NEW JOBS TRAINING PROGRAM TAX CREDIT

From The Office Of State Auditor
Claire McCaskill

The program results in positive economic benefits to the state, but administration of the tax credit could improve if several weaknesses are addressed.

Report No. 2003-32
April 8, 2003
www.auditor.state.mo.us

PERFORMANCE AUDIT

Office of
Missouri State Auditor
Claire McCaskill

April 2003

New Jobs Training tax credit's positive impact on the state economy could increase with changes to project funding, oversight and enforcement

This audit is the third in a series of reports analyzing the cost-benefit of the state's 34 tax credit programs. Audit analysis of tax credit programs, administered by the Department of Economic Development, are mandated by state law. This report analyzed the New Jobs Training Program, started in 1992, which authorized community colleges to train employees of qualified employers who create new jobs. For example, one project involved a community college training employees of a new assembly plant. State law allows the community colleges to issue bonds to fund the training services, and authorizes the bonds to be paid from state income tax withholdings of the new jobs. Overall, auditors found the program improved the state's economy, creating new jobs and increasing state revenues. Improvements in the areas highlighted below could increase the program's successes and efficiency.

Program created interest costs and state debt

The current method of issuing bonds to cover program training expenses has caused the state to pay interest and bond issuance costs. As of June 2002, the state had used 22.5 percent of the $72.4 million in tax credits redeemed from the program's inception to pay off bond interest. Establishing a revolving fund could eliminate the program's interest costs and state debt. Current state budget constraints render creating such a fund unrealistic for now. However, a revolving fund established at the program's start would have eliminated $29.1 million in interest obligations and bond issuance costs thereby increasing the program's overall efficiency. (See page 5)

Colleges are not required to track administrative expenses

Colleges receive up to 15 percent of the training funds to cover project administrative expenses over the life of the bonds. These fees have totaled about $10.6 million of the $85 million in bonds issued to date. State regulations do not require colleges to track and compare program administrative fees with administrative expenses. As a result, most college do not track such expenditures, making it difficult to analyze if the colleges' efforts justify the administrative fees. (See page 6)

Colleges do not ensure jobs are created, maintained

Not all community colleges have ensured the program's companies created and maintained the promised jobs. Discussion with community college representatives indicated little, if

YELLOW SHEET

anything, is done to verify the number of jobs created. For example, in one project reviewed, the project agreement required the company to create 166 new jobs by December 2001 and maintain the jobs through December 2004. As of June 2002, the company created only 121 jobs. (See page 6)

State could more aggressively cite companies not meeting job goals

State law includes a "clawback" provision for companies to ensures the jobs promised are actually created. If the promised jobs are not maintained for a 5-year timeframe as required by the approved project application, the company can be held liable for a portion of the tax credits redeemed on a particular project. The amount a company is held liable is at the discretion of the Department of Economic Development. But department officials have only enforced this "clawback" provision in one case since the program's start in 1992. In some cases, such a provision was not included in the project agreement, making it impossible to enforce, but the provision is included in all current agreements. In other situations, inadequate project oversight has not allowed the department to enforce the provisions when it would otherwise be possible. (See page 7)

NEW JOBS TRAINING PROGRAM TAX CREDIT

TABLE OF CONTENTS

CLAIRE C. McCASKILL

Missouri State Auditor

Honorable Bob Holden, Governor
and
Members of the General Assembly
and
Joseph L. Driskill, Director
Department of Economic Development
Jefferson City, MO 65101

State law (Section 620.1300, RSMo 2000) mandates the State Auditor's Office perform cost-benefit analyses on the 34 tax credit programs administered by the Department of Economic Development. This is the third such report and includes a detailed economic impact study of the New Jobs Training Program. The review included obtaining necessary data to sufficiently evaluate the program's state economic impact. Information was also obtained to assess management controls over the program.

We concluded the New Jobs Training Program was providing a positive economic impact to the state, but could be made better by (1) eliminating interest costs and debt, (2) tracking administrative costs, (3) improving oversight of projects, and (4) enforcing project agreement provisions more timely.

We conducted our work in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the procedures and records as were considered appropriate under the circumstances.

Claire McCaskill
State Auditor

The following auditors contributed to this report:

Director of Audits:	William D. Miller, CIA
Audit Manager:	John Blattel, CPA, CFE
In-Charge Auditor:	Robert E. Showers, CPA
Audit Staff:	Thomas Franklin

224 State Capitol • Jefferson City, MO 65101

Truman State Office Building, Room 880 • Jefferson City, MO 65101 • (573) 751-4213 • FAX (573) 751-7984

RESULTS AND RECOMMENDATIONS

The New Jobs Training Program Results in Positive Economic Benefits, but Improvements Are Needed

An economic impact analysis of the New Jobs Training Program indicates the program positively benefits the state's economy and will create an estimated 87,000 new jobs by fiscal year 2010 and will increase state revenues by an estimated $4 billion over the next 10 fiscal years (2003-2012). The program could benefit the state more by eliminating the following weaknesses (1) interest and bond issuance costs, (2) inadequate oversight of projects, and (3) inconsistent enforcement of project agreement provisions. These weaknesses are caused by a business philosophy of funding the program through bond sales and a non-aggressive management approach to ensuring projects achieve established goals.

