

Alternative Funding for the Monetary Award Program

Women Employed's mission is to improve women's economic status and remove barriers to economic equity. We promote fair workplace practices, increase access to training and education, and provide women with innovative tools and information to move into careers paying family-supporting wages.



Declining state revenues and growing demand for services are exacerbating Illinois' long-standing structural deficit. Illinois is struggling to meet its financial obligations, including funding for higher education. Yet the well-trained workforce that higher education produces is essential to increasing the tax base and attracting business—both critical to economic recovery and future prosperity.

Over the last two years, Illinoisans have returned to college in large numbers to increase their employability—just as the state has little revenue to fund institutions of higher education and provide financial aid to individuals who need it. **Illinois needs a solution that will enable the state to invest in its workforce consistently, even when money is scarce.** One option is to use workforce development bonds to finance tuition assistance for community college students, who are 75 percent of higher education students in Illinois.¹ Bonds will enable the state to leverage future tax revenues from the increased incomes of students who are most likely to remain and work in the state.

ILLINOIS' ECONOMIC FUTURE

In the current economy, higher education is a necessity for good employment. Eighty-two percent of jobs in Illinois require more than a high school education.² Just over half of all Illinois jobs, 52 percent, are middle-skill jobs which require only a year or two of investment in higher education³—occupations such as police officers, radiology technicians, machinists, computer support technicians and registered nurses.⁴ Wages for middle-skill occupations typically range from \$40,000 to \$60,000 a year,⁵ but can go as high as \$134,700 a year.⁶ Despite this, Illinois' supply of middle-skill workers is lower than the number of jobs available.⁷

Community colleges are the principal providers of training for middle-skill jobs. Given the gap between the supply of workers and the number of middle-skill jobs and the relatively low cost of certificate programs or two-year degrees compared to four-year degrees, it makes good sense to target resources to community colleges. **Investing in training for Illinoisans at community colleges is an efficient way for the state to meet its workforce needs and improve the economic security of its residents.** Ensuring unemployed and low-income Illinoisans are trained for middle-skill jobs simultaneously increases tax revenues, attracts businesses, and lessens the number of Illinoisans who depend on state benefits.

Illinois' current method of funding student aid

won't get us there. By the middle of the 2009/2010 academic year, over 110,000 low- and middle-income Illinoisans—many of them unemployed or under-employed—were denied Monetary Award Program (MAP) grants because the state ran out of money.⁸ Another 138,000 students were given MAP grants, but these grants were rescinded for the second semester. Though this decision was later reversed, students had to make hard decisions about re-enrolling in college with no guarantees of aid. Without a consistent, predictable and reliable investment in MAP and other state financial aid programs, higher education and good-paying jobs will simply be out of reach for many Illinoisans.

THE SOLUTION

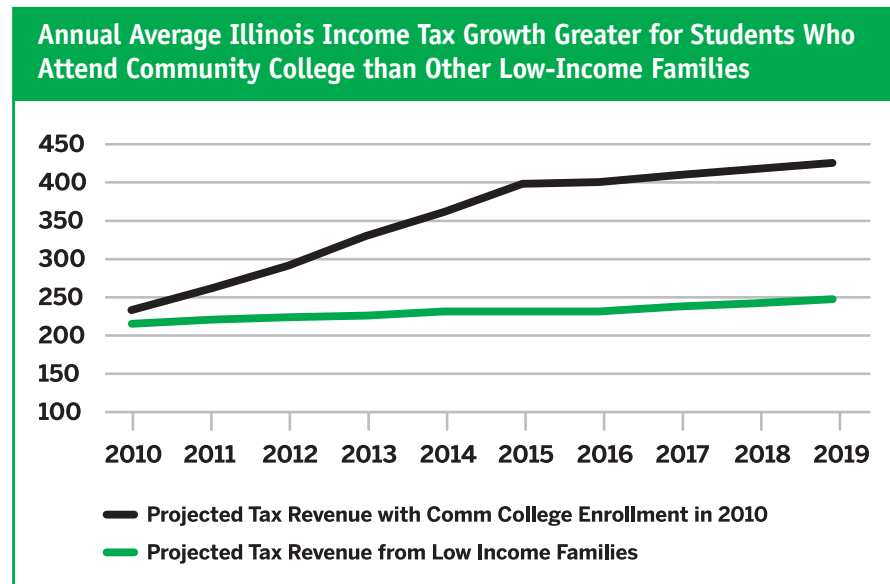
In an uncertain fiscal environment, Illinois can maximize the return on tax dollars by investing in low-cost training using bonds. Increased education levels will result in higher income tax revenue for years to come. The higher tax revenue can be set aside for bond repayment.

