ISSUE REVIEW

Iowa Legislative Fiscal Bureau

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Industrial New Jobs Training Program

ISSUE

A review of the Industrial New Jobs Training Program.

AFFECTED AGENCIES

Department of Economic Development (DED)

Community colleges

Department of Revenue and Finance (DRF)

CODE AUTHORITY

Chapter 260E, Code of Iowa

BACKGROUND

General Description of Industrial New Jobs Training Program

The 1983 Session of the General Assembly established the Industrial New Jobs Training Program to provide training funds and services for new and expanding companies.[1] Funding for the Program comes from proceeds of certificates issued by community colleges on behalf of eligible companies. The certificates are retired with proceeds from the State income tax withholding of the new employees or new property taxes paid by the business, or both.

In the case of credit from withholding receipts, credit is based on 1.5% of the gross wages of new employees. If this amount is insufficient, the employer can receive a credit against other withholding taxes, which may include existing employees.

In the case of credit from property taxes, the community college determines the value of the increased property that results from the new jobs project. The receipts from these tax payments are deposited into a fund that is used to pay principal and interest on the certificates. If the receipts are not sufficient to retire the certificates, then the cost is transferred to all other property in the community college district.

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1 There is a separate program in Chapter 260F, Code of Iowa (Iowa New Jobs Training Program), which addresses the needs of small businesses. Loans under Chapter 260F are also used to retain jobs that might otherwise be eliminated.

Since the Program's inception, there have been 783 separate projects with a total certificate value of $197.3 million.

Eligibility Requirements

An eligible business may be engaged in either interstate or intrastate commerce if the business is a manufacturer, processor, assembler, or a research and development company. An eligible business may provide interstate services, but not intrastate services. Retail, health, and professional services are excluded from eligibility. Additionally, an eligible firm may not reduce operations in one part of the State and relocate the same operation to another part of the State.

Reimbursement to the Community Colleges and Department of Economic Development

The DED is awarded 1.0% of the amount of the certificate for its part in the coordination of the Program with the Department of Education. The community colleges receive an administrative fee equal to 15.10% (for FY 1995) of the amount of the certificates. This percentage is based on the administrative expenditures for the Program as well as the overall institution's administrative costs. The Department of Education determines the administrative fee annually. The fee has grown steadily since FY 1991. In FY 1991 the administrative fee was 13.97%.

According to the DED's FY 1993 Annual Report, the community colleges (in FY 1993) had total administrative revenues of $3.3 million, and total assets of $7.9 million. Total administrative expenditures in FY 1993 were approximately $2.3 million, leaving an ending balance of $5.5 million. The administrative charge by the community colleges does not include legal and underwriting expenses. These expenses are also deducted from the proceeds of the certificates. Through June 30, 1993, legal and underwriting costs represented approximately 3.1% of the total value of all certificates. Community college administration costs through FY 1993 were 11.1% ($21.6 million) of total certificates.

The community colleges and the DED are permitted to carry forward the balances of the funds into which the fees are deposited. As of June 30, 1994, the total balance in these funds for the community colleges was approximately $7.1 million. The balance in the DED fund was approximately $363,000.

Types of Training

There are nine types of Program services listed in the Code of Iowa. The nine Program services can be grouped into the following six categories:

- **Community College Training** - Includes training contracted by the business through a community college, or the use of community college facilities and resources.
- **Company Training** - Includes reported expenses by the business for a trainer employed by the business.
- **On-the-job Training** - On-the-job training is not to exceed 50.0% of the annual gross payroll costs for up to one year of the new jobs. (Gross payroll includes wages, salaries, and benefits for the jobs involved in the project.) Since neither the company nor the community college is required to identify how on-the-job

training funds are used, it is no different than a direct subsidy to an eligible business.[2]

- **Contracted Training** - Includes training contracted by the business, but excludes community college training and company trainers.
- **Materials and Equipment** - Includes training aids such as VCRs, books, tapes, and other supplies.
- **Travel** - Including travel expenses associated with various training programs.

CURRENT SITUATION

Over the history of the Program, the projects have provided training revenue associated with the creation or retention of approximately 55,000 jobs. Over that time, State and local governments have forgone or expended approximately $148.0 million. Approximately $109.9 million has been spent on training costs. This represents 74.3% of the revenues that have been collected for the Program, and approximately 55.3% of the total value of all certificates. Table 1 compares expenditures for the different types of training over the history of the Program (by community college).

