

TRANSMITTAL # 2

MEMORANDUM

November 22, 2005

TO: Workforce Development Council

FROM: Roger B. Madsen, Director

SUBJECT: Workforce Development Training Fund

ACTION REQUESTED: Workforce Development Council review and endorsement of legislation extending the life of the fund beyond Jan. 1, 2007

BACKGROUND:

The purpose of this legislation is to extend the sunset clause on operation of the Workforce Development Training Fund to Jan. 1, 2015.

The fund was initiated in 1996 by Gov. Phil Batt to provide an incentive to Idaho businesses to expand and to businesses in other states to relocate to Idaho. It offers up to \$2,000 per employee to urban employers to train workers for jobs that pay at least \$6 an hour plus employer-assisted benefits. To qualify, employers must provide at least five new jobs and provide a 25 percent match to the training fund allocation. In rural areas, employers can get up to \$3,000 per employee without any minimum number of jobs or match requirements. The training program is open to both new employees and existing employees at risk of layoff without acquiring new skills.

The Workforce Development Council will consider possible policy revisions to the WDTF in the future on the minimum wage and benefit requirements to qualify for a training grant. The legislation retains the fundamental framework that permits the council to make policy decisions in response to specific circumstances or economic developments.

The training is financed with 3 percent of the unemployment insurance tax, which totaled \$3.6 million in 2004 and should generate about \$3.9 million this year. Under currently anticipated economic conditions, annual income to the fund will range from \$3.4 million to \$4.4 million through 2010.

The program has become one of the most rational of the state's economic development tools since it provides both workers with the job skills they need to earn higher paychecks and employers with the skilled labor pool they need to maintain and increase their profits.

TRACK RECORD:

In the nine years this program has been operating, nearly 17,000 workers have received or are currently receiving training for jobs with more than 130 businesses in every region of the state. Another 2,700 workers will receive training in the near future as business relocation or expansion plans being considered now are carried out.

The average wage for these workers is \$10.85 an hour plus benefits, and on average workers completing the training made 27 percent more than before they entered the program.

Since April 1996, the fund has taken in about \$33.3 million. All but \$2.6 million has financed employee training. The administrative expenditure, an average of less than \$280,000 a year, represents about 7.5 percent of total receipts. Two-thirds of that amount, about \$200,000 a year, covers compliance with the detailed federal procedures for collecting the money that is diverted to the fund from unemployment insurance taxes. The rest finances the marketing of the fund to employers, the administrative work that goes into the actual training contracts and monitoring those contracts to ensure compliance with their terms.

ALLOCATION OF TRAINING AWARDS:

Centralized management of the fund has limited the administrative expense and provided the state with the flexibility needed to respond to new or expanding business targets anywhere and everywhere in the state. The following chart shows the distribution of funds by region of the state in relation to regional population and the jobs created through the training.

Region	% of State Population	Training Fund Awards	% of Total Awards	New Jobs Created
Panhandle	14.0%	\$6,998,841	21.0%	4,519
North Central	7.2%	\$977,232	2.9%	382
Southwest	42.8%	\$8,004,144	24.0%	5,053
South Central	12.1%	\$4,275,454	12.8%	1,776
Southeast	11.2%	\$4,917,325	14.7%	2,552
East Central	12.7%	\$3,885,426	11.6%	2,618
Statewide	100.0%	\$29,058,422	87.1%	16,900

Source: Idaho Commerce & Labor.

The disproportionate award of grants in northern Idaho reflects the dramatic growth the region has experienced and the need to align the skills of its work force with new employer demands. The reverse difference in grants and population in southwestern Idaho reflects the wider range of skills in the labor force in the state's traditional population and business center as the economic expansion began in the late 1980s and persisted through the end of the century.

The remaining \$4.3 million in fund revenues through September is being held in support of pending commitments on which final decisions have not been made. Were all those commitments to come through, they would total about \$8 million.

The fund also has a built-in safety valve to avoid the build up of any significant uncommitted balance. If the uncommitted balance ever exceeds \$6 million, all excess cash must be transferred to the Unemployment Insurance Trust Fund.

IMPACT ON UI TAX RATES:

The average unemployment insurance tax per employee this year was about \$365, and about \$10 of that was diverted to the training fund. That diversion from the Unemployment Insurance Trust Fund affects the average effective unemployment insurance tax rate by only about three one-hundredths of 1 percent. A number of economic models suggest that the increase in unemployment insurance tax receipts from the increased economic development activity fostered by the training grants more than compensates for the negative impact of the training fund diversion from the trust.

Since the fund was initiated, Idaho's covered employment has increased over 26 percent, or nearly 122,000 workers, and the state's economic growth as measured by inflation-adjusted gross state product has been second only to Arizona.

STAFF RECOMMENDATION:

The staff is requesting that the council endorse the extension of the Workforce Development Training Fund legislation to retain the incentives for business expansion and relocation in Idaho.

Contact: Primary: Bob Fick (208) 332-3570, ext. 3628
 Secondary: Leandra Burns(208) 332-3570, ext. 3327

Attachment: Draft legislation.