Background

Sections 178.892 through 178.896, RSMo 2000, authorize community college districts, with the approval and discretion of the Department of Economic Development, to enter into agreements to provide training services to qualified employers who create new jobs within the state. For example, the department approved a community college to provide training to the employees of a new assembly plant. State statutes allow the community colleges to issue bonds to fund the necessary training services, and authorize the bonds to be paid from the state income tax withholdings of the new jobs created. The amount of bond principal outstanding at any one time is not to exceed $55 million. The program has been in effect since 1992.

Based on discussions with Department of Economic Development personnel, the New Jobs Training Program is used in conjunction with the Business Facility Credit, Enterprise Zone Credit, and the Business Use Incentives for Large-scale Development (BUILD) Bond Credit. Approximately 41 percent of New Jobs Training Program projects also included funding from at least one of these other three credits. However, it is impossible to determine which, if any, of the new jobs added would have been added if these tax credit programs had not been in place. Therefore, for the purposes of our analysis, we assumed none of the new jobs added would be in place without these tax credit programs.

Purpose

The authorizing statute does not explicitly state the purpose for the New Jobs Training Program; however, the program, as established by the statutes, provides incentives for qualified employers to locate new jobs within the state. Per statute, qualified employers include those engaged in interstate or intrastate commerce for the purpose of:

- Manufacturing, processing, or assembling products
- Conducting research and development
- Providing services in interstate commerce, excluding retail services

State statutes also stipulate the new jobs added cannot have been moved from another location within the state.

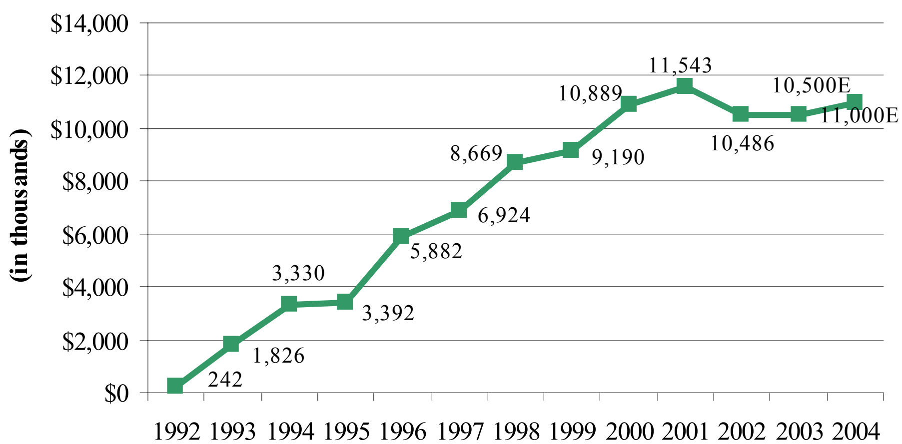
State taxes impacted

Pursuant to Section 178.894, RSMo 2000, a portion of the state income tax withholding payments made by the employer in accordance with Section 143.221, RSMo 2000, is used to make the bond payments. The portion paying the bonds equals 2.5 percent of the gross wages paid to the first 100 new jobs identified in a project, and 1.5 percent of the gross wages paid to the remaining new jobs identified in a project.

Direct economic impact

If measured strictly by the amount of redeemed credits, the New Jobs Training Program has reduced state income tax revenues approximately $72.4 million through fiscal year 2002. The following chart illustrates the redeemed credits by year since the inception of the program, with estimated redemptions for fiscal years 2003 and 2004.

Figure 1: New Jobs Training Program Redemptions by Fiscal Year



E - Estimate provided by Division of Workforce Development staff
Source: Department of Revenue reports

Bonds have been issued on 81 projects since the program's inception through June 30, 2002. Of the 81 projects initiated, 23 projects are completed with their bonds repaid, while the remaining 58 projects remain active with outstanding bonds. Fifty-one companies have used this tax credit program for these 81 projects, with 17 of these companies having multiple projects. As of June 30, 2002, the bonds outstanding totaled $31.2 million.

Total economic impact

We used the Regional Economic Models, Inc., Policy Insight Model[1] to analyze the total economic impact of the New Jobs Training Program on the state's economy. The model compares the baseline forecast of the state economy with an alternative forecast that takes into account the effect of the tax credit program. The outputs from the model are as follows:

- Growth in total employment
- Growth in gross state product
- Growth in personal income
- Growth in real disposable income
- Growth in industry output
- Growth in wage rate
- Fiscal impact

Three variables in the model were changed to create the alternative forecast: 1) production costs, 2) government spending and 3) employment.

Because of time and resource limitations, actual program data was included in our analysis only for projects that began in fiscal years 1999, 2000, 2001 and 2002. However, based on the activity in this program over this 4-year period, we consider this data to be indicative of the program's overall impact. To complete our economic impact analysis it was necessary to make several assumptions regarding program activity for future years. These assumptions were based on discussions with the division official in charge of the program. It was assumed that program funding would continue through fiscal year 2010. Based on a high rate of job retention noted on active and completed projects, we made an additional assumption that the jobs created would remain in place throughout the forecast period. The model projects results over a 17-year period (1999-2015). (*See Appendix I, page 10, for details regarding the assumptions made during our analysis*.)

Using these inputs and assumptions, the model produced the following economic impact results:

- The New Jobs Training Program creates a projected total of 87,110 new jobs by 2010. Of the 87,110 new jobs created, only 26,307 would have been created directly by the program, with the remainder created indirectly through economic growth. Employment levels decline steadily to 77,360 by 2015 when program funding is removed from the model in 2011.