Analysis conducted by the Illinois Student Assistance Commission (ISAC) and the Illinois Department of Revenue (IDoR) shows that **income tax revenues from MAP recipients increased substantially after attending Illinois community colleges.** Average income tax revenue from MAP recipients increased by 70 percent

within six years of enrolling in community college, while income tax revenue for low-income taxpayers who did not attend community college grew by only seven percent. Even students who didn't graduate showed major increases in income tax payments. The Illinois Student Assistance Commission and IDoR estimate that the initial income tax revenue from MAP recipients at community colleges would bring in at least \$330 million within six years.⁹

Illinois can leverage this increased revenue to invest in workforce training through bonds administered by the Illinois Student Assistance Commission. Human Capital Investment Bonding (MAP Cap-I Bonds)

would allow the state to create a steady source of funding for training that is not affected by the highs and lows of state general revenue funds. The bonds would be paid off with a diversion of those income taxes paid by Illinoisans who received MAP grants funded by bond sales.



Source: ISAC analysis of Illinois Department of Revenue data

WHY BONDS?

Bonds are typically used for capital improvements such as bridges, buildings, and roads because these have long-term benefits to the state and enable it to attract and support businesses. Worker training is no different. Like bridges and roads, well-trained workers are an asset that pays dividends over time.¹⁰

Bonds that allow the state to invest in financial aid for community college students could help build the supply of skilled workers and meet the needs of businesses. Directing investment to community college students will ensure that the investment stays in Illinois, as nine out of ten community college students stay and work in the state.¹¹

Bond-Financed Training Programs in Other States

Faced with shrinking state revenue, rapidly growing unemployment, and the loss of well-paying jobs, in 1983 the Iowa legislature developed the New Jobs Training Program, a customized job-training program funded through bond sales. Between 1983 and 2006, the New Jobs Training Program trained over 140,000 Iowans. As a result, several large companies, including Eastman Kodak and Weyerhaeuser, decided to locate in the state.

Since then, bond-financed training programs have been established in Missouri, Kansas, and Michigan to provide job training assistance to thousands and attract new businesses. These programs typically capitalize on the flexibility of community colleges to develop small training programs tailored to specific employer needs. Although there is some variation among states, most rely on increased income taxes from better educated workers to repay long-term bonds. A similar program in North Dakota uses commercial bank loans to fund training, which are then repaid through payroll tax diversion. Experts agree that the bonds or loan model could be used to fund other workforce investments such as state scholarships or grants.

Source: Heath Prince and Jeff Jablow, "Bond Financing," in Strategies for Financing Workforce Intermediaries: Working Papers, ed. Heath Prince, 37-66 (working paper, National Fund for Workforce Solutions, Jobs for the Future, Boston, MA, 2007).

RECOMMENDATIONS

To ensure Illinois' long-term economic competitiveness, we need to invest more in higher education for our workforce. Using bonds to fund training for middle-skill jobs through the state's community colleges is an efficient solution.

Legislators and the Governor should work together to pass legislation to:

- **Help more Illinoisans get training for good jobs.** Give legislative approval to allow ISAC to issue bonds to expand funding for MAP grants to community college students and to retire the bonds through diversion of the income tax. Ensure bonds are fully backed and meet the highest standards for fiscal accountability.
- **Improve MAP student completion rates.** Invest half of the remaining general revenue funding that would have been used to fund community college MAP grants to make proven student retention programs available to every community college MAP recipient. Couple MAP grants funded through MAP Cap-I Bonds with grants that allow colleges to provide or expand intensive advisement, early-alert systems, and other effective retention supports for MAP students.

RECOMMENDATIONS CONT.

- **Open the door to further training.** Use the other half of the remaining general revenue funding that would have been used to fund community college MAP grants to increase the availability of grants for public university students.

ISAC should use bond sales to:

- **Ensure Illinoisans can enter training programs when they need them.** Early cut-off dates for financial aid applications mean that Illinoisans laid off in June or later must wait for more than a year to enter education and training programs. Others who are working and supporting families may not know until the summer—too late for recent grant cut-off dates—if they will be able to attend school. Ending the early cut-off and reserving a small pool of funding for those who apply for winter term would drastically improve the situation of unemployed workers and low-income working students with families.

- **Open access to higher education for extremely low-income Illinoisans.** Because the MAP formula still uses 2004 tuition and fees, very low-income individuals who are eligible for full grants can't afford to attend because their grants only cover the 2004 cost of tuition and fees. Updating the formula for students receiving community college MAP grants would ensure that the lowest-income students have the same chances at training for good jobs as everyone else.

Human capital investment pays long-term dividends and is essential to the prosperity of our state. It's time to treat human capital like we treat other investments, ensuring that we have consistent, stable funding for this important source of security for individuals and growth for Illinois. Thousands of low-income and unemployed Illinoisans are hungry for the opportunity to develop new skills and increase their incomes. Now is the time to make sure that they are able to do so.

This paper was commissioned by the Illinois Student Assistance Commission. The recommendations are those of Women Employed.



Women Employed works with policymakers, education providers, and our volunteer Action Network to promote access to high-quality postsecondary education and job training programs so that all women can succeed. Women Employed's *Illinois Career Pathways Initiative* seeks to ensure that students can successfully move through college-level programs and into good jobs. Our *Clear Connections Project* helps community colleges improve at-risk students' success with innovations in student supports such as advising and career counseling. Visit womenemployed.org to learn more about our work to improve access to education and training and to download our publications.

1 Ellen Andres, email message to Meegan Dugan Bassett and others, August 28, 2009

2 The Workforce Alliance, *Illinois' Forgotten Middle-Skill Jobs: 2009 – An Updated Look at Employment and Education Patterns in Illinois* (Washington, D.C.: The Workforce Alliance, 2009), 4.

3 Ibid., 1.

4 Kermit Kaleba and Andrea Mayo, *Illinois' Forgotten Middle-Skill Jobs: Meeting the Demands of a 21st Century Economy* (Washington, D.C.: The Workforce Alliance, 2008) 9.

5 Ibid.

6 The Workforce Alliance, *Illinois' Forgotten Middle-Skill Jobs: 2009*.

7 Ibid.

8 Ellen Greenan, email message to Meegan Dugan Bassett, February 22, 2010.

9 Illinois Student Assistance Commission and Loop Capital Markets analysis of Illinois Department of Revenue data, "Monetary Award Program Capital Investment Bond Proposal."

10 Heath Prince and Jeff Jablow, "Bond Financing," in *Strategies for Financing Workforce Intermediaries: Working Papers*, ed. Heath Prince, 37-66 (working paper, National Fund for Workforce Solutions, Jobs for the Future, Boston, MA, 2007).

11 The Center for Governmental Studies at Northern Illinois University, *The Economic Impact of Illinois Community Colleges: A Report to the Illinois Community College Board* (DeKalb, IL: Illinois Community College Board, 2007), 7.