Table 1
Expenditures by Type of Training Expense - FY 1983 Through FY 1994
(In Millions of Dollars)

Community College	On-The-Job Training	Community College Training	Company Trainer	Contracted Trainer	Materials and Equipment	Travel	Total
Northeast Iowa	$ 2.3	$ 0.1	$ 0.8	$ 0.4	$ 0.0	$ 0.2	$ 3.8
North Iowa Area	1.9	0.1	0.3	0.3	0.0	0.0	2.6
Iowa Lakes	0.2	0.1	0.4	0.0	0.0	0.0	0.7
Northwest Iowa	2.0	0.0	0.0	0.0	0.0	0.0	2.0
Iowa Central	1.3	0.0	0.5	0.0	0.0	0.0	1.8
Iowa Valley	3.9	0.0	1.1	0.1	0.0	0.0	5.1
Hawkeye	4.1	0.4	1.4	0.8	0.3	0.3	7.3
Eastern Iowa	7.6	0.3	2.1	0.1	0.5	0.0	10.6
Kirkwood	10.9	1.1	1.5	4.0	0.4	0.6	18.5
Des Moines Area	10.4	2.0	3.9	5.2	3.4	0.3	25.2
Western Iowa Tech	8.0	0.1	0.8	0.0	0.0	0.0	8.9
Iowa Western	2.2	0.0	4.3	0.1	0.1	0.3	7.0
Southwestern	1.6	0.4	0.9	0.1	0.2	0.4	3.6
Indian Hills	7.0	0.0	0.3	1.5	0.0	0.0	8.8
Southeastern	2.2	0.2	0.5	0.0	0.2	0.1	3.2
Total	$ 65.6	$ 4.8	$ 18.8	$ 12.6	$ 5.1	$ 2.2	$ 109.1

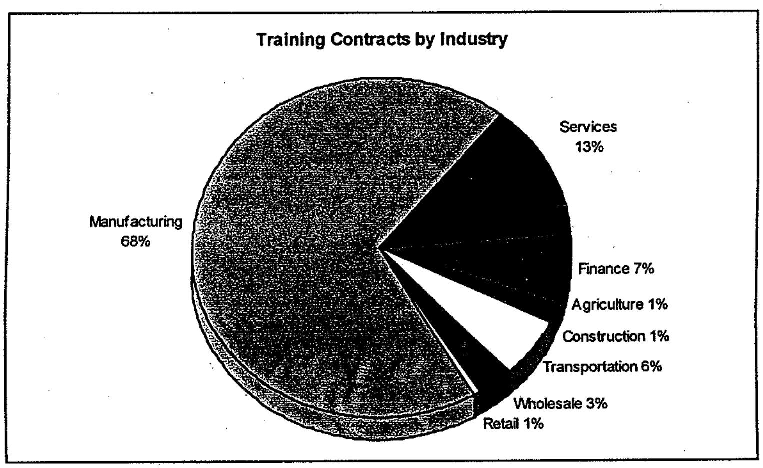
[2] Companies must submit payroll records showing that the new jobs do exist, but are not required to submit records describing the use of on-the-job training funds.

Across all colleges, on-the-job training represents approximately 60.1% of all training money. There are no stipulations regarding the use of this part of the project. Community colleges provide just 4.4% of the training. Approximately 33.2% of training expense has been expended directly for identifiable training (includes company trainers, contracted training, and community college training; excludes on-the-job training, materials and equipment, and travel). If all Program revenues through FY 1994 are taken into account, the figure drops to 24.5%.

Recipients by Industry and Sector

For the purpose of this ***Issue Review***, the Legislative Fiscal Bureau (LFB) classified 721 (total certificate value of $189.9 million) of the projects according to the Standard Industrial Classification Manual.[3] Approximately 68.9% (497) of the projects went to manufacturing firms. Chart 1 provides a breakdown of contracts by major sector.[4]

Chart 1



The 721 agreements that were classified have also been categorized into type of business (such as appliances, meat processors, and containers). Charts 2, 3, and 4, show the major recipients by business type (by number of actual jobs, number of agreements, and total value of certificates).

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3 The Standard Industrial Classification Manual establishes the statistical classification standard underlying all establishment-based federal economic statistics classified by industry. The latest edition was completed in 1987 by the Executive Office of the President, Office of Management and Budget.

4 Contracts were categorized into major industry groups according to company description. The retail sector (0.6%) in this chart is comprised of two corporations which sell by catalog or mail-order. All of the telemarketing contracts have been categorized as "business services", although some could be considered retail establishments, according to the Standard Industrial Classification Manual.