- Gross state product steadily increases during the years of the New Jobs Training Program funding. Starting in 2011, the first year the program funding is removed from the model, the gross state product drops slightly, but recovers quickly to reach its peak increase of approximately $7.7 billion in 2015.

[1] See Appendix I, page 10 for more detail on this model.

- Growth in personal income increases steadily throughout the forecast period, with the increase peaking in 2015 at approximately $6.6 billion.

- Growth in real disposable income increases steadily throughout the forecast period, with the increase peaking in 2015 at approximately $2.9 billion.

- The increase in industry output growth increases steadily during the years of the New Jobs Training Program funding. Starting in 2011, the first year the program funding is removed from the model, the industry output growth drops slightly, but recovers quickly to reach its peak increase of approximately $15.4 billion in 2015.

- The program has a positive effect on the wage rate, with a steady increase until its peak in 2010 at 1.14 percent above the wage rate in 1998. The wage rate declines slightly after program funding is removed from the model in 2011, but remains relatively constant.

- The model predicts a positive impact on state revenues, with the highest annual revenue increase in 2010 of $581 million. State revenues remain relatively constant after program funding is removed from the model in 2011.

Fiscal Management Issues

Our review of the fiscal aspects of the program revealed the following concerns:

<u>Interest costs</u>

Use of bonds creates interest costs and debt

Approximately $16.3 million (22.5 percent) of the approximately $72.4 million in tax credits redeemed from the program's inception through June 30, 2002, have paid off bond interest. Approximately $85 million in training bonds have been issued since the program's inception through June 30, 2002. According to analytical data prepared from our review of program financial data, when the $85 million in bonds issued to date are repaid in full, the state will have paid approximately $26.7 million in interest. As a result of the use of bonds as a funding mechanism, the program had an outstanding debt balance of $31.2 million as of June 30, 2002.

One method to eliminate interest costs and state debt related to the program is to establish a revolving fund. Establishing a revolving fund requires the state legislature to approve a one-time payment into the fund. Training costs would be paid out of the fund and repayment of these monies, through redeemed tax credits, would be deposited into the fund for use in future projects. The use of such a fund would also eliminate the administrative costs incurred to issue the bonds, which have totaled approximately $2.4 million since the program's inception. The establishment of a revolving fund at the program's inception would have eliminated $29.1 million in interest obligations and bond issuance costs incurred for all bonds issued to date. The $29.1 million in interest and bond issuance costs includes the interest costs for all outstanding bonds to maturity. This interest cost would be less if the bonds are retired prior to maturity which has occurred on some of the completed projects.

Administrative fees paid to community colleges

State statutes allow the community college providing the program services an administrative fee of 15 percent of the training funding identified in the project agreement. According to analytical data prepared from our review of program financial data, approximately $10.6 million of the $85 million in bonds issued to date will be paid to the community colleges in the form of administrative fees. The average administrative fee received by the college on each project is approximately $103,000.

The administrative dollars are to cover the colleges' project oversight efforts over the life of the bonds, which is not to exceed 8 years in most cases. Discussions with representatives of the five largest community colleges indicated none of the colleges require a full time position to administer and oversee the program. These colleges stated administrative fees are used for other costs such as:

- Time and travel related to marketing and discussion of the program.
- Time related to college executive oversight of the program.
- Monitoring of projects.

Of the five colleges contacted only one stated it tracked administrative expenses. The remaining colleges did not track these costs and one stated it was a daunting task to track these costs. Since state regulations do not require the colleges to track and compare New Jobs Training Program administrative fees with administrative expenses and most do not, it is difficult to determine if the current level of effort by the colleges justifies a 15 percent administrative fee.

Program Management Issues

The following management issues came to our attention during our review:

Community Colleges do not provide adequate oversight of projects

Colleges do not ensure jobs are created and maintained

Not all of the community colleges have adequately ensured the companies involved in the program have created and maintained the jobs promised in the project agreement. Per 4 Code of State Regulations 195-3, any community college participating in the New Jobs Training Program is responsible for "monitoring each training project to ensure that funds are used in accordance with the training agreement." As previously noted, the community colleges receive up to a 15 percent administrative fee to perform monitoring and other functions. However, discussions with community college representatives overseeing the projects indicated that little, if anything, is done to verify the number of jobs created by the employer. Only one of the five colleges contacted requested and reviewed the tax credit claim form and backup documentation submitted monthly by the company. This backup documentation includes detailed information regarding the number of jobs in place and the wage paid per job.

For example, in one project we reviewed, the project agreement required the company to create a total of 166 new jobs by December 2001 and maintain those jobs through December 2004. However, as of December 2001 the company had only created 117 jobs and at June 30, 2002 had created only 121 jobs. Discussions with division personnel indicated this problem escaped detection because 1) the bond payments were being made as scheduled, and 2) the college's annual report for the year ended June 30, 2001 indicated all of the jobs were in place. However, the college did not independently verify the company's employment levels.

Colleges not held accountable for lack of oversight

State statutes and regulations do not contain enforcement provisions when the department identifies colleges providing inadequate project oversight. According to a division official, the division cannot simply award a project to a different college when the division finds a college is not providing adequate oversight. This situation occurs because state regulations stipulate any college wishing to provide training in another community college district must have approval from that community college district's board of trustees. As a result, according to the division official, the division is forced to award projects to a college it knows does not provide adequate oversight. The Department of Economic Development is responsible for creating this condition through current state regulations, and can also change these regulations as necessary.

