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 Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

Senate Bill 922 (Senator Rosapepe, *et al.*)
 Finance and Budget and Taxation

Career Apprenticeship Opportunity Act of 2016

This bill requires the State Board of Education (SBE), in consultation with the Department of Labor, Licensing, and Regulation (DLLR) and the Governor’s Workforce Investment Board (GWIB), to develop statewide goals each year from 2016 through 2024 so that by January 1, 2025, 45% of high school graduates successfully complete a career and technical education (CTE) program or earn industry-recognized occupational or skill credentials before leaving high school. It also establishes a statewide goal that, beginning January 1, 2026, 80,000 apprenticeships will be registered each year in the State. The bill creates a tax credit against the State income tax for individuals or corporations that employ an apprentice for at least seven months during a taxable year in an apprenticeship program registered with the Maryland Apprenticeship and Training Council (MATC).

The bill takes effect June 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: No effect in FY 2016; however, general fund revenues decrease by \$968,800 beginning in FY 2017 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$78,800 in FY 2017, and Higher Education Investment Fund (HEIF) revenues decrease by \$32,400. General fund expenditures increase by \$2.0 million in FY 2017 due to implementation costs at the Comptroller’s Office and staffing and outreach needs at DLLR.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$0	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
SF Revenue	\$0	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
GF Expenditure	\$0	\$2.0	\$1.8	\$1.9	\$2.0
Net Effect	\$0.0	(\$3.1)	(\$2.9)	(\$3.0)	(\$3.1)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local highway user revenues decrease by approximately \$7,600 annually beginning in FY 2017 as a result of credits claimed against the corporate income tax.

Small Business Effect: Minimal. Small businesses that employ eligible apprentices would benefit by claiming up to \$1,000 in income tax credits for each eligible apprentice.

Analysis

Bill Summary: By December 1, 2016, DLLR and GWIB must develop annual income earnings goals for high school graduates who have not earned at least a two-year college degree by age 25. Also by December 1, 2016, SBE must develop a method to consider a student's attainment of a State-approved industry credential as equivalent to earning a score of 3 or better on an advanced placement examination for purposes of the School Performance Index if the student was enrolled in, and earned the credential aligned with, the State-approved CTE program of study at the concentrator level or higher. By December 1, 2016, and annually thereafter, SBE must report to the Governor and the General Assembly on the progress toward attaining specified goals.

The Division of Workforce Development and Adult Learning within DLLR must partner with State departments to identify, before January 1, 2017, opportunities to create registered apprenticeship programs to help address the workforce needs of those departments.

The income tax credit is equal to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. The credit may be carried forward to succeeding tax years until the full amount of the credit is exhausted. A taxpayer claiming the credit must attach to his or her return proof of each eligible apprentice's enrollment in a registered apprenticeship program and duration of employment. The Comptroller must adopt regulations to implement the tax credit and specify criteria and procedures relating to the tax credit.

Current Law: No State tax credit of this type exists for employing apprentices, but the State provided a tax credit program for approved work-based learning programs for students, which terminated on June 30, 2013. The program allowed approved employers to claim tax credits in the amount of 15% of the wages paid to secondary or postsecondary students between 16 and 23 years of age who participated in work-based learning programs. The total credit claimed per student could not exceed \$1,500 for all tax years.

Generally, apprenticeship is a voluntary, industry-sponsored system that prepares individuals for occupations typically requiring high-level skills and related technical knowledge. Apprenticeships are sponsored by one or more employers and may be

administered solely by the employer or jointly by management and labor groups. An apprentice receives supervised, structured, on-the-job training under the direction of a skilled journeyman and related technical instruction in a specific occupation. Apprenticeships are designed to meet the workforce needs of the program sponsor. Many industry sponsors use apprenticeship as a method to train employees in the knowledge necessary to become a skilled worker. This also means the number of apprenticeships available is dependent on the current workforce needs of the industry.

Apprenticeships are available to individuals age 16 and older; an employer, however, may set a higher entry age. By law, individuals must be age 18 to apprentice in hazardous occupations. Apprenticeships last from 1 to 6 years, although most are 3 to 4 years, and involve a minimum of 144 hours of classroom instruction per year and at least 2,000 hours per year of on-the-job training. A national apprenticeship and training program was established in federal law in 1937 with the passage of the National Apprenticeship Act, also known as the Fitzgerald Act. The purpose of the Act was to promote national standards of apprenticeship and to safeguard the welfare of apprentice workers.

Along with 24 other states, Maryland has chosen to operate its own apprenticeship programs. In 1962, Maryland created the 12-member MATC. Within the framework established in federal law, the State's apprenticeship and training law also established the guidelines, responsibilities, and obligations for training providers and created certain guarantees for workers who become apprenticed.

MATC, along with the Division of Labor and Industry (DLI) within DLLR, serves in a regulatory and advisory capacity by providing guidance and oversight to the Maryland Apprenticeship and Training Program, which is responsible for the daily oversight of State apprenticeship programs. More specifically, MATC and DLI approve new apprenticeship programs and changes to current programs. The approval process involves assessing the appropriateness of an apprenticeship program in a proposed industry, the education that will be provided to the apprentice, the current staffing level of the entity proposing the program to determine whether adequate supervision can be provided, recruitment and retention efforts, and the overall operations of the entity. MATC also serves in an advisory role for legislation and regulations, recommending changes to update apprenticeship laws.

Chapter 646 of 2014 established a Youth Apprenticeship Advisory Committee in DLI to evaluate the effectiveness of existing high school youth apprenticeship programs in the State, other states, and other countries based on a systematic review of data. The committee must review and identify ways to implement high school youth apprenticeship programs in the State and means through which employers and organizations can obtain grants, tax credits, and other subsidies to support establishment and operation of high school youth apprenticeship programs. The committee must set targets for the number of apprenticeship opportunities for youth that the State should reach over the next three years. The committee

must report by December 1 of each year to the General Assembly regarding any recommended legislation to promote high school youth apprenticeship programs in the State.

Chapter 140 of 2015 established an apprenticeship pilot program, Apprenticeship Maryland, to prepare students to enter the workforce by providing on-site employment training and related classroom instruction needed to obtain a license or certification for a skilled occupation. The Maryland State Department of Education (MSDE) must select two local school systems to participate based on specified criteria. MSDE must collaborate with DLLR, the Department of Commerce, and representatives of the business community to develop criteria for and then identify eligible employers. The eligible employers must pay an eligible student at least the applicable minimum wage, subject to any lawful exemptions. Each county superintendent from a participating school system may select up to 60 students to participate in the program. A student selected to participate in the program:

- may start the program in the summer or fall of the student's junior or senior year in high school;
- must complete at least 450 hours of supervised work-based training;
- must receive at least one year of classroom instruction relating to the student's eligible career track in the manufacturing industry or the science, technology, engineering, and math (STEM) industries;
- must receive credit toward a high school diploma or a postsecondary credential, or both, for the work-based training and classroom instruction completed under the program; and
- must complete the program before August 31 following the student's graduation from high school.

DLLR must issue a skills certificate to each eligible student who completes the program. DLLR and MSDE must work together to explore options for increasing the availability of and access to youth apprenticeship programs based on other states and countries' experiences, as well as the results of the program.

Background: In fiscal 2015, there were 9,130 active apprentices in Maryland, of whom 3,630 apprentices had just begun their apprenticeship, and there were 1,228 active apprenticeship programs.

The School Performance Index referenced in the bill has been replaced by the School Progress Index, which evaluates schools on a continuous scale based on the variables of achievement, growth, gap reduction, and college and career readiness. It uses multiple measures, including achievement data in English/language arts and mathematics, cohort

graduation rates, and cohort dropout rates. The indicators used are specific to elementary and middle or high schools, and each indicator comprises specific measures for those levels of schools.

State Revenues: Under the bill, a taxpayer may claim an income tax credit for the first year of employment of an eligible apprentice employed by the taxpayer for at least seven months of the taxable year. In calendar 2015, 2,392 apprentices began their apprenticeships, and 1,164 apprentices cancelled their apprenticeships. Assuming apprentices cancelled their apprenticeships prior to completing seven months of employment, there are approximately 1,200 eligible apprentices.

It is assumed taxpayers claim tax credits for 1,200 eligible apprentices annually beginning in tax year 2016, and the credit may not exceed \$1,000 for each eligible apprentice. Total individual income tax revenues are distributed to the general fund, whereas total corporate income tax revenues are distributed to the general fund (79.4%), TTF (14.6%), and HEIF (6.0%). As a result, general fund revenues decrease by \$978,814 in fiscal 2017, TTF revenues decrease by \$78,786 in fiscal 2017, and HEIF revenues decrease by \$32,400. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit. This estimate does not account for any growth in the number of apprentices in future years.

Exhibit 1
Revenue Impact of the Tax Credit
Fiscal 2017-2021

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
General Fund	(\$968,814)	(\$968,814)	(\$968,814)	(\$968,814)	(\$968,814)
HEIF	(32,400)	(32,400)	(32,400)	(32,400)	(32,400)
TTF	(78,786)	(78,786)	(78,786)	(78,786)	(78,786)
<i>State</i>	(71,223)	(71,223)	(71,223)	(71,223)	(71,223)
<i>Local</i>	(7,563)	(7,563)	(7,563)	(7,563)	(7,563)
Total	(\$1,080,000)	(\$1,080,000)	(\$1,080,000)	(\$1,080,000)	(\$1,080,000)

Source: Department of Legislative Services

Since the credit is nonrefundable, some businesses may not have enough tax liability to claim the full credit, so this estimate assumes that 10% of credits are not claimed. This estimate also assumes that 50% of all credits are claimed against the personal income tax and 50% are claimed against the corporate income tax.

State Expenditures: The Comptroller’s Office reports that it incurs a one-time expenditure increase of \$32,000 in fiscal 2017 to add the credit to the personal and corporate income tax credit form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and system testing. Additionally, the Comptroller’s Office may incur additional costs to administer the tax credit.

MSDE advises that the Division of Career and College Readiness already partners with DLLR and GWIB to support the development and expansion of apprenticeships related to CTE programs in the State, and these programs have identified related industry certifications and credentials. Therefore, MSDE can implement the bill with existing resources.

The bill establishes a State goal of having 80,000 registered *apprenticeships* by January 2026. The Department of Legislative Services interprets this as requiring 80,000 *apprentices*. DLLR requires substantial resources for the State to achieve the goal of having 80,000 apprentices registered in the State on or after January 1, 2026. As of December 2015, there were 8,653 registered apprentices in the State, so to achieve the goal, DLLR must increase the number of apprentices by almost tenfold. Having 80,000 registered apprentices in the State would put Maryland on par with the United Kingdom, and would be double the number of registered apprentices in California, the state that has the most active apprentices in the United States (40,647). Apprentice navigators are needed to be stationed throughout the State’s 12 local workforce areas to ensure connections are made with Maryland’s businesses and to connect students with those businesses. To achieve 80,000 registered apprentices, DLLR would have to aggressively market apprenticeships, so expenditures increase by approximately \$100,000 annually for marketing.

Therefore, DLLR’s general fund expenditures increase by \$2.0 million in fiscal 2017, which reflects a one-month implementation delay from the bill’s June 1, 2016 effective date. This estimate reflects the cost of hiring 18 apprentice navigators, 2 program navigators, and \$100,000 of annual advertising costs. The estimate includes salaries, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Regular Positions	20
Regular Salaries and Fringe Benefits	\$1,680,099
One-time Start-up Costs	137,260
Operating Expenses	<u>152,040</u>
DLLR Expenditures	\$1,969,399
Comptroller Expenditures	<u>32,000</u>
Total FY 2017 State Expenditures	\$2,001,399

Future year expenditures reflect annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Revenues: Local highway user revenues decrease by approximately \$7,563 annually beginning in fiscal 2017 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

Additional Comments: While the bill allows for the tax credit to be carried forward each year, the tax credit is limited to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. Since the tax credit is limited to the taxpayer's tax liability, there is no remaining credit available to be carried forward.

Additional Information

Prior Introductions: None.

Cross File: HB 1187 (Delegate McCray, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Maryland Higher Education Commission; Baltimore City Community College; Department of Labor, Licensing, and Regulation; U.S. Department of Labor; Department of Legislative Services

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