Chart 2

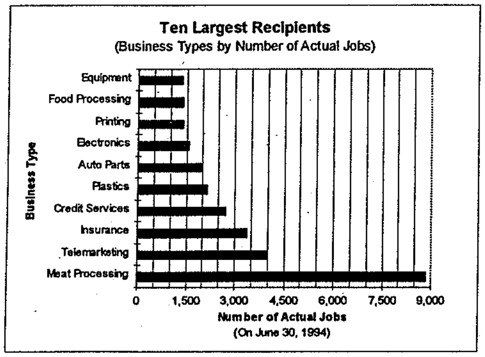


Chart 3

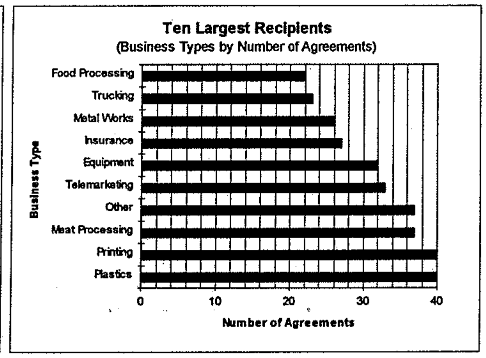
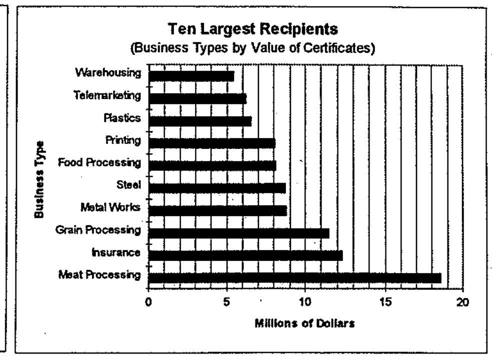


Chart 4



Although meat processors have not, as a business type, received the most agreements, they have received the largest shares of jobs and total value of certificates. Meat processors have acquired 20.7% of the value of all certificates, and have provided 16.7% of all jobs that are associated with the training program.

Before a project is undertaken, the community college is responsible for estimating the number of jobs the project will create, and determining the resulting annual payroll. If the number of jobs falls significantly short of the projection, the project will not likely meet anticipated expenses. Approximately 84.9% of the projects meet anticipated expenses, and 81.2% of the projects are receiving timely payments. There is, however, considerable variance according to sector. Table 2 compares anticipated jobs with actual jobs by major sector.[5]

Table 2

Actual Jobs vs. Estimated Jobs By Sector

Sector	Estimated Jobs	Actual Jobs	Actual as a Percentage of Estimated
Agriculture	427	278	65.1%
Construction	213	208	97.7
Manufacturing	37,894	34,945	92.2
Financial	6,405	6,351	99.2
Wholesale	1,008	1,002	99.4
Retail	304	177	58.2
Services	9,077	6,791	74.8
Trans/Utilities	3,405	3,074	90.3
Total	58,733	52,826	89.9%

In the services sector the job retention percentage (74.8%) has been reduced from past levels due to the recent closing of large business services recipients, the largest of which was the Greyhound Accounting Center in West Des Moines.

5 "Actual jobs" are jobs that existed on June 30, 1994. In many cases, the terms of a contract were completed with employment that met expectations, but the business subsequently eliminated the jobs. Thus, "actual jobs vs. estimated jobs" is more a measure of the durability of the incentive than the solvency of the loans.

Sectors Excluded From The Program

There are two main reasons why intrastate services and retail trade are excluded. One goal in any economic development program is to encourage new production of goods and services in areas that would not emerge or grow if the economic development program did not exist. Intrastate services and retail trade are generally the result of economic growth, rather than the cause. For example, convenience stores are constructed as a result of economic activity and population. A program that provides incentives to build more convenience stores would probably subsidize investors that would have built convenience stores in any case. The second reason that intrastate services and retail trade are excluded is that these sectors usually provide lower paying jobs.

The lowest job retention rate (58.2%) is in the retail sector; which, according to the Code of Iowa, should not be receiving loans under the Industrial New Jobs Training Program. The 177 jobs that were created are from two mail order companies.

From the business descriptions, it is unclear in many cases whether certain recipients are providing interstate or intrastate services. The main businesses in question provide data processing and information services, packaging services, and telemarketing (some of which may be retail). There are no administrative rules or direction from the Code of Iowa that formalize the process by which these classifications are determined.

The DED has begun data collection procedures to determine the standard industrial code for each business in the Program. As the data becomes more useful, the DED and LFB will be able to more accurately report on the nature of business conducted by Program participants.

Companies With Multiple Projects

The 783 projects were undertaken by 641 companies. Approximately 142 companies have received multiple certificates. Three companies (APAC Telemarketing Services, Norwest Bank, and Principal Mutual) have each received eight contracts. Custom-Pak, Deere Credit, and IBP have each received six contracts. An additional 39 companies have received more than two contracts.

