# Iowa Industrial New Jobs Training Program
# Interim Study Committee Required Report

## Section 32 (3)(A)(1): Brief Historical Overview and Original Program Objectives

In 1983, the Iowa General Assembly passed the 260E Industrial New Jobs Training Program with the stated purpose of providing training for new employees in new and expanding companies.

The original legislation identified businesses engaged in manufacturing, processing, or assembling products, conducting research and development, or providing services in interstate commerce eligible to apply for assistance. Businesses engaged in retail, health or professional services were not eligible to apply for assistance from the program.

The definitions also specified that the jobs that can be included in the program cannot include jobs for recalled or replacement workers, or jobs that existed before the project began. Businesses that close or substantially reduce operations in one area of the state and relocate substantially the same operation in another area of the state of Iowa do not qualify.

The objectives and definitions of the 260E program have not changed significantly legislatively or by rule since the law was passed in 1983. While the original purpose of the bill was clearly to create new jobs and diversify our economic base, current workforce training needs reflect a larger need for upskilling current employees to keep up with emerging technology. Additionally, Iowa's largest industry, healthcare, is not included in the program despite healthcare also being the most in demand industry with the most current and future projected openings.

## Section 32 (3)(A)(2): Number of Jobs Created as a Result of the Program

To provide the best estimate, an analysis of 1,189 contracts, covering fiscal years 2012 to 2025 was undertaken.[1]

- During this thirteen-year timeframe, $646,359,132 was expended in total costs to assist 798 unique employers.
- Employers pledged to create 56,604 total new jobs in the corresponding contracts and ultimately reported creating 45,573 jobs. This information is not verified by IWD. It is self-reported by the community college.

[1] All analysis contained in this report is based on data available in the 260E System as of June 2, 2026. Specifically, data from the Job Creation Report, Contract Report, and Bond Report covering the years from July 1, 2012, through June 30, 2025. Refinanced contracts are not included in this data set because those contracts began before the years in the sample. For example, if a contract was begun in 2007 as part of a 2007 bond sale, but the contract was included in a refinancing bond sale in 2013, this contract was removed from the dataset because it began before our survey period. The data included in this analysis is as of September 2025. No data prior to 2012 exists for review.

    - During the same time frame, approximately 92,000 jobs were reported to have been created in all of Iowa.
    - There are currently 86,651 employers in Iowa.

- 77.5% of the employers met the job creation pledges outlined in the contracts as self-reported by the community colleges. This has not been verified by a 3rd party.

At the same time, a review of the contracts indicated that a considerable amount of taxpayer money is going to fund projects that miss their job creation goals or should not have been qualified for the program:

- Over $20 million in bond certificates, including $14.5 million in training funds, went to support projects that missed their job creation projections.
- Five million dollars in taxpayer money went to fund projects that created zero jobs.
- For projects that missed their job creation marks, only about 40% of the jobs pledged were created.
- Over $20 million in training proceeds were provided to businesses that specifically do not qualify for the program.

**Section 32 (3)(A)(3): Wage Increases for Participants in the Program, Prior to and After Receiving Approved Training**

To start, it is important to consider that this program is not intended to be an upskilling program for existing workers. Typically, it is expected that there will be wage growth when current employees are upskilled. The 260E program is intended to train new workers. The expectation is that they are being trained to earn the current wage of the position that they are hired to fill.

Specific wage information is not available with any certainty. The wages of the employees that are hired and trained as identified in the contract are not provided by community colleges. When the contract closes out, the community college reports the average wage of the entire employee base of the company. Given that the average wage of all employees is reported vs the wages of the specific employees being hired and trained (both before and after training), the department cannot provide any information regarding potential wage increases for specific employees who receive 260E training.

**Section 32 (3)(A)(4): Employee Retention Rates**

This information is not available because community colleges do not report retention rates of employees who receive training funded by 260E or data that would allow IWD to verify retention.

**Section 32 (3)(A)(5): The Financial Impact, Cost-Effectiveness, and ROI of the Program**

A review of the program indicates the following:

- Program expenses from 2012 to 2025 were $646,359,132.
- A little over 39% of this amount, or $251,745,527, was spent on either the costs of servicing the bonds (approximately 50%) and the remaining 50% was paid to community colleges as administrative fees. Therefore, a little under $395 million dollars of the total amount was available to provide training to employees.
- Approximately $40M is currently diverted from the general fund each year to retire bond debt and fund withholding tax credits to businesses.
- The average cost of training a single employee over this period was $9,704 per person.
- During the same time, community college tuition averaged between $5,790 and $7,080 a year per student or approximately between 3,900 and $2,600 less than a 260E project.
- During the 13 years, 798 unique employers enrolled in 260E projects out of a total of 86,651 employers in the state.
- The program serves less than 1% of Iowa's employers, and 37% of the participating employers had multiple contracts.
- An audit conducted by the Iowa State Auditor in 2009 and again in 2020 made the following relevant findings:

    - "There is no clear evidence these jobs add to the base employment or expand economic opportunity past the end of the contract".
    - Training provided for projects was not specific or exclusive to the new jobs created
    - Training such as orientation, leadership development and occupational health and safety classes should have been provided by the participating businesses regardless of participation in the 260E program
    - There is no 3rd party verification related to if the jobs pledged were created and retained

**Section 32 (3)(A)(6): The Quality and Relevance of the Training Projects**

An evaluation of the quality and relevance of the training projects, "including whether each training program meets industry standards and needs, and whether participants in the training gain necessary skills to succeed in each participant's job" is difficult because community colleges do not report information necessary to evaluate the quality and relevance of each training program.

