Iowa Legislative Fiscal Bureau

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Financing Changes to the 260E Job Training Program

ISSUE

Section 22 of SF 2296 (FY 1999 Economic Development Appropriations Act) expanded the financing and repayment options available for job training projects funded through Chapter 260E, Code of Iowa. During the 1998 Legislative Session, the Legislative Fiscal Bureau (LFB) estimated, with the assistance of the community colleges, the annual fiscal impact of the changes to be $60,000, beginning in FY 1999. This ***Issue Review*** summarizes responses to a LFB questionnaire concerning current community college estimates of the fiscal impact of the changes.

AFFECTED AGENCIES

Department of Education – Community College Division
Department of Economic Development - Workforce Development Fund

CODE AUTHORITY

Section 15A.8, Code of Iowa
Chapter 260E, Code of Iowa

BACKGROUND

Chapter 260E, Code of Iowa allows Iowa's community colleges to fund job training projects for an employer or a group of employers through the issuance of bonds. Repayment of the bonds is made through a pledge of:

1. A portion of the trained employees state income tax withholding.
2. A portion of the incremental property tax increase associated with a new or expanded employment project.
3. Other financial resources of the community college, including a back-up property tax levy.

In most instances, the income and/or property tax provisions are sufficient to repay a bond issue. The bonds are usually sold for a term of ten years, with many paid off in seven or eight years. After a bond is repaid (or a particular company's portion of the bond), Sections 15.342A and 422.16A, Code of Iowa, require the withholding tax income stream to be diverted to the Department of Economic Development's Workforce Development Fund. The maximum annual amount of this diversion to the Fund is capped at $10.0 million. Once the cap is reached, excess withholding tax from completed projects for the remainder of the fiscal year is deposited to the State General Fund. The first year the Workforce Development Fund should reach the cap is projected to be FY 2002.

CURRENT SITUATION

The LFB questionnaire asked the fifteen community colleges to estimate the fiscal impact of the following two Code of Iowa changes in each of the next three fiscal years (FY 1999 through FY 2001).

A) New Section 15A.8(1), Code of Iowa reads:

> *"As an additional means to provide moneys for the payment of the costs of a new jobs training project or multiple projects under chapter 260E and this chapter, a community college may make an advance or loan, including an interfund transfer or a loan from moneys on hand and legally available, to be paid from the same sources and secured in the same manner as certificates described in sections 15A.7 and 260E.6."*

B) New Section 15A.8(2), Code of Iowa reads:

> *"Revenues from a job training agreement received prior to the completion by a business of its repayment obligation for a project and not pledged to certificates, loans, or advances, and not necessary for payment of principal and interest maturing on such certificates, loans, or advances, may be applied by the community college to the reduction of any other outstanding certificates, loans, or advances."*

The LFB received timely responses from thirteen of fifteen colleges. Iowa Valley and Eastern Iowa did not respond prior to completion of this ***Issue Review***.

FISCAL IMPACT

New Section 15A.8(1), Code of Iowa allows a community college to finance a project with its own money and have the loan repaid with income and/or property tax. The thirteen colleges responded there was no fiscal impact of this change. The responses stated that either the college would have no funds of its own available or the college had no intention of using the funding mechanism.

New Section 15A.8(2), Code of Iowa allows a community college to use income tax and property tax revenue from projects recently repaid in full to repay other projects when the income stream is insufficient to repay the original financing agreement.

The fiscal impact is estimated by the thirteen community colleges at $115,000 to $160,000 per year, beginning in FY 1999, up to $100,000 per year more than estimated during the 1998 Legislative Session.

Revenue to the Workforce Development Fund will be reduced due to this fiscal impact until the $10.0 million annual cap is reached, then the impact will fall on the State General Fund (FY 2002). The benefit of the fiscal impact would occur to property tax payers in the community college area and/or the tuition-paying students of the college.

The fiscal impact of this change could grow significantly if the new mechanism allows the colleges to finance riskier projects, and those projects fail to produce enough income to repay the bonds.

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