SB 317

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 317 (The President, *et al.*) (By Request - Administration)
Budget and Taxation Ways and Means

More Jobs for Marylanders Act of 2017

This Administration bill establishes the More Jobs for Marylanders Program, to be administered by the Department of Commerce (Commerce). A new manufacturing business that locates within certain counties may be entitled to a 10-year (1) income tax credit based on the number of jobs created at a qualifying facility; (2) State property tax credit equal to 100% of the tax imposed on the facility's real property; (3) sales and use tax refund for specified purchases; and (4) exemption from paying corporate filing fees. Existing manufacturing businesses may qualify for the 10-year income tax credit. In addition, the bill allows manufacturing businesses throughout the State to claim increased expensing amounts under the State income tax by conforming State law to the maximum aggregate costs of expensing allowed under Section 179 of the Internal Revenue Code (IRC) and to claim any bonus depreciation amounts provided under Section 168(k) of IRC.

The bill also (1) establishes an income tax credit for businesses that employ an eligible apprentice; (2) establishes Workforce Development Sequence Scholarships for eligible students who are enrolled in a job skills program at a community college; (3) requires specified vocational goals to be established for high school students; and (4) requires State agencies to analyze and report specified information on registered apprenticeship programs.

Except for specified provisions, the bill takes effect June 1, 2017.

Fiscal Summary

State Effect: State revenues decrease by $632,000 in FY 2018 due to the incentives specified by the bill. Future year estimates reflect the estimated number of eligible manufacturing businesses and the impact of increased expensing. General fund expenditures increase by $245,800 in FY 2018 due to implementation costs at State agencies. Future year expenditure estimates reflect ongoing expenses, mandated funding amounts, and reserve fund appropriations. **This bill establishes mandated appropriations beginning in FY 2019.**

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	($0.5)	($0.5)	($25.1)	($4.9)	($2.9)
SF Revenue	($0.2)	($0.4)	($5.8)	($1.8)	($1.6)
GF Expenditure	$0.2	$11.2	$21.2	$21.1	$21.1
Net Effect	($0.9)	($12.1)	($52.1)	($27.9)	($25.7)

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

Local Effect: Local income tax revenues and local highway user revenues decrease by a total of $4,000 in FY 2018 and by $398,000 in FY 2022. Local expenditures are not affected. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: The Administration has determined that the bill will have a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary:

Manufacturing Tax Incentives

The More Jobs for Marylanders Program provides (1) an income tax credit to certain new or existing qualifying manufacturers that create a minimum number of jobs; (2) additional incentives to qualifying new manufacturing businesses that create a minimum number of jobs within a county designated as a Tier I county; and (3) additional Section 179 expensing and bonus depreciation as allowed under federal income tax law for all manufacturers located in the State.

For the tax credits and sales tax refunds, Commerce may authorize a manufacturing business to receive program benefits for up to 10 consecutive years beginning with the year in which the business becomes eligible. Commerce must administer the tax credit application, approval, and certification process and is required to submit an annual report to the General Assembly detailing specified information about the program. The Secretary of Commerce may establish by regulation any other requirements necessary to implement the bill.

Eligibility

A business must operate or conduct a trade or business that is primarily engaged in manufacturing but does not include refiners. Prior to taking the action that qualifies the business for the program, a business must notify Commerce of its intent to seek certification of an eligible project. A business must offer an ongoing job skills enhancement training program or postsecondary education program that is approved by Commerce. A business must operate a facility and intend to create a minimum number of qualified positions, as defined by the bill, at a facility. A business within a Tier I county must create at least 5 qualified positions and businesses within Tier II counties must create at least 10 qualified positions. Within 12 months of notifying Commerce of its intent to seek designation of an eligible project, a business entity must begin hiring employees to fill the qualified positions.

The income tax credit and sales and use tax refund may not be claimed by an existing business entity that moves a facility to another county on or after June 1, 2017. Commerce may not certify a business as eligible for the program after May 31, 2020. A business may not continue to qualify for the program if the number of qualified positions decreases below the total number in the first year in which the business qualified.

Tier I and Tier II County Designations

Businesses located in counties designated by Commerce as Tier I counties may qualify for additional incentives and lower minimum job creation requirements. Commerce may designate a county as a Tier I county if the county qualifies as a qualified distressed county (QDC) under the bill. In addition, Commerce may designate up to 3 counties as Tier I counties that do not qualify as a QDC. Any county that is not designated as a Tier I county is considered a Tier II county.

Incentives – New Businesses in a Tier I County

A qualifying new manufacturing business in a Tier I county can claim the following benefits for up to 10 consecutive years.