Of the training funded through this program, 59.21% is being conducted by the employer, 23.21% by a third-party vendor and 17.59% by the community college. In total, approximately 83% of the funding is being passed through to the employer or third-party vendor from the community colleges.

Iowa Workforce Development maintains a database of training projects funded through 260E, reported by the colleges and developed by colleges and employers. There is a great deal of variation in the style and format of each college's project documentation and implementation. In addition, often the contracts do not include detailed training plans.

However, a survey of the documents available reveals several patterns indicating how the funds are primarily used. The first of these concerns the training activities most regularly included in the agreements. Most 260E training activities fit into the following eight categories:

- Orientation and Onboarding.
- Communications and interpersonal Skills.
- Safety and Security.
- Leadership.
- Travel and Conference Attendance.
- Policy and Procedure Development, Company-wide Training Materials, and Equipment.
- Sales and Marketing.
- Technical, Specialized, and Manufacturing Skills.

Most of this type of training is not measurable or transferable and does not have the wage-enhancing potential, envisioned in the 260E legislation.

The Technical, Specialized, and Manufacturing category includes the largest variety of skills. This category encompasses “hard” skills, including:

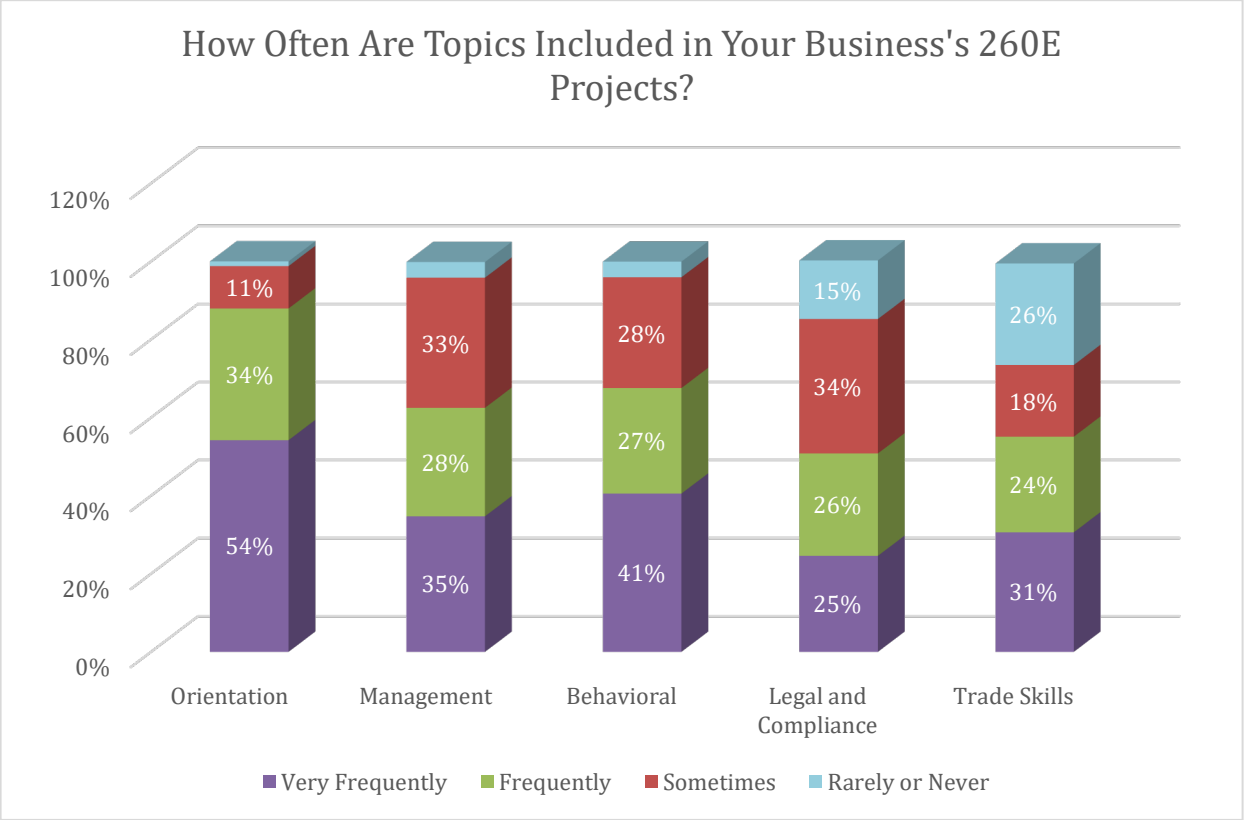
- Basic skills, like how to use hand tools or how to read blueprints.
- Specialized and trade skills, like electrical, injection molding, HVAC repair, carpentry, and welding.
- Highly technical, advanced manufacturing skills, like CAD, CNC machining, robotics and automation, 3-D printing, and data analytics.

These skills are the demonstrable, measurable skills that are considered the prime target of workforce training programs like 260E. They are transferable from employer to employer and stay with the worker. They often involve a certificate or other credential and increase the marketability and value of the employee in the marketplace. Yet these technical skills comprise only about 25% of the direct training funds budgeted under the program.

A review of recent contracts reveals that training plans have a high degree of similarity to other plans submitted by a college. Sometimes, this can happen within a single college’s contracts included in a bond issue with multiple business and training plans. We also observed in a college’s contracts when a single business has multiple contracts year after year with the same type of training. In both scenarios, this repetition suggests a boiler-plate approach to project planning for colleges and businesses and leads to questions related to the strategic relevance of the training offered under the program.

The observations outlined above related to the quality and nature of the training funded under 260E are reinforced by feedback collected by IWD from participating employers. The department surveyed employers associated with contracts between FY2012 and FY2025 for their perspective and input on the program. It was conducted as part of drafting this report and additional information about the survey results are presented in Section 32 (3)(A)(8) of the report.

As demonstrated in the chart below, responding employers reported that they overwhelmingly use 260E funds to provide orientation for employees under the program, with 88% saying it is "Very Frequently" or "Frequently" an included topic. Meanwhile, 26% of respondents' projects "Rarely" or "Never" include training in trade skills such as welding, machining, electrical, mechanics, or carpentry.




**Section 32 (3)(A)(7): Effectiveness in Targeting the High-Demand Industries**

The 260E program allows employers engaged in manufacturing, processing, or assembling products, conducting research and development, or providing services in interstate commerce to participate. The program excludes retail, health and professional services as eligible businesses. These qualifications have not changed for four decades.

Iowa's statewide workforce strategy—developed by TEConomy Partners for IEDA and IWD—explicitly identifies four "targeted industry clusters" for talent development:

- Advanced Manufacturing.
- Biosciences.
- Finance & Insurance.
- Technology.

These clusters employ more than 355,000 workers and represent 43% of Iowa's total economic output.

Current labor market data shows that healthcare has become Iowa's largest industry. According to Iowa Workforce Development's 2025 Q4 employment figures, Health Care & Social Assistance now employs 235,033 Iowans—15% of all employment—making it the largest employment sector in the state, larger than manufacturing (214,482). And critically, projections indicate that Health Care & Social Assistance will add 33,215 jobs between 2022 and 2032, the most of any industry—and nearly equal to the combined growth of the second, third, and fourth fastest-growing sectors.[2]

Unfortunately, healthcare, despite being Iowa's largest source industry and its fastest-growing workforce need, is not an eligible industry under 260E.[3]

**Section 32 (3)(A)(8)(a): Sectors Requiring Additional Focus and Support**

Healthcare.

**Section 32 (3)(A)(8)(b): <u>Strengths and Weaknesses</u>**

IWD surveyed employers who have used the 260E program to determine the strengths and weaknesses of the program. In addition to the survey, staff has had numerous direct conversations with businesses and service providers regarding the program. Below is an overview of the most relevant data:

**Strengths** identified by **employers and vendors**:

- The program is very important to upskilling current employees.
- 260E provides funding over and above the cost of training the new employees identified in the agreement and funding is being used for other purposes such as upskilling current employees.
- The program allows companies to develop training materials for the entire company, not just new hires.
- Employers do not have to provide match funding to receive funds.
- Community Colleges align businesses with training vendors to help meet their needs.

**Weaknesses** identified by **employers and vendors**:

- Complex program that makes program administration time consuming.
- Simplify the training tracking requirements.
- Ongoing paperwork requirements are cumbersome and overwhelming.

[2] Iowa Workforce Development, *Quarterly Census of Employment and Wages*, Labor Market Information, accessed July 27, 2026, https://workforce.iowa.gov/labor-market-information/industry-employers/qcew.
[3] TEConomy Partners, LLC. *Meeting and Sustaining the Workforce, Talent, and Skill Needs of Iowa's Targeted Industry Clusters*. Prepared for Iowa Economic Development Authority and Iowa Workforce Development, April 2025.

**Concerning Observations**

Employers are using a significant amount of the funds that they receive through the 260E program to upskill current employees, which is not an eligible use of the funds. The training costs are not based on the actual cost or budget to train new employees; it is based upon the 1.5% or 3.0% withholding diversion that the community colleges maximize through the bonding process. This in turn provides the company with significant funding over and above the actual cost of training the new employees identified in the contract. Community Colleges allow the company ten years to use the excess funds. The companies are using the majority of those excess funds to upskill current employees. The use of funding in this manner is not reported by the colleges or transparent in any documentation. Business, economic developers and third-party vendors have provided this feedback and process directly to IWD.

**Section 32 (3)(A)(8)(c): <u>Review of Partnerships</u>**

When reviewing partnerships with community colleges and training providers to evaluate if the partnerships are effective in delivering relevant training and to identify ways to strengthen or expand the partnerships, it is important to recognize that 59.21% of employers conduct their own training with the proceeds from the 260E program. In addition, 23.21% of the training is conducted by third party vendors with the community colleges providing the remaining 17.59% of the training. In total, approximately 83% of the funding is passed through from the community colleges to either the employer or a third-party vendor. It is therefore not possible for IWD, based on available documentation, to determine if there are strong partnerships between community colleges and third-party training providers.

Employers who responded to the survey value their relationships with community colleges and third-party vendors. Roughly 60% “Strongly Agreed” that the community colleges are a good source of training information and align them with vendors who meet their training needs. A similar number “Strongly Agreed” that contractors were an effective source of relevant training opportunities.

Employers commented that their college partners have been “good to work with,” that they have “enjoyed their partnership” with the college,” and that the college provides “much needed training resources.”

