LFC Requester:	Torres

AGENCY BILL ANALYSIS
2024 REGULAR SESSION

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SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original x **Amendment** ____
Correction ___ **Substitute** ____

Date 1/18/24
Bill No: HB 5

Sponsor: Garratt, Hemphill, Padilla, Chandler
Short Title: Workforce Development & Apprenticeship Fund

Agency Name and Code Number: SIC 337
Person Writing Iglesias
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
	$50,000.0	Nonrecurring	General Fund (to the new trust fund)

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
	$2,500.0	**$2,500.0**	Recurring	Public Works Apprentice and Training Fund
	$2,500.0	**$2,500.0**	Recurring	Workforce Solutions Department

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 5 creates the Workforce Development and Apprenticeship Trust Fund (herein referred to as the "Trust Fund") and appropriates $50 million from the general fund to seed the Trust Fund in FY25.

The Trust Fund is to be managed by the State Investment Officer in accordance with the Uniform Prudent Investment Act, in consultation with the State Treasurer and with oversight from the State Investment Council.

In FY 25 and FY26, the Trust Fund will make a $2.5 million distribution to the existing Public Works Apprentice and Training Fund (herein referred to as the "training fund") and to the Workforce Solutions Department (WSD). Beginning in FY27 and beyond, these annual distributions are reduced to $1.5 million.

In addition to the regular distribution, money in the trust fund may be appropriated to cover budgetary shortfalls following complete expenditure of the general fund, the general fund operating reserve, the appropriation contingency fund, the tobacco settlement permanent fund, and tax stabilization reserve.

The bill also clarifies that the Workforce Solutions Department administers the existing Public Works Apprentice and Training Act and oversees the existing Public Works Apprentice and Training Fund (PWATF).

FISCAL IMPLICATIONS

The new Workforce Development and Apprenticeship Trust Fund is seeded with a $50 million appropriation in FY25. Distributions from the Trust Fund also begin in FY25 and are set at $2.5 million to the training fund and to WSD for FY25 and FY26, then reduced to $1.5 million in FY27 and beyond.

The language in the bill is unclear whether the $2.5 million distribution to the training fund and WSD is $2.5 million total (to be split between the two entities) or $2.5 million to each entity ($5 million total). Staff interpret the bill to mean the distribution is to each entity, thereby totaling $5 million in FY25 and FY26, then totaling $3 million ($1.5 million to each) in FY27 and beyond.

The table below provides a simplified example of potential investment returns for the new Trust Fund. Return expectations for funds the Council manages range from 5.1 percent (Tax Stabilization Reserve) to 7 percent (the long-term return target for the Land Grant Permanent Fund. For the purpose of this sample analysis, staff assume a 6 percent annual return for the new Trust Fund created in this bill; however, actual return expectations would ultimately depend on the fund's asset allocation.

Workforce Development Apprenticeship Trust Fund ($MM)						
Calendar Year	Beginning Balance	Contributions	Gains & Losses	Distrib	Ending Balance	YOY Fund Growth
2024	$0.0	$50.0	$1.4	-$5.0	$46.4	
2025	$46.4	$0.0	$2.7	-$5.0	$44.0	-5.0%
2026	$44.0	$0.0	$2.6	-$3.0	$43.6	-1.0%
2027	$43.6	$0.0	$2.5	-$3.0	$43.1	-1.1%
2028	$43.1	$0.0	$2.5	-$3.0	$42.6	-1.2%
2029	$42.6	$0.0	$2.5	-$3.0	$42.1	-1.3%
2030	$42.1	$0.0	$2.4	-$3.0	$41.5	-1.3%
2031	$41.5	$0.0	$2.4	-$3.0	$40.9	-1.4%
2032	$40.9	$0.0	$2.4	-$3.0	$40.3	-1.6%
2033	$40.3	$0.0	$2.3	-$3.0	$39.6	-1.7%
2034	$39.6	$0.0	$2.3	-$3.0	$38.9	-1.8%
2035	$38.9	$0.0	$2.2	-$3.0	$38.1	-1.9%
2036	$38.1	$0.0	$2.2	-$3.0	$37.3	-2.1%
2037	$37.3	$0.0	$2.2	-$3.0	$36.5	-2.3%
2038	$36.5	$0.0	$2.1	-$3.0	$35.6	-2.5%
2039	$35.6	$0.0	$2.0	-$3.0	$34.6	-2.7%
2040	$34.6	$0.0	$2.0	-$3.0	$33.6	-2.9%
2041	$33.6	$0.0	$1.9	-$3.0	$32.6	-3.2%
2042	$32.6	$0.0	$1.9	-$3.0	$31.4	-3.5%
2043	$31.4	$0.0	$1.8	-$3.0	$30.2	-3.8%
2044	$30.2	$0.0	$1.7	-$3.0	$28.9	-4.2%
2045	$28.9	$0.0	$1.6	-$3.0	$27.6	-4.7%
2046	$27.6	$0.0	$1.6	-$3.0	$26.1	-5.2%
2047	$26.1	$0.0	$1.5	-$3.0	$24.6	-5.8%
2048	$24.6	$0.0	$1.4	-$3.0	$23.0	-6.6%
2049	$23.0	$0.0	$1.4	-$3.0	$21.4	-7.0%
2050	$21.4	$0.0	$1.3	$0.0	$22.7	6.0%

Distribution to Training Fund and WSD ($MM)		
Fiscal Year	Distrib Date	Amount
FY24	Jul-23	$0.0
FY25	Jul-24	$5.0
FY26	Jul-25	$5.0
FY27	Jul-26	$3.0
FY28	Jul-27	$3.0
FY29	Jul-28	$3.0
FY30	Jul-29	$3.0
FY31	Jul-30	$3.0
FY32	Jul-31	$3.0
FY33	Jul-32	$3.0
FY34	Jul-33	$3.0
FY35	Jul-34	$3.0
FY36	Jul-35	$3.0
FY37	Jul-36	$3.0
FY38	Jul-37	$3.0
FY39	Jul-38	$3.0
FY40	Jul-39	$3.0
FY41	Jul-40	$3.0
FY42	Jul-41	$3.0
FY43	Jul-42	$3.0
FY44	Jul-43	$3.0
FY45	Jul-44	$3.0
FY46	Jul-45	$3.0
FY47	Jul-46	$3.0
FY48	Jul-47	$3.0
FY49	Jul-48	$3.0
FY50	Jul-49	$3.0

Using a 6 percent annual average return assumption, the new Trust Fund's spending policy could potentially be sustained through the mid-to-late-2050s; however, under this return assumption, annual spending would exceed annual return expectations, resulting in a declining value of the fund's corpus over time.

Notably, if we use a 7 percent return assumption, interest earnings would roughly equal the annual distribution, resulting in a longer fund life. However, stronger returns expectations require additional risk, which may or may not be appropriate for the specific goals of this fund.

Given the Trust Fund's spending policy, which is effectively 10 percent of the fund's value in the first two years and then about 7 percent thereafter, two different arguments could be made regarding the appropriate risk/return profile for the new Trust Fund. First, one could argue the Trust Fund would likely need to be invested more conservatively than other permanent/trust funds under the Council's management to avoid potential market losses which could have oversize effects on the fund's corpus and ultimately shorten the life and benefits of the fund. On the other hand, one could argue management of the Trust Fund take a more aggressive, growth-oriented approach to try to match or exceed the relatively high annual distribution rate.

It is important for the Council as manager of the new Trust Fund to properly understand the long-term goals and risk/return appetite of the fund's "client" to appropriately allocate the funds in question. In this case, we would suggest the Secretary for the Workforce Solutions Department would be properly consulted in this regard, and could replace the state treasurer (page 2, line 5), who will already be involved in the management process around the new Trust Fund due to her ex-officio role on the State Investment Council.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

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.

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 (see discussion above).

ADMINISTRATIVE IMPLICATIONS

This bill will require additional time from investment and administrative staff at the State Investment Office. However, the additional resources required can be addressed through the SIO's ordinary budgeting process.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

Section 1-D describes the new Trust Fund's spending policy as follows:

> D. Subject to the availability of funds:
> (1) on July 1, 2024 and July 1, 2025, two million five hundred thousand dollars ($2,500,000) shall be:
> (a) transferred to the public works apprentice and training fund; and
> (b) appropriated to the workforce solutions department to carry out the purposes of the Apprenticeship Assistance Act; and
> (2) on July 1 of each year thereafter, one million five hundred thousand dollars ($1,500,000) shall be:
> (a) transferred to the public works apprentice and training fund; and
> (b) appropriated to the workforce solutions department to carry out the purposes of the Apprenticeship Assistance Act.

This language could be interpreted such that the distribution to the training fund and WSD is $2.5 million total (to be split between the two entities) *or* $2.5 million to each entity ($5 million total in FY25-FY26 and $3 million total in FY27 and beyond).

For this analysis, staff interpret this section to mean the $2.5 million in FY25-FY26 and $1.5 million in FY27+ is to be allocated in full to both the training fund and WSD (i.e. $5 million total in FY25-FY26 and $3 million total in FY27+). However, to prevent future uncertainty of distributions, staff recommend language to clarify this section.

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

This bill draws language identical to that in existing statute 6-4-2.2, which calls for the state investment officer to invest the Tax Stabilization Reserve (TSR) "…in consultation with the state treasurer."

When the legislature changed law to transfer management of the Tax Stabilization Reserve from the State Treasurer's Office to the State Investment Council several years ago, the inclusion of the Treasurer as a special advisor to the State Investment Officer was deemed appropriate. However, in this case, this bill's Trust Fund will be a completely new fund, to be managed and overseen by the 11-member Council, which already includes the State Treasurer. For the new Trust Fund, there is no particular reason to grant the Treasurer additional powers over and above the other 10-members of the Council.

It is important however, for the Council as manager of the new Trust Fund to properly understand the long-term goals and risk/return appetite of the fund's "client" to appropriately allocate the funds in question. In this case, we would suggest the Secretary for the Workforce Solutions Department would be properly consulted in this regard, and could replace the state treasurer (page 2, line 5), who will already be involved in the management process around the new Trust Fund due to her ex-officio role on the State Investment Council.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS