board member from the community colleges would continue to solicit input from the community college constituency and work with regional/statewide businesses, partners, and appropriate state departments to create career pathways, align curriculum, and facilitate planning in sync with the strategic plans of the Economic Development, Human Services and (new) Workforce Solutions Departments.
- The five-year state plan would continue to include recommendations to the legislature on the modification, consolidation, initiation or elimination of workforce training and education programs in the state.

## **ALTERNATIVES**

Appoint an interim task force to make recommendations to the legislature. Reforming the structure of the workforce system, not just consolidating administrative functions, is the ultimate of workforce reform. It is the structure which is problem, not whether NMDOL or OWTD administers the program.

Allow NMDOL to reorganize itself before folding another agency into the department. NMDOL has many dysfunctions to correct, as evidenced by the department's request for \$500,000 to contract a management consultant. Additionally, NMDOL may spend much of FY08 restructuring the Unemployment Insurance trust fund.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Status quo

DL/mt