At the same time, these same employers expressed a desire for improvements in their relationships with the colleges. Suggestions were made for colleges to conduct bi-yearly or yearly check-ins to remind the company how and when training could be used. They would prefer a list of courses when they are created instead of the company having to reach out to ask what courses they are offering. Companywide management meetings would be helpful to explain the programs available to the departments rather than having the finance department sharing their understanding of the program. First time users of the program found it very confusing.

Iowa manufacturers have decidedly mixed reviews regarding their ability to quickly and flexibly address focused skills training needs via the 260 suite of programs. Some report strong partnerships with the colleges for training in Microsoft products, leadership programs, and sales and marketing training. At the same time, companies are investing heavily in robotics and advanced automation. The breadth and depth of community college capabilities to do this training is superficial. Business is concerned that community colleges do not have the ability to keep up with modern, industry-grade technologies and equipment.

**Section 32 (3)(A)(8)(d): <u>Effectiveness of Compliance</u>**

An assessment of the program's monitoring and oversight of use of funds and adherence to the program requirements indicates that throughout the history of the program, compliance as to fund use, and adherence to program requirements have been areas of concern. The State Auditor reports from 2009 and 2020 make note of several issues that persist to this day. These include, but are not limited to:

- No clear evidence that the jobs added are increasing the base employment of the company, i.e. that the jobs created are new jobs in adherence to Code definitions
- Planned training not specified or not specific
- Documentation supporting the appropriateness of program expenditures not readily available

There is evidence that program funds are currently being used for non-approved activities. For example, when surveyed about what attracted employers to the program employers stated:

- Employers are allowed to use significant funding to upskill current employees
- The 260E program "allowed them to train more workers than just new hires"
- 260E provided funding "over-and-above the cost of training the new employees identified in the agreement"
- The funding allowed them to develop new training materials for the entire company

**Additional compliance concerns include:**

- No third-party verification of the effectiveness of the program, jobs created, jobs retained, use of funds, and training received. This program has virtually no checks and balances.
- Tax revenue is being diverted for uses other than to retire bond debt.
- Contracts are often turned in with incomplete information including how the funds will be spent.
- Ineligible industries/businesses are allowed to use the program.
- The colleges spend their administrative funds, and the interest they earn on their certificate proceeds, on both "direct" (or program-relevant) expenses, and on "non-direct" (or unrelated) expenses. For the last fiscal year reported for each college, 39% of administrative funds were spent on non-direct expenses that were not related to the program such as facilities and remodeling, and non-

program-related accounting. The code allows for funding for administrative expenses for the new jobs training program. The Colleges are collecting an administrative fee significantly larger than what is needed to cover the administrative expenses of the program and using those proceeds on other colleges expenses that should be funded through the general fund.

- Colleges charge an additional administrative fee to third-party vendors, increasing training costs to businesses.
- Colleges do not consistently place businesses that are behind on payments in default status.
- Information related to job retention for jobs funded through the training is not available.

More recently, IWD has been following up with companies who have signed agreements for 260E funding within the past few years to offer addition services such as recruitment of new employees, promoting hiring of new employees and other training programs. During these conversations we have found companies that have had significant layoffs, decided not to expand, or hired significantly fewer employees than pledged. There are currently no clear provisions in the code to address these concerns. Additionally, there are no accountability measures in place when contract requirements are not met, and permissible uses of the bond funds in these scenarios. There is also no defined response regarding whether employers with large layoffs remain eligible to continue to participate in the 260E program.

During fiscal years 2012 through 2025, there were 144 contract defaults. Defaults occur in two scenarios. Either the participating employer:

- Does not make quarterly payment to the college.
- Fails to comply with program laws, rules, or the terms of the final agreement.

The most common reason for defaults is a failure to make a payment on its debt, which comprises 94% of defaults for one reason or another. There are several scenarios that commonly contribute to, or result in, default under the program. For example, the business:

- Declares bankruptcy or goes into receivership.
- Is sold or is part of a merger.
- Closes Iowa operations or moves out of the state.
- Ceases direct hire of employees and moves to a contract workforce.
- Ceases contact with college.

Per Iowa Administrative Code, if a company has an incident of default, the college should immediately report the default to IWD and IDR, and work with the company to remedy the default. IWD and IDR are entirely reliant on the colleges both to recognize and report defaults. Neither department has a way to evaluate this status outside of data reported in community college reports that often do not report this information. Though community colleges have often notified the department of a default, the colleges most frequently update the records in the 260E electronic system with this information, making the system's Contract Default Report the primary method whereby IWD tracks employer defaults.

These noted compliance issues are concerning as the program does not include any penalties or consequences for the colleges or employers for non-compliance whether it is unintentional or by design. Once a college has sold a bond, the department has no way to interrupt participation in the program by a college or a business, or to decertify a program project.

**Section 32 (3)(A)(8)(e): Benefits Employers Receive vs Other Incentive Programs**

Currently there are six workforce training programs available to employers in Iowa for new and existing jobs. The largest program is the 260E program which was designed originally to fund new job training. On average, community colleges have bonded approximately $41M per year since 2012 to fund this training. Two smaller programs are available for upskilling (260F) and training for high demand occupations (260G). These programs receive a state appropriation of $5.25M and $5.4M respectively. These funds are all administered through community colleges.

The remaining three programs fund apprenticeships and new jobs related to economic development projects funded through IEDA. There is approximately $5.25M available for apprenticeships. The Employer Program Benefit Matrix is included as an attachment and includes information on the 260 Programs and the other training programs mentioned.