State regulations need revision

State has not adequately implemented or enforced required "clawback" provisions

The Department of Economic Development does not adequately enforce the "clawback" provisions meant to ensure the jobs promised are actually created and maintained. These provisions are required to be included in the project agreements by Section 620.017, RSMo 2002. The current provisions stipulate the jobs promised must be created within 2 years of the approved project application and further stipulate that those jobs be maintained for up to 5 years from the approval of the application. In the event the jobs are either not created or are eliminated before the 5-year timeframe, the company is liable, at the department's discretion, for a portion of the tax credits redeemed on that particular project.

Some companies are not fulfilling job obligations

The Department of Economic Development has only enforced the "clawback" provisions in one instance since 1992. This can be explained, at least in part, by the fact that the department did not require the provisions to be included in the project agreements between the colleges and the companies until late 1999. The department has been required by statute to include the provisions in its project agreements since 1992. This has caused the department to be unable to pursue the enforcement of the provisions on some projects had these provisions been included in the contracts. In other situations, inadequate project oversight has not allowed the department to enforce the provisions where it would otherwise be possible.

Conclusions

Based on the assumptions used when entering New Jobs Training Program data into the model, the results show the tax credit positively impacting the state's economy. However, a portion of this positive economic impact could be attributed to other similar tax credit programs used in conjunction with the New Jobs Training Program. The jobs added, at least in part, by the New Jobs Training Program increase total employment, personal income, wage rate, gross state product, real disposable income, industry output and positively impacts the state fiscal budget.

The program has created unnecessary interest costs and debt, which are imprudent uses of the state's General Revenue funding. The interest obligations and bond issuance costs total $29.1 million for bonds issued from the program's inception through June 30, 2002. The reduction and/or elimination of these costs, where possible, would increase the overall efficiency of the program. The state's current budget constraints may limit the ability to use a revolving fund option for program funding for a few years. Colleges have not been required to track administrative expenses, which does not allow for a comparison of these expenses to the administrative fees received. Improved oversight of program projects would increase the overall effectiveness of the program. Without adequate oversight procedures, including verification of the creation of the jobs named in the project agreement, the state cannot assure it has achieved the maximum benefit from a particular project. In addition, without a mechanism to hold the colleges accountable for such oversight, the department cannot enforce any recommended oversight procedures. Also, the department needs to be more aggressive in pursuing repayments in accordance with "clawback" provisions of the project agreements to ensure the program provides the maximum return for the state taxpayers' investment.

Recommendations

We recommend the Director, Department of Economic Development:

1.1 Reduce or eliminate program interest costs and debt.

1.2 Require community colleges to track administrative expenses to determine how these administrative fees compare to the community colleges project oversight costs. In addition, the department should require the community colleges to forward these cost reports to the department on a periodic basis.

1.3 Add project oversight language to state regulations to help ensure adequate oversight of projects by the community colleges.

1.4 Implement a mechanism to hold the community colleges accountable for providing adequate project oversight.

1.5 Ensure the "clawback provisions are included in all of the contracts between the colleges and the companies and pursue reimbursements for unfulfilled project commitments by timely enforcing the "clawback" provisions of the project agreements.

Department of Economic Development Responses

1.1 The Department of Economic Development (DED) agrees that reducing or eliminating interest costs would be beneficial if there could be assurance that the program would remain at or above the current funding level in future years. The department concurs with the Auditor's conclusion that the state's current budget constraints may limit the ability to change the present funding structure for a few years. In the current economic situation, both within government and statewide, it is now more important than ever to do what we can creatively to help generate jobs and revenue. The current structure allows for the newly created jobs to generate the funding necessary to cover the cost of training and interests.

1.2 The department will request community colleges to track and report project oversight expenditures so that the costs can be compared to the administrative fees. Currently, the community colleges submit an annual report for New Jobs Training Program (NJTP) to DED with the next reporting due in October of 2003. Administrative cost reports could be included in or attached to future annual reports.

1.3 The department will consider adding additional project oversight language to state regulations. Current regulations do spell out each entity's responsibilities in the administration of the NJTP.

1.4 The current mechanism DED has to enforce project oversight is the approval of applications. If DED rejects an application on the basis that a community college is not providing adequate oversight, the customers (companies, workers, communities, and the state) are the ones penalized.

1.5 The department has verified that all community colleges have included the "clawback" provision in all contracts since fiscal year 2000. The "clawback" provisions are timely enforced when applicable. The Department Director has the discretion to enforce the "clawback" depending on the circumstances and after considering the impact on existing workers, the community, and the state.

(See Appendix IV, page 15, for comments from the Community College Association.)

APPENDIX I

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

Our objective was to perform a cost-benefit analysis and management review that would provide policymakers with sufficient information to evaluate the effectiveness and efficiency of the New Jobs Training Program tax credit administered by the Department of Economic Development, Division of Workforce Development.

Scope and Methodology

Our review of the New Jobs Training Program is mandated by Section 620.1300, RSMo 2000, that states, in part, "a cost-benefit analysis shall be prepared (by the state auditor) to evaluate the effectiveness of all programs operated by the department of economic development for which the department approves tax credits, loans, loan guarantees, or grants."