AN ACT
RELATING TO THE WORKFORCE DEVELOPMENT TRAINING FUND;
AMENDING SECTION 72-1347B, IDAHO CODE, TO DELETE THE SUNSET
CLAUSE ON THE TRAINING TAX.

Be It Enacted by the Legislature of the State of Idaho:

SECTION 1. That Section 72-1347B, Idaho Code, be, and the same is hereby amended to read as follows:

72-1347B. WORKFORCE DEVELOPMENT TRAINING FUND. (1) There is established in the state treasury a special trust fund, separate and apart from all other public funds of this state, to be known as the workforce development training fund, hereinafter "training fund." Except as provided herein, all proceeds from the training tax defined in subsection (4) of this section shall be paid into the training fund. The state treasurer shall be the custodian of the training fund and shall invest said moneys in accordance with law. Any interest earned on the moneys in the training fund shall be deposited in the training fund. Moneys in the training fund shall be disbursed in accordance with the directions of the director. In any month when the unencumbered balance in the training fund exceeds six million dollars (\$6,000,000), the excess amount over six million dollars (\$6,000,000) shall be transferred to the employment security reserve fund, section 72-1347A, Idaho Code. For the purposes of this subsection (1), the unencumbered balance in the training fund is the balance in such fund reduced by the sum of:

(a) The amounts that have been obligated pursuant to fully-executed workforce development training fund contracts;

(b) The amounts that have been obligated pursuant to letters of intent for proposed job training projects; and

(c) Any administrative costs related to the training fund that are due and payable.

(2) All moneys in the training fund are perpetually appropriated to the director for expenditure in accordance with the provisions of this section. The purpose of the training fund is to provide or expand training and retraining opportunities in an expeditious manner that would not otherwise exist for Idaho's workforce. The training fund is intended to supplement, but not to supplant or compete with, money available through existing training programs. The moneys in the training fund shall be used for the following purposes:

(a) To provide training for skills necessary for specific economic opportunities and industrial expansion initiatives;

(b) To provide training to upgrade the skills of currently employed workers at risk of being permanently laid off;

(c) For refunds of training taxes erroneously collected and deposited in the workforce training fund;

(d) For all administrative expenses incurred by the department associated with the collection of the training tax and any other administrative expenses associated with the training fund.

(3) Expenditures from the training fund for purposes authorized in paragraphs (a) and (b) of subsection (2) of this section shall be approved by the director in consultation with the office of the governor, based on procedures, criteria and performance measures established by the council appointed pursuant to section 72-1336, Idaho Code. The activities funded by the training fund will be coordinated with similar activities funded by the state division of professional-technical

education. Expenditures from the training fund for purposes authorized in paragraphs (c) and (d) of subsection (2) of this section shall be approved by the director. The director shall pay all approved expenditures as long as the training fund has a positive balance. The council shall report annually to the governor and the joint finance-appropriations committee the commitments and expenditures made from the training fund in the preceding fiscal year and the results of the activities funded by the training fund.

(4) A training tax is hereby imposed on all covered employers required to pay contributions pursuant to section 72-1350, Idaho Code, with the exception of deficit employers who have been assigned a taxable wage rate from rate class six pursuant to section 72-1350, Idaho Code. The training tax rate shall be equal to three percent (3%) of the taxable wage rate then in effect for each eligible, standard-rated and deficit employer. The training tax shall be due and payable at the same time and in the same manner as contributions. This subsection is repealed effective January 1, ~~2007~~2015, unless, prior to that date, the Idaho legislature approves the continuation of this subsection by repeal of this sunset clause.

(5) The provisions of this chapter which apply to the payment and collection of contributions also apply to the payment and collection of the training tax, including the same calculations, assessments, method of payment, penalties, interest, costs, liens, injunctive relief, collection procedures and refund procedures. In the administration of the provisions of this section, the director is granted all rights, authority, and prerogatives granted under the provisions of this chapter. Moneys collected from an employer delinquent in paying contributions, reserve taxes and the training tax shall first be applied to any penalty and interest imposed pursuant to the provisions of this chapter and shall then be applied pro rata to delinquent contributions to the employment security fund, section 72-1346, Idaho Code, delinquent reserve taxes to the reserve fund, section 72-1347A, Idaho Code, and delinquent training taxes to the training fund. Any interest and penalties collected pursuant to this subsection shall be paid into the state employment security administrative and reimbursement fund, section 72-1348, Idaho Code, and any interest or penalties refunded under this subsection shall be paid out of that same fund. Training taxes paid pursuant to this section shall not be credited to the employer's experience rating account and may not be deducted by any employer from the wages of individuals in its employ. All training taxes shall be deposited in the clearing account of the employment security fund, section 72-1346, Idaho Code, for clearance only and shall not become part of such fund. After clearance, the moneys shall be deposited in the training fund established in subsection (1) of this section.

(6) Administrative costs related to the training fund shall be paid from the training fund in accordance with subsection (3) of this section.