**Section 32 (3)(A)(8)(f): How Are Colleges Using Interest Earned from Bond Certificates**

Before 2021, community colleges were not required to account for use of interest funds or to provide an accounting of how they use the interest. Beginning in 2021, colleges were required to report interest earned on bonds and some general information about the disbursement of those funds. Specifically, they report the amount of these monies that went to “direct 260E expenditures”, how much of the interest earned on bonds were transferred out of the program to support “non 260E expenditures”, and provide a description of the purpose of those non 260E expenditures. Effective July 1, 2026, community colleges will be required to submit a detailed report of how the interest is spent which will make this information available starting next fiscal year.

Once a college sells a bond certificate to fund one or more 260E training projects, the proceeds from that certificate are distributed to the college. The college allows the company ten years to create the jobs and therefore the unused bond proceeds earn interest over that period of time until spent. Beginning in 2021, the colleges were required to report how much interest they earned on those proceeds, and how they were expended. Colleges have earned $20.36 million in interest on unused bonds with DMACC, Kirkwood, and Northeast Iowa Community College, realizing almost 60% of these revenues.

Bond interest is in excess of what the colleges collect in administrative fees and fees charged to the employers to fund 260E projects. As of the last reporting by the community colleges in September of 2025, $30M in bond interest and administrative funds are available for community colleges to spend. Additionally, as of the last annual reporting period of September 2025, community colleges had $108,982,334 available for training from unspent dollars. Since the last annual reporting period, an additional $25,425,000 in bonds has been issued.

**Section 32 (3)(A)(8)(g): Evaluation of the Transferability of the Skills in the Program**

As previously highlighted in point 6, only 25% of the training provided includes demonstrable, measurable skills that are transferable from employer to employer and stay with the worker. They often involve a certificate or other credential and increase the marketability and value of the employee in the marketplace. The majority (75%) of the training is allocated to company onboarding and orientation, compliance or organizational-wide training that is not transferable.

**Section 32 (3)(A)(8)(h): Review Program's Payment Mechanism**

Community colleges are allowed under 260E.6 to borrow money through the issuance and sale of bonds to fund training projects. Iowa is the only state in the nation that uses bonding to fund state training programs. Between 2012-2025, $646,359,132 was expended on the 260E program. Below is a breakdown of related expenses:

| | |
|---|---|
| Administrative costs and fees | $251,745,527 (39% of total costs) |
| Designated Worker Training Funds | $394,613,132 (61% of total costs) |
| Total 260E program costs | $646,359,132 |

The program includes three mechanisms through which colleges can pay off the debt incurred in a bond sale:

- Property taxes.
- Fees or tuition levied by the colleges.
- Credit from payroll tax withholding.

The most frequently used mechanism for funding 260E training projects is the credit from payroll tax withholding. Approximately $40M is diverted from the General Fund each year to retire bond debt and issue tax credits. In projects that use this mechanism, employers make payments on the certificates funding their project no less frequently than once a quarter. These payments are calculated as 1.5% of the gross wages of the employees the business pledged to create under the program for the quarter. The employer and college develop a debt payment schedule as part of their project agreement. The colleges use these funds to service, and eventually retire, the bond debt according to a payment schedule described in the official bond statement.

Just as it would do normally, a participating employer must also file its quarterly payroll taxes with IDR. When filing and paying its quarterly payroll taxes, the business reports what it owes in payroll taxes to IDR. This is the amount the business withheld from employees' earnings throughout the quarter. Instead of paying the entire amount withheld to IDR, though, the business pays the withheld amount minus the amount it paid to the college for the debt service. This is the credit from withholding.

Employers who pledge to create new jobs at rates that meet or exceed the local laborshed wage as certified by the college can qualify to withhold an additional 1.5% credit from the gross wages on those employees hired for the higher paying jobs. This additional 1.5% is called the Supplemental Job Credit from Withholding. It is described in Iowa Code 260J.

Money to pay for training for jobs that are eligible for 260J Supplemental Job Credit is acquired through a separate bond offering. If a batch of training agreements include both 260E and 260J SJC-eligible jobs, a college will sell a Series A bond for the base job training, and a Series B bond under 260J SJC. Money withheld under the additional 1.5% for SJC (total 3%) goes to pay the Series B bond. It is separate from the money collected from the Series A bond.

The bonding process and the credit from withholding create several challenges:

- Unlike a traditional municipal revenue bond, the college does not have to attain approval from the voters in the merged area to incur the debt.
- Despite the lack of voter approval for the bond sale, voters in the merged area are ultimately responsible for paying off the debt the college incurs. If a project fails and a college and its businesses are unable to pay the debt, a property tax is triggered on the land in the merged area of the college. This is called a "stand-by levy."
- The only notification to the public of the potential for this property tax to be levied happens before the bond is sold. Before a bond sale, the colleges must only notify the counties in the merged area that the stand-by levy has been established to cover a certificate if the project fails.
- Unlike traditional municipal bonds, which often fund large public works projects such as buildings, roads, or utilities, the 260 bonds do not fund infrastructure development. However, colleges still can take up to seven years (previously ten years) to repay the debt.
- There is no point at which an overseeing agency could stop a bond issuance if it was not compliant with the laws. The training agreements are between the business and the college, and the only approving body is the community college board.
- The credit from withholding removes public money from the general fund without oversight and without a way to interrupt the process if projects are not compliant with the law. This money is diverted for either seven or ten years, and the diversion is outside the control or largely the sight of the legislature, the administrative state, or the taxpayer.
- Community Colleges are diverting withholding taxes for purposes other than to retire bond debt. There is no mechanism to where an overseeing agency can stop this diversion process.