ALTERNATIVES

Several competing and non-competing alternatives to the Industrial New Jobs Training Program have been suggested over the last ten years. The purpose of this ***Issue Review*** is to inform members of the General Assembly of the workings of the current Program, rather than to focus on policy options. However, there are two actions the General Assembly may wish to consider that could improve oversight without changing the basic premise of the Program.

- **Require that the identification of Standard Industrial Classification Codes be made prior to an agreement, and that the Codes be reported to the DED for review.** Until recently, no Standard Industrial Classification Codes were reported for businesses in the Program. Currently, the Codes are reported, but there is some inconsistency. There is no standard procedure in place to determine who is initially responsible for identifying the codes or when the codes must initially be identified.

- **Review the process by which community colleges receive administrative costs.** This option could help identify actual community college costs and determine whether or not the current reimbursement level reflects actual costs. It could also eliminate an incentive for the community colleges to issue marginally beneficial certificates.

BUDGET IMPACT

There are four ways in which the Industrial New Jobs Training Program affects State and local budgets.

- **Community College Funding** - The community college budgets are affected by two aspects of the Program. Initially, the community colleges will receive 15.10% of certificate issuance in FY 1995. Secondly, the community colleges provide training services to some of the participating businesses.

  In FY 1994, total administrative charges received by the community colleges were $4.0 million, and total training revenues received by the community colleges were $0.9 million

- **State Income Tax Withholding** - The State is directly affected by certificates that are levied against the State income tax withholding of participating businesses' payroll.

  In FY 1994, the total amount of withholding that went toward certificate retirement (rather than the General Fund) was approximately $14.4 million.

- **Property Taxes** - Certificates that are levied against property taxes are becoming less frequent, as income tax withholding becomes increasingly more popular. With the exception of school districts, all local government taxing authorities are affected when property tax revenues are directed toward the payment of Chapter 260E and 260F (Code of Iowa) certificates. The State is affected through the school aid formula. For every $1,000 of lost taxable valuation to local governments, the State pays $5.40 to local school districts.

  The total amount of property taxes applied toward certificate retirement in FY 1994 was $15.6 million. Approximately $12.8 million of this amount was absorbed by local governments, and $2.8 million was paid by the State through the school aid formula.

- **Job Creation** - Given the vast number of businesses that have participated in the Program, there are almost certainly some who operate close enough to the margin of profitability that jobs would not have been created without the Program. When this occurs, there are two economic and budgetary effects:

- State and local tax revenues increase when corporations are paying wages and making profit. There is a positive affect on population growth and income; thus tax revenue that is dependent on economic activity will increase.

- There is a corresponding negative offset. Although the effect is small, the Program results in economic pressures that divert resources away from other efficient economic development enterprises toward development that qualifies for benefits under the Program.

These two effects are not quantifiable. There is no doubt that many of the business participants that create or expand employment would do so with or without these benefits, and the population growth that would be expected to accompany 55,000 unique jobs over ten years is not readily visible. It is possible the State's population would have decreased more had the Program not existed.

If the Industrial New Jobs Training Program is maintained in its current scope and size, the initial costs of the Program will be phased out. Although it is difficult to pinpoint within the next several years, certificates will be retired and reissued at similar rates. Due to this timing characteristic, the initial decline in withholding receipts and property tax receipts will subside, as future contracts merely replace old contracts.

Another way of looking at the cost of the Program is to consider the windfall that would result to the State and local governments if the Program were eliminated. As old certificates are paid off, State income tax receipts and local property tax receipts would increase. Community college revenues, on the other hand, would decline. The increase to the General Fund and local governments would be incremental, as certificates are gradually repaid. These increases are in addition to the FY 1994 ending balance in the community college Industrial New Jobs Training Program Funds ($7.1 million).

Table 3 shows a combined balance sheet for all the community colleges for FY 1993 and FY 1994.

Table 3

Direct Revenue Impact of Iowa New Jobs Program

	FY 1993	FY 1994
Beginning Balance	$4,585,599	$5,519,495
Revenues		
Administrative Allowance	2,717,246	3,380,471
Other Income	557,969	612,310
Total Revenues	$3,275,215	$3,992,781
Expenditures		
Staff	$1,237,035	$1,017,675
Monitoring & Accounting	310,720	421,055
Professional Contract Services	69,060	151,528
Economic Development Activities	377,822	335,830
Special Programs	235,000	433,187
Chapt. 260E Default	0	2,340
Indirect Costs	111,682	40,286
Total Expenditures	2,341,319	2,401,901
Ending Balance	$5,519,495	$7,110,375

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