To measure the economic impact of the program on the state economy, the State Auditor's Office purchased a secondary user license to a dynamic econometric modeling program called Policy Insight developed by Regional Economic Models, Inc. (REMI) of Amherst Massachusetts. The Missouri Development Finance Board holds the primary user license of the model. The REMI model forecasts the economic and demographic effects of policy changes or external events, such as added jobs or additional state spending, on a regional economy and presents the results on a year-by-year basis.

Division of Workforce Development officials provided us with a database of all New Job Training Program projects since the program's inception. The database included the company name and location, application and agreement dates, the number of jobs to be created per the agreement, the average wage to be paid to each employee and the total bond issue amount. In an effort to verify the accuracy of the data provided we:

- Reviewed additional information from the application and agreement documents.

- Reviewed annual information reports submitted by the community colleges concerning the number of jobs added and in place, the reports reviewed contained information through fiscal year 2001.

- Requested more current information on 20 randomly selected test projects from community college personnel in charge of project oversight and visited two of the community colleges' offices.

- Compared the data provided with Department of Labor and Industrial Relations unemployment level data for all selected test projects as well as all completed projects.

- Obtained additional information through inquiry of Division of Workforce Development personnel familiar with the projects.

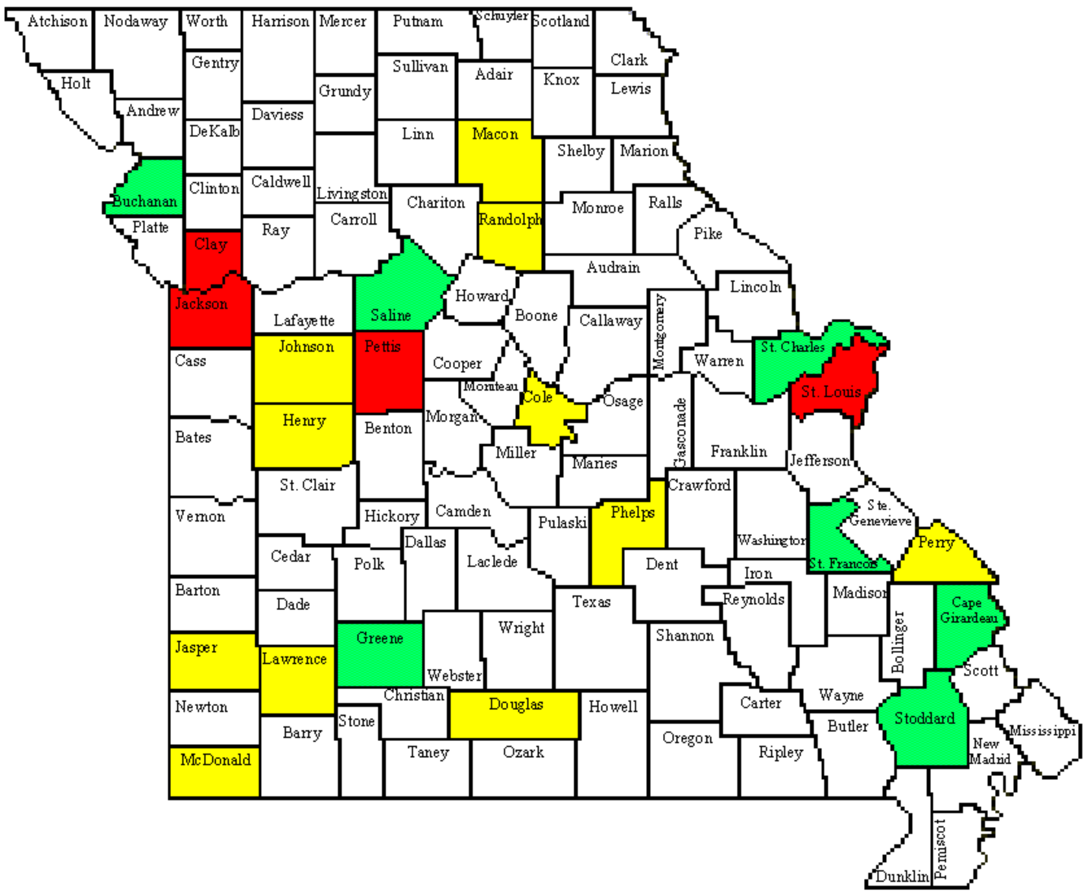
Based on our verification efforts, the information included in the database is considered accurate and complete. It was not necessary to visit the individual companies involved in the projects reviewed. The verified data was input into the REMI model to run the forecast.

Because of time and resource limitations, actual program data was included in our analysis only for projects that began in fiscal years 1999, 2000, 2001 and 2002. However, we consider the chosen data sample to be representative of the impact of the overall program.

In order to complete our economic impact analysis it was necessary to make several assumptions regarding program activity for future years. These assumptions were based on discussions with division officials and their expectations for the program. Program funding was estimated to be $10.5 million in fiscal year 2003, $11 million in fiscal year 2004, and $12 million per year from fiscal year 2005 to 2010. For the purposes of our analysis, it was assumed that program funding would end after fiscal year 2010. Based on discussions with a Division of Workforce Development official, we also assumed the division would approve 6 projects per year from fiscal year 2003 through 2010, with each project including an $800,000 bond issuance and creating 400 jobs, a total of 2,400 jobs per year. Our review of historical program data showed a high retention level for the jobs created through the program, therefore an additional assumption was made that the jobs created would remain in place throughout the forecast period. The results from the model were reviewed over a 17-year period (1999-2015).