Attached you will find a schematic of how the funds flow for the business and the community college once the business has entered into a contract and the bonds are sold.

It has been stated by the community colleges that the 260E program funds the 260F program. That statement is incorrect. The diversion of withholding taxes fund both the repayment of the bonds and withholding credits for the 260E program and the appropriation for the 260F program. If the bonding mechanism for the 260E program is eliminated, the withholding tax that is currently being diverted to retire bond debt will go directly into the general fund and the legislature can appropriate those funds to the 260F program.

## Conclusion

The 260E program was created in the 1980's, using bonding as its funding source, to encourage businesses to expand or locate in Iowa by providing workforce training funds to address specific workforce needs. As the decades have passed, 260E has evolved into a program that now carries a 40% overhead cost, (20% cost of bonding, 20% administrative fee to community colleges) in which community colleges proactively solicit employer participation based on potential job growth over a 10-year horizon.

This approach raises questions about whether participation is being driven by demonstrated business expansion needs or the need for more high administrative funds for community colleges raised through bonding to fund operations not related to the administration of the 260E program.

The financing structure of the 260E program raises significant concerns regarding cost-effectiveness, fiscal responsibility, and the appropriate use of public funds given the program has a 40% administrative cost. This high administrative rate is unseen and unheard of in any other state or federal workforce program. Financing these unrelated operating expenses through long-term debt raises concerns about whether such costs should instead be addressed through the state's general fund budgeting process.

Iowa's use of bonding to finance workforce training creates long-term debt obligations for expenses that are typically incurred over a short period, with most training completed within four to eight weeks. The state repays these costs over ten years at interest rates ranging from 4% to 6% substantially extending the repayment period beyond the delivery of the training itself. It is estimated that the state loses approximately $40 million in tax revenues each year to repay 260E debt. In the past ten years alone, Iowa had to forgo $400 million in revenue that could have funded targeted state of the art, workforce training programs that meets more industry and employer needs, including healthcare, our largest industry which does not quality for 260E.

The lack of transparency and accountability around 260E results in a lack of safeguards or accountability for the use of public funds. There is no third-party verification of jobs created or retained, if the project meets the statutory requirements of the program prior to financing and if the funds are used for the purpose outlined in the contract. There is lack of transparency of use of funds if jobs are not created or projects do not move forward after the bonds have been issued. There is no detailed accounting for how the community colleges spend the administrative fees or interest income. Further, bonds have been sold for unauthorized purposes including primarily funding upskilling of existing employees or funding businesses such as retail and professional services contrary to the statute. Community Colleges are also diverting withholding taxes for purposes other than to retire bond debt, utilizing a "pay as you go" model that creates pools of funding at the local level that is given back to the company to help pay for training that may or may not be authorized by statute.

The 260E program has evolved beyond the original scope and intent of the program when it was created over 45 years ago. It has not been updated to better reflect Iowa's workforce training needs and remains unavailable to Iowa's largest industry. The funding mechanism is

outdated, expensive and not an appropriate use of taxpayer funds. We are the only state in the nation that uses bonds to finance training, and it is reflected in a recent CNBC ranking where Iowa received a D ranking for our workforce programs. Even if the program produced results entirely consistent with the original intent and solely for new employees, the 40% overhead cost makes the program unsustainable and arguably an irresponsible use of taxpayer dollars.

**Recommendation**

For the reasons outlined throughout this report, we recommend immediately sunsetting the bonding mechanism and discontinuing the program in its current form.

In spring 2025, the DOGE Committee recommended sunsetting the program and establishing a workforce fund within Iowa Workforce Development (IWD) that offers greater flexibility and responds directly to the needs of Iowa businesses. This approach would allow state resources to be strategically deployed to address identified workforce gaps and emerging challenges, such as expanding the health care workforce and supporting employee upskilling as businesses integrate artificial intelligence into their operations.

Funding should be targeted at projects that demonstrate a clear workforce need, measurable outcomes, and the ability to create jobs or implement training in the near term. This would prioritize timely, results-oriented investments that directly support Iowa's workforce and economic development objectives.

Community colleges should seek additional state appropriations through the established legislative budgeting process to support their operating expenses, rather than relying on bonding to finance these costs. This would improve transparency in state funding decisions, better align financing mechanisms with the intended purpose of the expenditures, and ensure workforce investments are directed toward measurable, near-term needs.

**Public Comment and Feedback**

Administrative rules have been developed to implement recent changes in the statute. Through that process, we have asked for and received public comments. Most of the comments were generated from businesses who utilize the program. By and large, the public comments reinforce the concern that funds are being used for purposes not authorized by the statute or not aligned with the purpose of the program. Below is an overview of those comments and the Department's responses.

1. **ACT Comments:** The proposed treatment of "program costs" and repeated references to funds being used only in support of training could be read to exclude assessment and testing costs that the statute expressly identifies as program services.

Clear language preserving this authority would help community colleges, employers, and the Department use the program consistently. Job-relevant assessment can help partners identify skill needs, tailor instruction to the requirements of a new job, verify skill attainment, and report meaningful outcomes from public investment.

ACT recommends adding the following clarification to proposed Chapter 62:

> *Career and technical skill-assessment services and testing authorized under Iowa Code section 260E.2 are allowable program services when directly connected to eligible new jobs and their related training plans.*

**IWD Response:** Code Section 260E.2 (14) currently defines the program services that are eligible as a program cost. Section 260E.2 (14)(c) outlines career and technical skill-assessment services and testing as a program service. HF 2799 did not make any changes to this section of the code; and therefore, career and technical skill-assessment services and tests would continue to qualify as a program service.

2. **Exclusion of "behavior skills" such as communication, leadership development, interpersonal skills, team building, conflict manager, and similar training:** The proposed rule restricts the use of 260E funds for upskilling current employees. HF 2799 did not limit eligible training to newly hired employees in this way. Employers need the flexibility to train existing employees, prepare them for more technical positions, and create opportunities for advancement, especially in a tight labor market. Likewise, removes succession planning as eligible, which is concerning given the age of our workforce and expected leadership changes in many area businesses.

**IWD Response:** Since the inception of this program, the purpose of the Iowa Industrial New Jobs Training program has been to provide training for the creation of new jobs for new or expanding industries in Iowa. The code and rules for the program have historically reflected that the program is to train new employees for newly created positions. In addition, the language that passed in HF 2799 states that a New Job means a new, permanent, full-time equivalent position added to an employer's payroll, at the location of the employer's project, in excess of the employer's base employment. The purpose of this program has always been to train new employees in newly created positions for an expanding company.

If employers are using this program to upskill current employees, or train replacement or reclassified workers, those projects should not have been approved under 260E. The jobs training program outlined in chapter 260F provides funding for employers to upskill current employees. We would agree that there is a need for additional funding dedicated to upskilling our current workforce but the 260E program is not the authorized program for that training.

3. **Upfront Cost Requirement:** The proposal would require businesses to pay 30% of training costs upfront. HF 2799 capped the amount of training expenses that may be bonded at 70%, but it did not require the remaining amount to be paid before training begins. This creates an additional financial burden that could discourage participation, particularly for smaller and growing employers.

**IWD Response:** HF 2799 limits the community college's ability to bond for program costs to 70%. The project agreement is between the community college and the employer. Currently, 100% of the project costs are covered by bond proceeds. If only 70% of the bond proceeds can now cover the project costs going forward, a plain reading of the statute indicates the remainder of the cost is to be covered by the employer as they are the second party to the contract. Alternative forms of payments for the 30% payment were not provided in legislation, making clear the intent was to have employers pay 30%. State programs for economic development and workforce development require financial participation from employers. Requiring the employer to pay their portion first is consistent with other workforce training grants and financial assistance programs administered by the State.

4. **Administrative Fee Cap:** The proposal reduces the administrative fee cap to 7%. HF 2799 reduced the cap from 20% to 15%, not 7%. Our community colleges are important partners in making 260E work, and reducing the fee beyond what the Legislature approved could make it more difficult for them to effectively administer these projects.

**IWD Response:** HF 2799 states that administrative expenses account for "up to 15% of program costs." That language allows for an administrative fee to be set at a rate between 0-15%. State agencies typically receive between 0-2% administrative fee to administer a program. Allowing the community colleges to collect a 7% administrative fee is more than double the administrative fee typically required by state agencies to administer similar programs.

In addition, community colleges have been allowed through rule, to collect an indirect rate of between 22% and 20% for their administrative fee. This is an overall rate that the college uses to pay for shared administrative and overhead costs for the entire college. This rate is significantly higher than what it costs to administer the 260E program and those funds are used to fund other staff and programs at the college that are not directly related to the 260E program. The administrative fee should be collected to administer the program, not as an alternative funding source for unrelated expenses. If other funds are needed for the overall community college budget, a separate legislative request should be made so that use of 260E administrative funds is limited to the costs of administering the program.

5. **Definition of "New job"**

The proposed rules appear to expand on the amended definition of "new job." HF 2799 struck the prior definition in its entirety and replaced it with a shorter definition: a "new job" is "a new, permanent, full-time equivalent position added to an employer's payroll, at the location of the employer's project, in excess of the employer's base employment level." HF 2799 § 26 (amending Iowa Code § 260E.2(10)).

The proposed rules repeat that language but add several exclusions and conditions, including exclusions for recalled workers, replacement jobs, reclassified jobs, certain jobs following a change in ownership, and upskilling of current employees, together with a proof requirement concerning changes in role or production. Some of those concepts may be relevant when applying the statutory definition to particular facts. But they should not be stated as additional

categorical elements of the statutory definition where the legislature chose to strike the former subsection and enact a materially simplified definition.

This is particularly important where language appearing in prior law or prior administrative practice was not retained in the replacement definition. If the legislature intended to preserve those aspects of the prior definition, it could have retained the existing language or incorporated those limitations into the revised definition. Instead, the legislature replaced the prior definition with a materially different and more limited definition that does not include those exclusions.

Reading the omitted limitations back into the statute through administrative rule would be difficult to reconcile with the legislature's decision to remove them. Moreover, the community colleges are concerned that imposing substantive eligibility restrictions that are not contained in the revised statute exceeds authority by imposing requirements beyond those established by law.

**IWD's Response:** The definition for "new jobs" in 260E states a new job is a new, permanent, full-time equivalent position added to an employer's payroll, at the location of the employer's project, in excess of the employer's base employment level. Replacement jobs, upskilling current employees and reclassifying current jobs are positions that are not in excess of the employer's base employment. The purpose of this program is to support employers who are growing their employment base due to business expansion, not to replace current positions or upskill current employees.

6. **Definition of "Program costs"– legal fees: request to distinguish employer reimbursement from necessary bond and program administration costs.**

HF 2799 and the proposed rules provide that program costs "are not incurred to reimburse travel, conferences, or legal fees." Iowa Code § 260E.8(2). The community colleges agree that these items, including legal fees, cannot simply be treated as an eligible reimbursable program cost. This does not, however, seem to include legal services necessarily incurred by a community college to issue and administer the bonds that Chapter 260E continues to authorize. It would not be appropriate to apply the prohibition on program costs incurred "to reimburse" legal fees to necessary bond counsel or comparable legal services incurred by a community college to lawfully issue and administer the financing contemplated by Chapter 260E. The placement and wording of § 260E.8 support that reading: the provision addresses eligibility of "program costs" and uses the phrase "incurred to reimburse" specified categories. At the same time, the legislature expressly retained the bond financing structure and separately capped administrative expenses at fifteen percent.

A construction that categorically prohibits the legal services necessary to issue the bonds authorized by the same chapter would create a significant practical problem without clear statutory language indicating that result.

**IWD's Response:** Chapter 260E, as amended by HF2799, is clear that legal fees are not reimbursable as program costs. To make this clear, the proposed amended administrative rules include a definition of "program costs" for other unallowable expenses including consultants, travel, conferences, or legal fees. Additionally, the proposed definition of "program costs" in the amended rules prohibits reimbursement for administrative expenses not directly

related to training. It is difficult to interpret the code in any way that would allow for payment of this administrative type of cost such as legal fees which could be paid for as part of the administrative fees' community colleges collect on all bond sales.

### 7. Agreements – Notification

The proposed rules requires a community college to submit the final agreement and project training plan directly to IWD no later than thirty days before publication of certificates, provides IWD an unspecified amount of time to evaluate the documents "for compliance," directs IWD to issue a list of "corrections," and states that program requirements must be met "to the departments satisfaction" before the agreement is included in a bond issue.

That proposed workflow differs materially from the process outlined in the statute. Under Iowa Code § 260E.3(6), as added by HF 2799 § 28, once the Department of Revenue receives notice that a community college and employer have entered into an agreement, the Department of Revenue, not the community college, provides a copy of the agreement to IWD. IWD then "may provide feedback" to the Department of Revenue within seven calendar days, and the Department of Revenue shares that feedback with the community college. The statute does not authorize IWD to approve or disapprove an agreement, require corrections, or make IWD approval a condition to bond issuance. The proposed notification process would add administrative burden and slow down the process. The rules should include a review timeline for IWD.

**IWD's Response:** IWD has the authority to identify the necessary information to effectively coordinate and review the program. The process will be easier for all interested parties if expectations and guidance are provided in both the development and completion phases. This process will help meet our mutually agreed upon goal of insuring that both parties are legally compliant from the beginning and to avoid the situation where a contract is found to be non-compliant and the employer is denied the ability to divert employment taxes to repay a bond. It would be beneficial to all parties for the agreements to be reviewed earlier rather than later so that if changes are necessary, they can be made quickly and without negative impact on the employer, community college or training program. Additionally, this fulfills our fiduciary requirements to ensure taxpayer dollars are properly spent and accounted for.

### 8. Allowable cost and administrative fee

**IWD's Response:** The proposed rules limit the amount of "allowable costs" that a community college may be reimbursed from certificate proceeds to no more than 7% administrative fee related to direct expenditures associated with the 260E program (Iowa Administrative Rule 871-62.4(7)). HF2799 allows for no more than 15% of program costs to be used for administrative expenses. Prior to the passage of HF2799, the code allowed for an administrative expense for the new jobs training program. The community colleges then worked to further define in rule that the administrative cost should be the indirect rate that the community colleges calculate to charge the program. The indirect rate is the overall indirect rate for the community college, not the fee that it takes to administer the 260E program. The proposed rules return administrative costs to allow for recoupment of costs associated with administrating the 260E program and for no other purpose (Iowa Administrative Rule 871-62.4(5)).

9. **Protect previously approved training commitments and give employers time to plan for changes to the program.**

The rules and code changes apply to new projects and bond issues starting on July 1, 2026. This is to reflect changes made to Iowa Code 260E, as amended by HF2799. The changes from HF2799 went into effect on July 1, 2026. The proposed rule amendments are meant to align the rules with the Iowa Code Chapter 260E, as amended by HF2799.

10. **Include employers in rulemaking process**

**IWD Response:** IWD has conducted over 22 roundtables with businesses throughout the state over the past year to collect feedback. The agency also reviewed the rules with business associations and other organizations representing business and employers. In addition, during the DOGE process in the fall of 2025, the department reached out to many employers and business associations to gather feedback related to the 260E program. Most of the rules presented are driven directly from changes to the code. For organizations asking employers to write comments to the department, it would be helpful if they were transparent with the employers regarding the facts and help them understand the code drives the rules.

11. **Add the language that was struck from "New Job" Definition:** The language that was struck refers to exclusions from the definition including jobs in an industry with a violation of federal or state labor laws or involved in a lockout or strike.

**IWD Response:** This language was inadvertently removed. The Adopted and Filed has been amended to add the removed language back into the rules.