- *Income Tax Credit:* A qualified business entity may claim a credit against the State income tax equal to the total wages paid for the qualified positions multiplied by 5.75%. If the value of the credit exceeds the tax liability imposed in the year, the business can claim a refund in the amount of the excess. Tax credits can be claimed beginning in tax year 2018.

- *Sales and Use Tax Refund:* All personal property and/or services purchased by a qualifying business entity for use at a manufacturing facility may qualify for a refund of the State sales and use tax for purchases made on or after January 1, 2018.

- *State Property Tax Credit:* The bill exempts 100% of the State property tax imposed on the real property that is owned by a qualifying business and located at the qualifying manufacturing facility beginning in fiscal 2018. The State Department of Assessments and Taxation (SDAT) must calculate the value of the credit in each year.

- *Corporate Filing Fees:* A qualified business entity is exempt from all business recording, filing, or special fees collected by SDAT.

Income Tax Credit – Existing Manufacturing Businesses

An income tax credit may be claimed for up to 10 years by an existing manufacturing business operating an eligible business in either a Tier I or Tier II county if the business creates the required number of qualified positions at the eligible manufacturing facility. The amount of the credit is equal to the total wages paid for the qualified positions multiplied by 5.75%. If the value of the credit exceeds the tax liability imposed in the year, the business can claim a refund in the amount of the excess. The tax credit may be claimed beginning in tax year 2018.

Reserve Funds

The bill establishes the More Jobs for Marylanders Tax Credit Reserve Fund. The total amount of initial tax credit certificates issued by Commerce in each fiscal year generally cannot exceed $9.0 million. Beginning in fiscal 2019, the Governor must appropriate money to the reserve fund. The bill states that the Governor shall include an amount that is necessary to maintain the current level of manufacturing activity in the State and attract new manufacturing activity to the State. Any amount of money in the fund that is not expended in the fiscal year remains in the fund and must be rolled over into the next fiscal year. In each fiscal year, Commerce must give priority to applications for eligible projects in Tier I counties.

The bill also establishes a More Jobs for Marylanders Sales and Use Tax Refund Reserve Fund. The total amount of sales and use tax refunds issued by Commerce in each fiscal year generally cannot exceed $1.0 million. Beginning in fiscal 2019, the Governor must appropriate money to the reserve fund. Any amount of money in the fund that is not expended in the fiscal year is transferred to the tax credit reserve fund established by the bill.

Commerce and the Comptroller must jointly adopt regulations to implement the income tax credit and sales and use tax refund application, approval, and monitoring processes.

Income Tax – Enhanced Section 179 Expensing and Bonus Depreciation for All Manufacturers

The bill allows manufacturing businesses located anywhere in the State to claim increased expensing amounts under the State income tax by conforming State law to the maximum aggregate costs of expensing allowed under Section 179 of IRC and to claim any bonus depreciation amounts provided under Section 168(k) of IRC. These provisions apply to property placed into service on or after January 1, 2019. Under current federal law, as discussed below, manufacturers will be able to claim increased Section 179 expensing beginning in tax year 2019 and bonus depreciation in tax year 2019 only.

Income Tax – Apprenticeship Tax Credit

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 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 claimed. The taxpayer claiming the credit must attach specified proof of eligibility to the taxpayer's return, and the Department of Labor, Licensing, and Regulation (DLLR) may approve tax credits of up to $500,000 annually. DLLR must adopt regulations to implement the tax credit and specify criteria and procedures relating to the tax credit.

Tax Subsidy Findings

The bill states that the General Assembly finds that the widespread adoption of tax subsidies intended to move jobs from one state to another state reduces revenues in all participating states without increasing the total number and quality of jobs. The bill also instructs the Governor to work with the chief executive officers of Delaware, the District of Columbia, North Carolina, Pennsylvania, Virginia, and West Virginia to negotiate an agreement among all of these states by July 1, 2018, for the repeal of any law in each state that provides a tax subsidy, including any tax credit, deduction, exemption, or other modification, that is intended to create new jobs or entice new jobs to the state. The Governor is required to report by September 15, 2018, to the Senate Budget and Taxation Committee and the House Ways and Means Committee on the status of the agreement. If an agreement has not been reached by that date, the Governor must report alternatives to encourage agreement among the respective states.

Qualified Distressed Counties

The bill alters the definition of a qualified distressed county to include counties that, within the last 24-month period for which data are available, have an average unemployment rate of at least two percentage points higher than the State average.