DISTRIBUTION OF PROJECTS

Figure II.1: Jobs Created Map



1-500 jobs

501-1000 jobs

Greater than 1000 jobs

Source: Table II.1, page 13

Table II.1: Project Distribution

County	Number of Projects	Number of Jobs Planned	Bonds Issued (in thousands)
Lawrence	1	75	$290
Macon	1	88	186
Randolph	1	113	835
Perry	1	134	400
Cole	1	145	460
Henry	2	201	635
Douglas	1	261	390
McDonald	1	335	595
Johnson	2	368	1,050
Jasper	5	379	1,535
Phelps	1	474	718
Buchanan	1	536	1,385
Stoddard	3	602	1,340
Cape Girardeau	4	682	2,418
St. Charles	1	700	2,467
Greene	3	780	1,637
St. Francois	3	818	1,225
Saline	2	990	1,565
Clay	3	1,630	4,730
Pettis	8	1,724	3,843
Jackson	20	6,267	19,005
St. Louis	16	9,143	38,277
Totals	81	26,445	$84,986

Source: Division of Workforce Development project log

APPENDIX III

TAX CREDIT REVIEW STATUS

Table III.1: Program Review Status

Tax Credit Program	Review Status
Community College New Jobs Training Bonds § 178.894	Reviewed in 2002
Brownfield Jobs/Investment § 447.700	Reviewed in 2001
Brownfield Remediation § 447.700	Reviewed in 2001
Historic Preservation § 253.545	Reviewed in 2001
Qualified Research Expense § 620.1039	Reviewed in 2001
Seed Capital (cap expired) § 348.300	Reviewed in 2001
Youth Opportunities and Violence Prevention § 620.1100	Reviewed in 2001
Film Production § 135.750	Reviewed in 2000
Rebuilding Communities § 135.535	Reviewed in 2000
Small Business Incubator § 620.495	Reviewed in 2000
Winery and Grape Growers § 135.700	Reviewed in 2000
Affordable Housing Assistance § 32.111	To be reviewed
Brownfield Demolition § 447.700	To be reviewed
BUILD Missouri Bonds § 100.700	To be reviewed
Business Facility § 135.100	To be reviewed
(Capital) Small Business Investment (cap expired) § 135.400	To be reviewed
Certified Capital Companies (CapCo) (cap. expired) § 135.500	To be reviewed
Community Development Bank § 135.400	To be reviewed
Development § 32.105	To be reviewed
Dry Fire Hydrant § 320.093	To be reviewed
Enterprise Zone § 135.200	To be reviewed
Family Development Account § 208.755	To be reviewed
Guarantee Fee § 135.766	To be reviewed
Individual Training Account § 620.1400	To be reviewed
Mature Worker Child Care § 620.1560	To be reviewed
MDFB[2] Development and Reserve § 100.250	To be reviewed
MDFB Export Finance § 100.250	To be reviewed
MDFB Bond Guarantee Credit § 100.286	To be reviewed
MDFB Infrastructure § 100.250	To be reviewed
Missouri Low Income Housing § 135.350	To be reviewed
Neighborhood Assistance § 32.100	To be reviewed
Neighborhood Preservation § 135.535	To be reviewed
New Enterprise Creation § 620.635	To be reviewed
Transportation Development § 135.545	To be reviewed

Source: Auditor prepared

[2] MDFB – Missouri Development Finance Board

COMMUNITY COLLEGE ASSOCIATION AUDIT RESPONSES

Audit Responses by the Missouri Community Colleges Association Presidents/Chancellors Council

Some portions of the audit report discuss the administration of the New Jobs Training Program by the community colleges. The audit report was provided to the Missouri Community Colleges Association to allow the association to respond to the audit recommendations. The audit recommendation and the association responses are presented in the following section.

1.1 Reduce or eliminate program interest costs and debt.

Response:

Your report indicates that the New Jobs Training Program (NJTP) results in positive economic benefits to the State, positively benefiting the State's economy, creating an estimated 87,000 new jobs, and increasing State revenues. Why change the direction of a program that has worked so well for so long? Careful consideration must be made before changing any structure or attributes of the program, as there are positive and negative aspects to every method. The current method of issuing bonds to fund training is a way to tie employers to the risk by encouraging them to buy their own bonds. The payback on those bonds ties directly to the employers' ability to retain those new jobs over an extended period, up to eight years, which is the ultimate goal of the program. The concept of appropriating new money to establish a revolving fund, which would be challenging under current budget constraints, is not necessary to the continued success of this program. The issuance of Community College bonds is the underlying mechanism to fulfill the purpose of this program, which is to fund training and workforce development of net new employees in Missouri. This structure was derived from the Iowa new jobs training statute which was the model for Missouri. This mechanism has been and continues to be successful in training thousands of Missouri workers and this report demonstrates the significant ROI of the program. One of the ways that interest cost could be significantly reduced would be to allow the inclusion of more or all jobs at the employer for application of the NJTP credit, thus allowing the accelerated retirement of outstanding bond issues and reducing interest expense. The colleges engaged the Department in this discussion at the Department sponsored NJTP meeting in November 2002.

Finally, the State's own Office of Administration (OA) reviews the interest rate of each issue. In at least one recent project, the interest rate was reduced following OA's review.

1.2 Require community colleges to track administrative expenses to determine how these administrative fees compare to the community colleges project oversight costs. In addition, the department should require the community colleges to forward these cost reports to the department on a periodic basis.

Response:

A. The Missouri New Jobs Training Program statute sets the dollar amount for administrative expenses at fifteen percent (15%) of the total training costs of a new jobs training program project. The level of fees designated for community college administration is consistent with other State training programs. We have operated consistently with current law, which does not require the community colleges to track administrative expenses or to forward administrative cost reports to the Department. Nevertheless, there is a broad and demanding set of responsibilities required in order to properly administer New Jobs Training Projects. The fifteen percent (15%) of the total training cost allocated for administration is an accurate reflection of the actual costs associated with administering the program and projects. To further explain this position, the college's administrative responsibilities are discussed in more detail below.

B. We also submit that the auditors misinterpreted the time required to administer and oversee the program.

It is grossly inaccurate to say that none of the colleges require a full time position to administer the program. Each college has *several* people providing different roles directly relating to the New Jobs Training Program. If all community college roles required in administering the program were combined, it would in fact amount to several "full-time-equivalents."

C. The statement that the average administrative fee is $103,000 is misleading. The project fund that would generate that large an administrative fee would be approximately $686,667. In fact, the vast majority of projects are substantially smaller than this, generating significantly smaller administrative fees. For example, a $500,000 issuance would have an administrative fee of approximately $63,000 to cover the college's cost of administering the project from initial contact with the company through the 8 year life of the project: about $7,800 / year. This is a more accurate picture of the typical administrative fee received by the colleges.

There is a demanding set of activities required to properly administer a new jobs training project. We believe that 15 percent of the total training cost allocated for administration is an accurate reflection of the actual costs associated with administering the program and projects. In the case of smaller projects, it is an inadequate amount. The community colleges have agreed to negotiate the administrative fee on projects larger than two million dollars.

Given the colleges' experience and successful history of over ten years with this program, we firmly believe the community colleges are best suited to administer this program. Our collective mission to develop the capabilities of Missouri's workforce and our accountability to our communities, have consistently been the motivation for us to deliver win-win outcomes for the state and our employers.

Additional Discussion of Community College Administrative Expense.

Administrative expenses include all costs directly or indirectly associated with the supervision and administration of a training project as well as new jobs training program activities of an individual community college district. These include:

- the negotiation of a training activities proposal with the employer;
- submission of the proposal and a related report;
- advertising, interviewing and selecting staff for the project;
- procuring materials and services for the project;
- direct clerical support; and,
- mileage for the travel of administrative and supervisory project staff.

4 CSR 195-3.010(4)(I)

However, this summary does not adequately describe the effort required to manage and administer the New Jobs Training Program and its individual projects. A finer identification of administrative activities is drawn from a closer look at the rules published by the Department of Economic Development. These rules indicate that any Missouri community college participating in the Missouri Community College New Jobs Training Program must bear responsibility for the following support activities:

- Determining training eligibility for participation in the Missouri Community College New Jobs Training Program;
- Monitoring each training project to ensure that funds are used in accordance with the Rules and the training agreement;
- Providing quarterly and annual reports and other reports as requested by DED;
- Including an annual financial audit that contains each project's Missouri Community Colleges New Jobs Training Program Activities as part of the regular audit of the community college district;
- Identify and reconcile balances in the special funds and accounts for each project;
- Notifying the employer, DED and DOR when the new jobs credit from withholding has expired or when the certificate has been retired;
- Submitting to DOR any excess funds upon project completion;
- Complying with all other legal and financial requirements identified pursuant to State statute and DED rules.

See 4 CSR 195-3.010 (1)(G)

In addition, Missouri community colleges incur additional administrative costs for:

- Time and travel related to marketing and discussion of the program—on behalf of the state—to many employers who don't follow through with a project, travel to state-called meetings and training sessions.

- Time related to college executive oversight of the program in general and specific project activity as required.
- Acquiring and maintaining equipment necessary for these projects. This includes training equipment such as labs and computer and office equipment used by project staff in the various administrative functions.
- Facilities that are required for administrative staff, for training and storage, and for the maintenance and repair of training equipment. These are primarily sites on college property or on sites arranged by the college. These facilities also benefit other companies being served by DED.
- Additional college liabilities as a result of these projects. This is difficult to define, but as an example, some larger projects occasionally call for a substantial increase in personnel time and resources. The amount of other personnel involvement varies by project and is not always just a function of the issuance amount, but is tied to other factors including training issues and documentation issues. Other liabilities include worker compensation, additional insurance, and other legal and financial liability exposure.
- Project supervision, including initial employer contact, meetings with employers, direct supervision of on-site staff and numerous meetings with many levels within companies.
- Management information system, including securing all employer and employee information required by various agencies. It also includes the costs of gathering, compiling, entering and disseminating this information.
- Finance and accounting, includes the cost of maintaining the financial and accounting system and generating management reports regarding training. It would also include the cost of preparing expenditure reports to the state.
- Purchasing, including the cost of processing requests to purchase supplies, equipment and materials for training projects. The cost of drawing up bid specifications and bidding is included here.
- Review of company invoices and preparation and processing of requisitions for reimbursement to the trustee.
- Contract management, including the cost of preparing proposals, contracts, assisting with requests for training. Preparing the initial project budget and processing revisions to projects notification to companies and state.
- Personnel, including the cost of recruiting, advertising, interviewing and selecting staff to work on projects. The cost of processing personnel information and forms would also be included.
- General office support, including the general costs of maintaining a central office for operational support. This would include staff to answer phones and other communication devices, filing, word processing and correspondence, scheduling and other miscellaneous office functions. It would also include basic office supplies to support this activity, annual audits and annual trustee fees.

Beyond the immediate activities of a New Jobs Training Program project, Missouri community colleges have additional responsibilities required within each project's program agreement. These responsibilities include but are not limited to the following:

- Maintaining and storage of records and documentation for five years beyond project completion or up to 15 years total for each project;
- Additional legal and financial reporting responsibilities related to issuance of training certificates by the community colleges;
- Legal liabilities related to unforeseen future conflicts that may arise from any project.
- Direct and continuous monitoring of projects including:
  - ♦ Document and validate all training;
  - ♦ Notify the Division of Job Development and Training and the Department of Revenue of all significant changes to training project as defined in 4 CSR 195-3.010(18);
  - ♦ Continuously monitor employee levels throughout the life of the project;
  - ♦ Monitor average wages of new jobs created for each project;
  - ♦ Monitoring that funds are correctly distributed to each project;
  - ♦ Dealing with numerous changes in company personnel;
  - ♦ Monitoring to ensure that the trust indenture is being administered correctly with regard to retiring or redeeming outstanding Certificates.

The accounting, reporting and financial oversight requirements last until the final report is filed, the last bond is paid off and any remaining balance returned to the Department of Revenue.

The characteristics of all the administrative costs identified above illustrate the complexity and difficulty community colleges have in attempting to identify and track all the expenses related to administering the Missouri Community Colleges New Jobs Training Program projects. While some colleges attempt to do this, it is a daunting task. Experience has shown that additional personnel time and resources are required to accurately identify and quantify all the various types of costs associated with projects. Additionally, since each project is unique, the tracking of all administrative costs associated with these projects becomes even more complex.

1.3 Add project oversight language to state regulations to help insure adequate oversight of projects by the community colleges.

Response:

Community Colleges have regularly and willingly provided the Department with information it requests in a timely fashion. In addition, Community Colleges and the Department have worked closely together to identify relevant and useful information that needs to be monitored and reported on a regular basis. Both parties have been cooperative in evaluating suggestions and making relevant improvements to the reporting process. We have noted the auditor's suggestions for improvement and the Community Colleges can continue to insure adequate oversight without changing state regulations.

We believe that steps such as the following are a preferable way to achieve improved compliance with program requirements. Several of the colleges have independently instituted steps to track job creation and retention through joint tracking of the MO-JTC reporting with the trustee. Employer reports received by the trustee place it in a good position to serve as compliance monitor together with the college.

A recent revision to form MO-JTC (initiated through a collaborative request by the colleges and the Department) will abate this concern. Employers participating in the Missouri Community College New Jobs Training Program are now required to report the total number of new jobs and the average wage of the new jobs for each tax period in the program. All community colleges will now have the necessary information to accurately and consistently verify that employers have created the number of new jobs approved in the agreement. Also, this revision will help ensure that the employers maintain those new jobs throughout the life of the project.

Finally, it was the colleges that took the lead in suggesting the current format for the information that is contained in the annual report to show detailed activity for each project.

1.4 Implement a mechanism to hold the community colleges accountable for providing adequate project oversight.

Response:

The successful history and future of the New Jobs Training Program relies on the partnership and cooperative relationship between the Community Colleges and the Department. The Community Colleges have always, and will continue, to work with the Department to insure adequate project oversight.

We have noted the auditor's suggestions for improvement and will continue to take further steps to assure adequate project oversight. It is not necessary to formally implement a mechanism to hold the Community Colleges accountable for providing adequate project oversight.

The respective college boards are acutely aware of the potential damage to their college's credit and reputation, and to the standing of the New Jobs Training Program should any certificates default due to failure of an employer to meet its obligations. This is true even where an employer buys its own certificates and bears the only financial risk. The colleges already have significant incentive to assure that the program requirements are met.

Oversight is defined by the rules, program agreement and indentures. It is the responsibility of the college to act in accordance with these requirements. If corrective action is needed, it will be noted and implemented.

1.5 Ensure the "clawback" provisions are included in all of the contracts between the colleges and the companies and pursue reimbursements for the unfulfilled project commitments by timely enforcing the "clawback" provisions of the project agreements.

Response:

We agree that Section 620.017 RSMo. has been in effect since 1992, but the New Jobs Training Statute does not include a "clawback" requirement, and the Department did not instruct that this covenant be incorporated into the project agreements until much later. We have included the "clawback" provisions in all program agreements since the express directive was received on this issue from the Department. The specific document provisions distributed by the Department are used for consistency among projects. However, we believe that it is the Department rather than the Community Colleges which ultimately makes enforcement determinations. The colleges do not have the authority to "to enforce reimbursements". We can and do provide the Department with all requested information related to a project in order for the Department to evaluate the situation and determine whether a project falls under the program agreement provision allowing that: "the Employer may be exempted wholly or in part from such repayment upon submission of documented proof to the Director of DWD of unforeseen economic events due to factors beyond the Employer's control, such as loss of contracts, significant loss of profits or decreased demand for products or services. The Director of DWD shall have the authority and discretion for final determinations as to exemption from repayment." In situations in which the department feels the exemption does not apply, it is the responsibility of the state and not the colleges to enforce the "Clawback".