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FISCAL IMPACT REPORT

ORIGINAL DATE 01/25/10

SPONSOR Lujan, B. LAST UPDATED 02/17/10 HB 8/aSFC

SHORT TITLE Development Training Funds SB _____

ANALYST Lucero

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
	\$5,000.0	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Public Education Department (PED)

SUMMARY

Synopsis of Senate Finance Committee Amendment

The Senate Finance Committee Amendment to House Bill 8 strikes language referencing the appropriation as recurring and inserts language to clarify that the appropriation is non-recurring and is available for expenditure in fiscal years 2010 and 2011 at the end of which, any remaining balance shall not revert.

Synopsis of Original Bill

House Bill 8 appropriates five million dollars (\$5,000,000) from the general fund to the economic development training fund for expenditure in fiscal year 2011 and subsequent years for a development training program providing classroom and in-plant training to furnish qualified human resources for certain new or expanding industries and business in the state.

FISCAL IMPLICATIONS

The appropriation of five million dollars (\$5,000,000) contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2011 shall not revert to the general fund. The bill declares an emergency.

The appropriation relates to House Bill 7, which is a reflection of the LFC recommendation, including \$1 million from the employment security department fund, for this purpose.

The House Appropriations and Finance Committee Substitute for House Bill 2 does not include an appropriation for this purpose.

Money appropriated to the development training fund is administered by the Economic Development Department's (EDD) Job Training Incentive Program (JTIP) and according to Section 21-19-7 NMSA shall not be transferred to any other fund or be encumbered or disbursed in any manner except as specified in the statute. Money in the fund shall not revert at the end of any fiscal year. Up to two million dollars (\$2,000,000) of development training funds may be used to reimburse film and multimedia production companies and to provide pre-employment training for that industry pursuant to the provisions of Section 21-19-7.1 NMSA 1978. Up to one million dollars (\$1,000,000) disbursed annually from the development training program may be dedicated to development training in green industries.

EDD notes, that as of December 31, 2009 the development training fund had a cash balance of \$9.8 million. Of this amount, \$10.2 million is obligated, leaving a negative \$400-thousand dollar balance.

SIGNIFICANT ISSUES

Despite the increasing demand for funding from JTIP since 2001, the annual appropriation has declined. EDD is concerned about the ability to meet the needs of the newly announced jobs, and those still in the pipeline.

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 75 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. Up to one-third of JTIP funding is prioritized for rural, frontier, and distressed areas of the state. JTIP is often instrumental in companies' decisions to locate or expand in New Mexico.

PERFORMANCE IMPLICATIONS

EDD notes that the demand for JTIP has increased significantly since the early 2000's when JTIP funded an average of 40 projects per year. The number of projects per year now averages 60. EDD is also focused on creating quality jobs for New Mexicans. JTIP reimburses a percentage of the wage paid to trainees and as the overall wage level increases, so does the demand for funds. The average wage of JTIP participants has increased from \$12.47 in 2006 to \$19.91 so far this year.

More than ever, the Economic Development Department has focused on promoting incentives to rural businesses. To encourage job creation in rural New Mexico, the JTIP program offers higher reimbursement rates in rural communities. Reimbursement rates are:

- Urban = 50 percent
- Rural = 65 percent

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- Frontier = 70 percent
- Native American and Economically Disadvantaged = 75 percent

Rural projects funded recently include:

- American Medical Alert – 92 jobs in Clovis
- CD Squared Enterprises – 14 jobs in Gallup
- Compass Components – 72 jobs in Deming
- EnvironX – 4 jobs in Mountainair
- Louisiana Energy Systems – 21 jobs in Eunice
- PreCheck – 111 jobs in Alamogordo
- Premier Pellets – 19 jobs in Tularosa
- Southwest Cheese – 226 jobs in Clovis

Because of EDD's emphasis on job creation in rural areas, rural projects from FY00 to FY10 account for 31% of the total projects funded.

EDD's recent JTIP report, posted on the department's website, suggests that many program trainees move on to higher-wage jobs. Wages in the year immediately after JTIP participation were, on average, \$5,812 higher (37 percent) than they were in the year immediately before. The wages of rural trainees increased almost 49 percent, or \$4,124, while the average wages of urban trainees increased by 35 percent, or \$6,418 higher.

ADMINISTRATIVE IMPLICATIONS

While the New Mexico 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.

RELATIONSHIP

Relates to HB7

OTHER SUBSTANTIVE ISSUES

Despite the increasing demand for JTIP funds from companies, the annual appropriation has declined. The Economic Development Department is concerned about the ability to meet the needs of the newly announced jobs, plus those currently being negotiated

TECHNICAL ISSUES

The SFC amendment changes the bill to provide for a reversion of any remaining balance at the end of FY11; however, the bill is appropriating to a non-reverting fund. There appears to be a conflict whether the intent of the bill is for the appropriation to revert, or not.

AMENDMENTS

On page 1, line 22, after the word "shall" insert "not".

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

EDD and the economic development organizations throughout the state consider JTIP a premier incentive program which directly supports economic growth and the creation of new jobs for New Mexicans. The program requires additional funding to continue to meet the demand of those projects already on the queue for the remainder of FY10 and FY11.

For 38 years, New Mexico's Job Training Incentive Program has been a crucial force in New Mexico's economic growth and it is even more critical during this economic downturn.

DL/svb:mew