Apprenticeship Training Programs

The Maryland State Department of Education (MSDE), DLLR, and the Maryland Longitudinal Data System (MLDS) Center must jointly determine ways to expand and analyze available data, including participation in career and technology education courses, relating to individuals who participate in registered apprenticeship training programs. On or before September 1, 2017, MSDE and DLLR must jointly report to the General Assembly regarding the results of the discussions and determinations.

The Division of Workforce Development and Adult Learning (DWDAL) within DLLR must partner with State departments and their exclusive representatives to identify, before January 1, 2018, opportunities to create registered apprenticeship programs to help address the career workforce needs of those departments. The division must identify opportunities to create registered apprenticeship programs, including specified goals.

DLLR must explore ways to combine the Youth Apprenticeship Pilot Program with the Apprenticeship and Training Program and report to the General Assembly regarding its findings and recommendations by December 1, 2018.

The bill requires the State Board of Education (SBE), in consultation with DLLR and the Governor’s Workforce Development Board (GWDB), to develop statewide goals each year from 2018 through 2024 so that by January 1, 2025, 45% of high school students successfully complete a career and technical education (CTE) program, earn industry-recognized occupational or skill credentials, or complete a registered youth or other apprenticeship before graduating high school. By December 1, 2017, the Maryland Longitudinal Data System Center and GWDB 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, 2017, 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 Maryland Accountability Program 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 or successfully completed an apprenticeship program approved by MATC. By December 1, 2017, and annually thereafter, SBE must report to the Governor and the General Assembly on the progress toward attaining specified goals.

Workforce Development Sequence Scholarships

The bill establishes Workforce Development Sequence Scholarships for eligible students who are enrolled in a program at a community college composed of courses that are related to job preparation or an apprenticeship, licensure or certification, or job skills enhancement. The Governor must annually include an appropriation of $1.0 million in the State budget to the Maryland Higher Education Commission (MHEC) for the scholarships.

To be eligible for a scholarship, a student must be a Maryland resident or have graduated from a Maryland high school and be enrolled at a community college in the State in a Workforce Development Sequence. An eligible individual may apply to the Office of Student Financial Assistance (OSFA) for a scholarship. An award may be used for tuition, mandatory fees, and other associated costs of attendance. The annual amount of a scholarship awarded to an eligible student may not exceed $2,000.

By December 1 each year, MHEC must report to the General Assembly on specified information regarding the number and amount of scholarships awarded for the prior fiscal year.

Partnership for Workforce Quality Program

The bill requires the Governor to include at least $1.0 million in the State budget each year to fund the Partnership for Workforce Quality Program.

Current Law:

Section 179 and Bonus Depreciation

The State is currently "decoupled" from any increased income tax expensing under Section 179 and additional depreciation amounts under Section 168(k) of IRC. Taxpayers are required to make an adjustment for State income tax purposes to reflect the changes made to the maximum aggregate costs of expensing under Section 179 and additional depreciation under Section 168(k). Under State law, the Section 179 deduction is limited to $25,000 with a phase out of $200,000; these amounts were the applicable federal amounts before enactment of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Recent federal legislation permanently extended increased Section 179 expensing (and increased future values based on inflation) and bonus depreciation through tax year 2019. Generally, the bonus depreciation percentage for property placed in service in 2019 is 30% and is not allowed for property acquired after December 31, 2019.

Corporate Filing Fees

SDAT is the central repository of all records for business entity formation and filings, such as charters, limited liability companies, partnerships, and trusts. SDAT administers the State's annual corporate filing fee, as well as other business transaction fees. The various fees that must be paid by business entities range from $25 for a change of address notice of a principal office to $425 for processing certain financing statements in an expedited timeframe. An annual report fee is required to be paid to SDAT with the personal property tax return. The fee is for the privilege of maintaining the legal entity's existence in the State and is generally equal to $300.

Sales and Use Tax

Businesses in Maryland are required to collect a 6% sales and use tax from taxable purchases, with a 9% tax imposed on sales of alcoholic beverages. The sale of tangible personal property is generally taxable except as otherwise provided by law, while most services are exempt from the tax. Manufacturing firms may qualify for several sales tax exemptions – for example, the sale of machinery, equipment, and other tangible personal property used directly and predominantly in a production activity is exempt.

Property Tax

The State real property tax rate is $0.112 per $100 of assessed value and the revenues are used to pay debt service on the State's general obligation bonds.

Qualified Distressed Counties

A QDC is a county with (1) an average rate of unemployment for the most recent 24-month period for which data is available that exceeds 150% of the average rate of unemployment for the State during that period or (2) an average per capita personal income for the most recent 24-month period for which data is available that is equal to or less than 67% of the average per capita personal income for the State during that period. A QDC includes a county that no longer meets either of the above criteria but has met at least one of the criteria at some time during the preceding 24-month period. According to Commerce, Allegany, Dorchester, Somerset, and Worcester counties and Baltimore City are currently designated as QDCs. Baltimore City and Dorchester County currently qualify because they have met at least one of the criteria at some time during the preceding 24-month period. However, Baltimore City and Dorchester County will no longer qualify as a QDC after June 30, 2018, unless the local jurisdiction meets either the unemployment or income criteria again.

Existing Manufacturing and Distressed Area Tax Incentives

As discussed below, numerous federal and State incentives are available to manufacturing businesses. In addition, the One Maryland, enterprise zone, and job creation tax credit programs promote employment and investment within distressed areas of the State.

Apprenticeship Training Programs

No State tax credit currently exists for employing apprentices, but the State provided a tax credit program for approved work-based learning programs for students that terminated on June 30, 2013. The program allowed approved employers to claim tax credits for 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 journeyperson 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 generally 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 one to six years, although most are three to four 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 DWDAL, 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 DWDAL 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 DWDAL 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; Frederick and Washington County schools were selected in 2016. MSDE must collaborate with DLLR, Commerce, and representatives of the business community to develop criteria for and 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; in 2016, a total of 8 students were placed in youth apprenticeships. 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 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.

Workforce Development Sequence Scholarships

OSFA within MHEC is responsible for the administration of State financial assistance programs. Although the State supports a number of financial aid programs, including ones related to workforce development, none of the financial aid programs is for noncredit certificate programs at community colleges.

Background:

Enterprise Zone Property Tax Credits

The Enterprise Zone Tax Credit Program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. The Secretary of Commerce may only designate an area as an enterprise zone if it is in a priority funding area and satisfies at least one criterion related to economic distress.

The State reimburses local governments for one-half of the cost of the enterprise zone property tax credit. From fiscal 2001 to 2014, State reimbursements to local governments totaled $131.2 million. In fiscal 2014, about 850 properties earned a total of $27.8 million in property tax credits, of which the State reimbursed $13.9 million. Since tax year 2000, an annual average of $900,000 in enterprise zone income tax credits have been claimed. About one-third of all enterprise zones have businesses that are concentrated within manufacturing, fabrication, transportation, warehousing, distribution, and research and development. This concentration typically results from either enterprise zone local standards restricting credit eligibility to these activities and industries or the establishment of the zone within an industrial or business park that has similar requirements.

Pursuant to the Tax Credit Evaluation Act, the Department of Legislative Services (DLS) evaluated the enterprise zone tax credit and made several recommendations in a report issued in August 2014. DLS concluded that enterprise zone tax credits are not effective in creating employment opportunities for nearby residents and that Commerce, the State Department of Assessments and Taxation, and local governments do not have a framework or metrics in place for measuring the effectiveness of the credit. The DLS evaluation of the enterprise zone tax credit can be found here.

One Maryland Program

The One Maryland economic development tax credit was established to assist businesses with the costs of economic development projects undertaken in qualified distressed counties (QDCs) and specifically to encourage capital investment and job creation in those counties. A business in a qualifying industry that establishes or expands a business facility in a priority funding area and is located in a QDC may be entitled to an income tax credit of up to $5.5 million.

From calendar 2001 through 2010, businesses within the manufacturing industry claimed the largest amount of credits – of the 54 projects that received a total of $222.5 million in credits under the program, 18 were manufacturing projects that were awarded a total of $79.6 million in credits. Projects located in areas other than Baltimore City had a higher concentration of projects within the manufacturing industry, as these projects claimed the majority of credits in these counties.

In its evaluation of the One Maryland tax credit issued in August 2014, DLS noted that there was significant overlap between existing State tax credit and business assistance programs. DLS estimated that only 3, or 9%, of the 33 One Maryland projects in Baltimore City did not receive additional assistance from the specified programs. A little more than one-half of all projects received at least one type of additional assistance, while the remaining 39% received multiple types of additional assistance. The DLS evaluation of the One Maryland tax credit can be found here.

Job Creation Tax Credit

The job creation tax credit, created by Chapter 84 of 1996, provides a tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. The value of the credit depends on the number of jobs created, the wages of those jobs in the year the credit was claimed, and whether the jobs are located in a revitalization area. Most job creation tax credits have been claimed by businesses in the transportation and warehousing industries (about one-quarter) followed by manufacturing businesses (one-fifth).

In its draft evaluation of the job creation tax credit issued in November 2016, DLS noted that there was a significant overlap between existing State employment tax credits and a lack of coordination in tax credit objectives, including for tax credits for employment within distressed areas of the State. DLS recommended that the General Assembly consider eliminating the job creation tax credit or consolidating the credit with other employment tax credits. If considering the consolidation of the employment tax credits, DLS recommended that the General Assembly consider one program to increase economic growth within distressed areas and one program to promote broad-based job creation across the State, including provisions that target job creation for small and newly established businesses and businesses in high-growth industries.

The DLS draft evaluation of the job creation tax credit can be found here.

Single Sales Factor Apportionment for Manufacturers

Corporations engaged in multistate operations are required to determine the portion of their modified income attributable to Maryland based on the amount of their trade or business carried out in Maryland. Corporations are generally required to use a three-factor apportionment formula of payroll, property, and sales, with sales double weighted. Chapter 633 of 2001 specified that qualifying manufacturing corporations allocate income to Maryland based on a single-factor formula consisting solely of sales. The Comptroller's Office estimates that the special allocation of income for manufacturers decreased tax year 2010 corporate income tax revenues by $21.4 million. This loss equates to a reduction of about 14% of the $154.3 million tax year 2010 liability of all manufacturers (excluding refiners, who are prohibited from using single-sales apportionment) and about 2.7% of total corporate income tax liability.

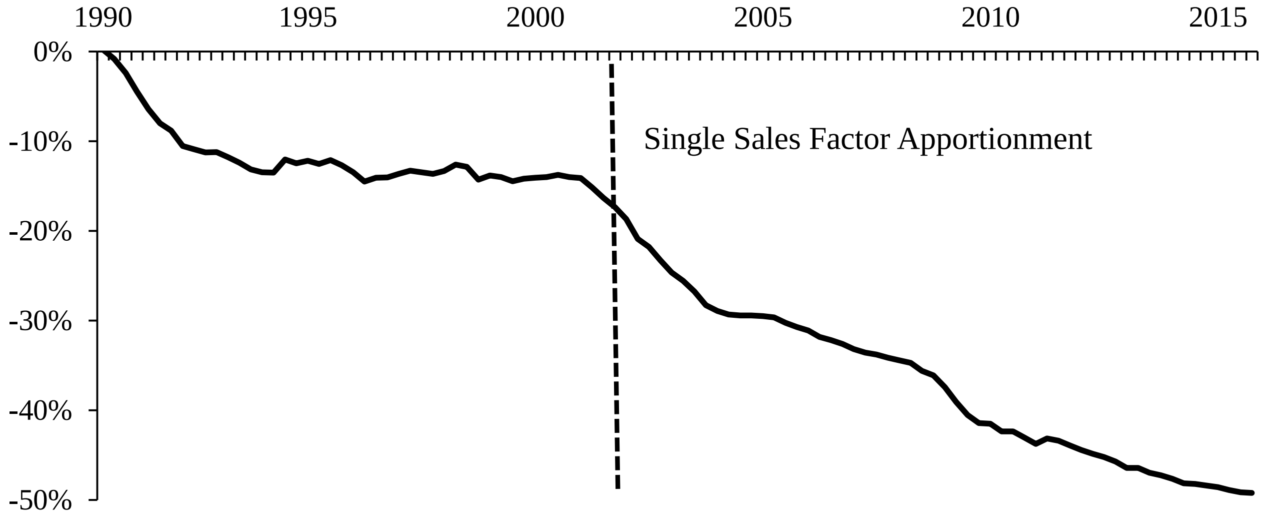
State Employment Trends and Manufacturing Employment

Changes in employment over time reflect the net impact of many factors, including shorter term impacts such as recessions, as well as longer term trends impacting the demand for products within industries and technological changes. These trends often differ across industries, as the Maryland and national economies have shifted away from goods-producing industries to service economies. The share of the U.S. workforce employed within manufacturing and agriculture since World War II has declined from about one-third to a little more than 10%. Employment within the services industry doubled from about one-quarter to one-half. Although manufacturing employment has fallen within the United States, output continues to increase, reflecting more widespread use of technology that increases productivity. In the second quarter of 2015, Maryland manufacturing businesses employed a total of 103,909 workers, about 4% of Maryland's total nonfarm employment.

The manufacturing industry's share of the Maryland economy (about 8%) is about double its share of total employment, and the industry remains the second largest source of corporate income tax revenues.

Since 1990, total Maryland nonfarm employment has increased by 432,300 or about one-fifth. Most of this increase has been driven by growth in the education and health services and professional and business services industries. Employment within these industries increased by 371,100 since 1990, and businesses within these industries employ one out of every three people in the State. Conversely, since 1990, employment within the construction, logging, and mining and manufacturing industries has fallen by 104,400. **Exhibit 1** shows the cumulative change in quarterly employment within the Maryland manufacturing industry from 1990 to the first quarter of 2015. Exhibit 1 also shows when multistate manufacturers were required to apportion income based on a single-sales factor. Despite this measure intended to spur economic growth and employment in the industry, total employment continued to decline, reflecting the influence of recessions and technological, national, and international economic influences impacting the industry. Employment fell by 26,000 from 1990 to 2000 and by 68,000 from 2000 to 2010. Manufacturing losses have accelerated since 2000 – annual losses increased from 1.6% between 1990 and 2000 to 3.3% since 2000.

Exhibit 1
Cumulative Change in Maryland Manufacturing Employment
1990-2015



Source: U.S. Bureau of Labor Statistics; Department of Legislative Services

The change in net manufacturing growth in each year is the result of a number of factors and represents a diverse spectrum of companies. For example, in 2013 a total of 504 manufacturing businesses located within existing QDCs employed 17,024 workers.

During 2013 there was a net increase in employment of 241 and the total number of businesses decreased by only 1. Employment increased due to 30 new businesses hiring employees and 158 existing businesses that expanded their employment. Conversely, employment decreased as 31 businesses ceased operations and 155 companies reduced their employment.

State Apprenticeship Programs

In fiscal 2016, there were 11,821 active apprentices in Maryland, of whom 1,070 apprentices had just begun their apprenticeship, and there were 428 active apprenticeship programs.

Workforce Development Sequence Scholarships

In addition to associate degree programs, community colleges offer courses related to apprenticeship programs in such things as plumbing, heating, air-conditioning, and electrical, as well as certificates in areas such as building maintenance, forklift operation, casino table games, and child care. The courses in these programs are generally noncredit bearing. These noncredit course programs are often called workforce development sequences or certificate programs. Additionally, community colleges offer certificate programs for job skills enhancement that consist of a few credit courses in areas such as accounting, bookkeeping, and project management.

Most certificate programs (both credit and noncredit) take less than a year to complete, and the majority are designed to be completed in less than two years. According to a 2012 report by the Center on Education and the Workforce (CEW) as reported by the U.S. Bureau of Labor Statistics, people who have a certificate as their highest level of education earned, on average, 20% more than those whose highest education level is a high school diploma. However, to reap that benefit, individuals must work in the same field as their certificate. The CEW report says that individuals working in the same field as their certificate earn 37% more than workers with a high school diploma and almost as much as workers with an associate's degree. Certificate holders who are not working in the same field as their certificate earn about the same amount as those whose highest level of schooling is a high school degree.

The financial reward of certificate programs also varies by program of study. Individuals who hold a certificate in computer information services and work in that field earned an average of $70,400 based on the combined 2004 and 2008 Survey of Income and Program Participation data, while individuals with a certificate in food service and working in that field only earned an average of $17,600.

Federal financial aid, like Pell grants, is generally *not* available to students who take noncredit courses except in limited circumstances. Most State scholarships are limited to programs that lead to a degree, although a few (including the senatorial and delegate scholarships) may be used to earn a certificate from a private career school. Without access to financial aid, even relatively inexpensive certificate programs can remain out of reach to low-income individuals.

According to MHEC, 8,922 students enrolled in noncredit courses classified by MHEC for "workforce development" in fiscal 2016. In addition, 174,674 students enrolled in credit courses classified by MHEC for "workforce development." MHEC further divides courses classified for "workforce development" as belonging to one of the following three categories: job preparatory, licensure or certification, or job skill enhancement.

State Revenues: State revenues will decrease as a result of eligible manufacturing businesses claiming (1) a corporate filing fee exemption and (2) a State property tax credit for eligible real property. The bill also conforms State income tax law for manufacturing businesses to the federal allowances for expensing under the Section 179 and bonus depreciation provisions beginning in tax year 2019. In addition to these manufacturing tax incentives, tax credits can be claimed by businesses that employ an apprentice in an apprenticeship program registered by MATC. As a result, State revenues may decrease by $632,000 in fiscal 2018 and by $4.5 million in fiscal 2022. **Appendix 1** details the revenue impact of each provision in fiscal 2018 through 2022.

The estimated fiscal impact of the manufacturing tax credit is based on data on the existing number of expansions and new firms within eligible local jurisdictions. There is significant variation in the scale of manufacturing businesses, so revenue losses will be greater if larger manufacturers qualify. In addition, to the extent the higher federal bonus depreciation amounts are extended beyond tax year 2019, revenue losses could be significantly higher than estimated.

The estimate does not include revenue impacts from additional manufacturers who decide to establish an eligible facility due to the proposed incentives. Any indirect increase in revenues resulting from out-of-state manufacturers who locate within the State will be more than offset from additional revenue losses that will occur due to manufacturers who would have established a facility in a county that does not qualify but instead decide to locate within a qualifying county.

Tax credits for hiring eligible apprentices can be claimed in tax years 2017 through 2019. It is assumed taxpayers claim tax credits for 500 eligible apprentices annually beginning in tax year 2017, and the credit may not exceed $1,000 for each eligible apprentice. Accordingly, it is assumed that the program will be fully subscribed.

Additionally, Baltimore City Community College (BCCC) advises that it offers several workforce development programs. Any increase in student enrollment is not expected to materially affect State finances as increased revenue from tuition and fees may be offset, at least partially, by increased expenditures to expand its programs. However, as discussed below, increases in BCCC enrollment may increase State aid, which also results in more revenues and expenditures by BCCC.

Commerce advises that the definition of a QDC impacts the One Maryland tax credit, Maryland Economic Development Assistance Authority and Fund (MEDAAF), and the Maryland Industrial Financing Authority (MIDFA). Under current law, Dorchester County and Baltimore City will not be designated as a QDC after June 30, 2018, unless the local jurisdiction again meets one of the program's criteria. To the extent that altering the definition of a QDC ensures that a local jurisdiction maintains its designation as a QDC, State revenue losses from the One Maryland credit for projects within these local jurisdictions will continue in the future. In addition, future State revenue losses may be greater to the extent additional local jurisdictions are designated as a QDC due to the change in the definition. Special fund revenues may also decrease for Commerce due to a decreased amount of fees paid under MIDFA for projects located in QDCs.

State Expenditures: General fund expenditures increase by $245,800 in fiscal 2018 due to implementation costs at the Comptroller's Office, Commerce, DLLR, and MHEC as described below. Future year expenditures increase due to mandated funding amounts and reserve fund appropriations established by the bill.

Reserve Fund Appropriations

The bill establishes an income tax credit reserve fund and sales and use tax refund reserve fund that are intended to offset the revenue losses that result from businesses claiming the credits and refunds. In each fiscal year, Commerce may generally award a maximum of $9.0 million in income tax credits and $1.0 million in sales and use tax refunds. Commerce may not certify a business as eligible for the program after May 31, 2020. Given that companies may claim tax benefits for up to 10 consecutive years, it is assumed that the amount appropriated to the reserve fund fully offsets the revenue impacts of the tax benefits.

Based on data on the existing number of expansions and new firms within eligible counties and data on the average employment, sales, investments, sales and use tax payments, and income tax liabilities for manufacturers in the State, adjusted for the characteristics of new manufacturers, it is assumed that the program is funded at the level of maximum credits Commerce may award in each fiscal year and that Commerce awards benefits to new businesses in fiscal 2019 and 2020. Accordingly, general fund expenditures will increase by $10.0 million in fiscal 2019 and $20.0 million annually beginning in fiscal 2020.

To the extent that the Governor provides less or no money to the reserve fund in any year, the increase in general fund expenditures will be less.

Manufacturing Tax Credit Program – Commerce

DLS estimates that Commerce will need one program administrator to implement the program. As a result, general fund expenditures for Commerce will increase by $73,700 in fiscal 2018. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Apprenticeship Tax Credit Program – DLLR

DLLR's general fund expenditures increase by $47,773 in fiscal 2018, which reflects the cost of hiring one contractual tax credit processor. The estimate includes a salary, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses through fiscal 2020. This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time expenditure increase of $64,000 in fiscal 2018 to add the tax credits. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Workforce Development Sequence Scholarships – MHEC

General fund expenditures increase by $60,000 in fiscal 2018 for MHEC to hire a half-time administrative specialist to administer the program and to update its scholarship system. General fund expenditures increase by the mandated $1.0 million in fiscal 2019 and beyond for awards.

Vocational Goals

To the extent that the CTE goals in the bill result in additional State-eligible enrollment at BCCC or local community colleges, State aid through the BCCC and Senator John A. Cade community college funding formulas increase. The amount cannot be reliably estimated but may be significant. In fiscal 2017, the State funds $2,388 per full-time equivalent student (FTES) enrolled at a local community college and $6,757 per FTES at BCCC.

Other Provisions

The bill requires the Governor to include at least $1.0 million in the State budget to fund the Partnership for Workforce Quality program. The fiscal 2018 operating budget includes approximately $1.0 million in funding for the program. It is assumed that the program is level funded in future years.

MSDE, DLLR, and MLDS Center can jointly determine ways to expand and analyze specified data and report to the General Assembly using existing resources. MSDE advises that the Division of Career and College Readiness already partners with DLLR and GWDB 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 those provisions of the bill with existing resources.

Local Revenues: Net local income tax revenues will decrease due to the increased allowances for expensing allowed under the Section 179 and bonus depreciation provisions. In addition, local highway user revenues distributed to Baltimore City, counties, and municipalities will decrease as a result of income tax credits claimed against the corporate income tax and increased expensing. As a result, net local revenues will decrease by $4,000 annually in fiscal 2018 and 2019, $3.4 million in fiscal 2020, $676,000 in fiscal 2021, and $398,000 in fiscal 2022. Appendix 1 details the impacts in fiscal 2018 through 2022.

Local community college revenues from State aid may increase, as discussed above.

Local Expenditures: Students start a CTE program in the tenth or eleventh grade depending on where the program is offered (*i.e.*, comprehensive high school, technical high school, or a CTE center). In the 2015-2016 school year, almost 39% of high school students were enrolled in a CTE program of study, and 21% of all seniors completed a CTE program. Maryland graduated 57,548 students, and out of this number, 12,301 were CTE completers. Thus, to meet the goal of having 45% of high school graduates successfully complete a CTE program, schools must more than double the number of graduates that successfully complete a CTE program from 12,301 to 25,897 students by January 1, 2025. MSDE advises that schools have staffing, equipment, and facility constraints, so expenditures likely increase significantly to accommodate increased CTE program enrollment.

Local community college expenditures may increase as discussed above.

Additional Information

Prior Introductions: None.

Cross File: HB 394 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

Information Source(s): U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Comptroller's Office; Department of Commerce; Internal Revenue Service; Department of Legislative Services

Fiscal Note History: First Reader - February 21, 2017
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Revised - Amendment(s) - May 10, 2017

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Appendix 1 – Projected Revenue Impact
Fiscal 2018-2022

	2018	2019	2020	2021	2022
Revenues					
Section 179	$0	$0	($12,610,000)	($9,323,000)	($6,902,000)
Bonus Depreciation	0	0	(17,182,000)	3,436,000	3,436,000
Filing Fee Exemption	(8,000)	(25,000)	(40,000)	(52,000)	(61,000)
Property Tax Credit	(124,000)	(370,000)	(610,000)	(818,000)	(996,000)
Apprenticeship Tax Credit	(500,000)	(500,000)	(500,000)	0	0
Total Revenue Impact	**($632,000)**	**($895,000)**	**($30,942,000)**	**($6,757,000)**	**($4,523,000)**
General Fund	($457,000)	($474,000)	($25,133,000)	($4,922,000)	($2,927,000)
Annuity Bond Fund	(124,000)	(370,000)	(610,000)	(818,000)	(996,000)
HEIF	(15,000)	(15,000)	(1,515,000)	(296,000)	(174,000)
TTF	(37,000)	(37,000)	(3,685,000)	(721,000)	(425,000)
MDOT	*(33,000)*	*(33,000)*	*(3,331,000)*	*(652,000)*	*(384,000)*
LHUR	*(4,000)*	*(4,000)*	*(354,000)*	*(69,000)*	*(41,000)*
Local Income Tax Revenues					
Section 179	$0	$0	($1,299,000)	($961,000)	($711,000)
Bonus Depreciation	0	0	(1,771,000)	354,000	354,000
Total	**$0**	**$0**	**($3,070,000)**	**($607,000)**	**($357,000)**
Expenditures:					
Income Tax Credit Reserve Fund	$0	$9,000,000	$18,000,000	$18,000,000	$18,000,000
Sales Tax Refund Reserve Fund	0	1,000,000	2,000,000	2,000,000	2,000,000
Comptroller	64,000	0	0	0	0
MHEC	60,000	1,054,000	1,052,000	1,054,000	1,057,000
Commerce	74,000	71,000	74,000	77,000	81,000
DLLR	47,800	40,500	41,900	0	0
Total Expenditures	**$245,800**	**$11,165,500**	**$21,167,900**	**$21,131,000**	**$21,138,000**
Net Effect	**($877,800)**	**($12,060,500)**	**($52,109,900)**	**($27,888,000)**	**($25,661,000)**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund
MDOT: Maryland Department of Transportation
LHUR: local highway user revenue

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: More Jobs for Marylanders Act of 2017

BILL NUMBER: SB317/HB394

PREPARED BY: Chris Carroll

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

____ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

__X__ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS