

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1226 (Delegates B. Barnes and Pena-Melnyk)
 Appropriations and Economic Matters

Career Apprenticeship Investment Act

This bill expands a tax credit and scholarship program that support apprenticeship opportunities in the State. It also establishes matching grant programs to expand apprenticeship opportunities in workforce shortage areas and hard-to-fill local government jobs and creates State and local media campaigns to promote apprenticeship opportunities. **Except for specified provisions, the bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General and special fund revenues decrease by \$1.9 million in FY 2019 and by \$2.6 million in 2023. General fund expenditures increase by \$100,000 in FY 2019 and by \$13.0 million beginning in FY 2020 to fund programs at the amounts specified in the bill, most of which are subject to the limitations of the State budget. General fund expenditures may increase further beginning as soon as FY 2021. Nonbudgeted expenditures increase minimally. **This bill increases a mandated appropriation beginning in FY 2020.**

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$1.7)	(\$1.7)	(\$2.2)	(\$2.3)	(\$2.3)
SF Revenue	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.3)	(\$0.3)
GF Expenditure	\$0.1	\$13.0	\$13.0	\$13.0	\$11.0
NonBud Exp.	-	\$0	\$0	\$0	\$0
Net Effect	(\$2.0)	(\$14.9)	(\$15.5)	(\$15.5)	(\$13.6)

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

Local Effect: Local highway user revenues decrease by approximately \$13,200 in FY 2019 and by \$18,000 in FY 2023 as a result of credits claimed against the corporate income tax. To the extent that local governments participate in matching grants, and

matching grants are funded in the State budget, local revenues increase by approximately \$4.0 million and expenditures increase by approximately \$8.0 million annually beginning in FY 2020. Expenditures may increase for local school systems to expand career and technical education (CTE) programs.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Apprenticeship Tax Credit

The bill expands the apprenticeship tax credit by doubling the credit to \$2,000 for each eligible apprentice who is 16 or 17 years old. The bill repeals the June 30, 2020 termination date of the credit and also eliminates the maximum cap of \$500,000 annually that the Department of Labor, Licensing, and Regulation (DLLR) may approve.

Workforce Development Sequence Scholarship

The Governor must annually include an appropriation of at least \$3.0 million, instead of \$1.0 million, in the State budget to the Maryland Higher Education Commission (MHEC) for scholarships.

Statewide Media Campaign and Grant Programs

Subject to limitations of the State budget, the Governor must include at least \$5.0 million in the State budget annually for DLLR to fund a statewide media campaign to promote participation by employers and students in CTE and apprenticeships in workforce shortage occupations in the State.

The bill establishes a *matching* grant program within DLLR for local workforce boards to establish similar media campaigns in local jurisdictions and, subject to limitations of the State budget, the Governor must include at least \$3.0 million in the State budget annually for this program.

The bill also establishes a *matching* grant program that provides grants to local governments to create apprenticeships for hard-to-fill local government jobs. The Governor must include at least \$1.0 million in the State budget annually for this program, subject to limitations of the State budget.

Subject to limitations of the State budget, the Governor must include at least \$2.0 million in the State budget annually for fiscal 2020 through 2022 to DLLR to fund a grant program that provides grants to apprenticeship sponsors to create degree apprenticeships in workforce shortage employment categories.

The Secretary of Labor, Licensing and Regulation must adopt regulations relating to these grant programs.

Maryland 529 Program

Beginning July 1, 2019, the Maryland 529 Board must provide an option to account holders to opt in to receiving information from the Maryland 529 program regarding approved workforce development programs and approved apprenticeship training programs in the State. By July 1, 2019, the board must enhance the program's marketing efforts to highlight the ability to use college savings plans account proceeds for approved workforce development programs and apprenticeship training programs in the State.

Current Law/Background:

Income Tax – Apprenticeship Tax Credit

Chapter 149 of 2017 (More Jobs for Marylanders Act) created 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. 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 DLLR may approve tax credits of up to \$500,000 annually. The apprenticeship tax credit program is for tax years 2017 through 2019.

Workforce Development Sequence Scholarships

Chapter 149 also established the 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. Beginning in fiscal 2019, the Governor must annually include an appropriation of at least \$1.0 million in the State budget to MHEC for the scholarships; the proposed fiscal 2019 State budget includes \$1.0 million.

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.

Maryland 529

Qualified tuition plans, also known as 529 plans, are state programs that allow an individual to either prepay or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution. The College Savings Plans of Maryland Board currently operates two qualified tuition plans: the Maryland Prepaid College Trust and the Maryland College Investment Plan. Chapter 548 of 2008 authorized the board to establish a third plan, the Maryland Broker-Dealer College Investment Plan, but the board has yet to do so.

An eligible educational institution is a school offering higher education beyond high school. It is any college, university, trade school, or other postsecondary educational institution eligible to participate in a student aid program run by the U.S. Department of Education. This includes most accredited public, nonprofit, and privately owned for-profit postsecondary institutions. There are 87 eligible institutions in Maryland for the 2018-2019 academic year, including many private career schools.

Apprenticeships

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. DLLR advises that the State currently has nearly 10,000 active apprentices and 133 active registered apprenticeship sponsors.

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 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.

Career and Technical Education

The federal Carl D. Perkins Career and Technical Education Act of 2006 (Perkins) provides approximately \$1.1 billion in formula grants to states to implement CTE programs in their secondary schools and postsecondary institutions. Perkins requires states to develop sequences of academic and CTE coursework, called programs of study, that prepare students for postsecondary degrees or industry-recognized credentials. Many of the programs of study – which range from plumbing and culinary arts to aerospace engineering and cybersecurity – include or encourage apprenticeship or pre-apprenticeship opportunities. At a minimum, a program of study must:

- incorporate and align secondary and postsecondary education elements;
- include academic and CTE content in a coordinated, nonduplicative progression of courses;
- offer the opportunity, where appropriate, for secondary students to acquire postsecondary credits; and
- lead to an industry-recognized credential or certificate at the postsecondary level, or an associate or baccalaureate degree.

The Maryland State Department of Education (MSDE) has developed several dozen programs of study grouped within 10 career clusters. Each program of study includes a sequence of four courses that begin in either grade 10 or 11 and prepares students for either further study or industry certification; students that complete the course sequence by high school graduation are considered “CTE completers.” Almost one-quarter of the class of 2016 completed a CTE program of study, and more than half of those also completed the requirements for admission to the University System of Maryland (*i.e.*, “dual completers”).

Chapter 149 also required MSDE, in consultation with DLLR and the Governor’s Workforce Development Board, to develop statewide goals each year from 2018 through 2024 so that by January 1, 2025, 45% of high school students successfully complete a CTE program, earn industry-recognized occupational or skill credentials, or complete a registered youth or other apprenticeship before graduating high school.

State Revenues: The bill increases the existing apprenticeship income tax credit from \$1,000 to \$2,000 for eligible apprentices who are 16 or 17 years old, eliminates the \$500,000 annual cap on the program, and repeals the termination date of the program. The credit was established in 2017, so the Comptroller’s Office does not yet have data on the actual usage and cost of the program. In calendar 2017, 3,288 apprentices began their apprenticeships, and 1,837 apprentices cancelled their apprenticeships. Assuming approximately half of apprentices cancelled their apprenticeships prior to completing

seven months of employment, there are approximately 2,370 eligible apprentices, of which only a nominal number are 16 or 17 years old.

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%), Transportation Trust Fund (TTF) (14.6%), and Higher Education Investment Fund (HEIF) (6.0%). Based on the assumption that the number of apprentices grows by 2% as a result of the media campaigns and 50% of all credits are claimed against the personal income tax and 50% are claimed against the corporate income tax, general fund revenues decrease by \$1.7 million in fiscal 2019, TTF revenues decrease by \$137,185 in fiscal 2019, and HEIF revenues decrease by \$56,400. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit. The credit is nonrefundable, so to the extent that a business does not have enough tax liability to claim the full credit, the decrease in income tax revenues is less.

Exhibit 1
Revenue Impact of Changing the Tax Credit
Fiscal 2019-2023

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
General Fund	(\$1,686,415)	(\$1,722,296)	(\$2,215,662)	(\$2,260,513)	(\$2,305,365)
HEIF	(56,400)	(57,600)	(74,100)	(75,600)	(77,100)
TTF	(137,185)	(140,104)	(180,238)	(183,887)	(187,535)
<i>State Portion</i>	<i>(124,015)</i>	<i>(126,654)</i>	<i>(162,935)</i>	<i>(166,233)</i>	<i>(169,532)</i>
<i>Local Portion</i>	<i>(13,170)</i>	<i>(13,450)</i>	<i>(17,303)</i>	<i>(17,653)</i>	<i>(18,003)</i>
Total	(\$1,880,000)	(\$1,920,000)	(\$2,470,000)	(\$2,520,000)	(\$2,570,000)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.
Source: Department of Legislative Services

State Expenditures: General fund expenditures for MHEC increase by an additional mandated \$2.0 million in fiscal 2020 and beyond for granting awards under the Workforce Development Sequence Scholarship program. OSFA can handle awarding additional scholarships with existing resources.

As a result of requiring the Governor to fund specified programs, subject to the limitations of the State budget, general fund expenditures may increase by \$11.0 million in fiscal 2020

and by \$9.0 million in fiscal 2023 as shown in **Exhibit 2**, but to the extent funding for these programs is limited, general fund expenditures could increase by less.

Exhibit 2
Programs under the Bill Subject to Limitations of the State Budget
Fiscal 2020-2023

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Statewide Media Campaign	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Matching Grants for Local Media Campaigns	3,000,000	3,000,000	3,000,000	3,000,000
Matching Grants for Hard-to-Fill Local Government Jobs	1,000,000	1,000,000	1,000,000	1,000,000
Grants to Apprenticeship Sponsors	2,000,000	2,000,000	2,000,000	--
Total	\$11,000,000	\$11,000,000	\$11,000,000	\$9,000,000

Source: Department of Legislative Services

Although these provisions of the bill take effect on October 1, 2018, it is assumed that the administrative costs to implement the grant programs generally begin in fiscal 2020 when the grant funds are available, subject to limitations in the budget. However, DLLR advises that to create a statewide media campaign costs \$100,000 annually for a media consultant to develop a media strategy, including in fiscal 2019. DLLR also advises that additional resources are needed to administer the grants, including six new positions totaling approximately \$400,000 annually. The Department of Legislative Services assumes that these costs are covered by funding specified in the bill and, unless covered by the statewide media campaign funding, must be shared by the various new grant programs, which results in slightly less funding available for awarding grants.

To the extent that the media campaigns in the bill to promote CTE result in additional State-eligible enrollment at Baltimore City Community College (BCCC) or local community colleges, State aid through the BCCC and Senator John A. Cade community college funding formulas increases two years later. The amount cannot be reliably estimated but may be potentially significant. For students entering community college in the fall of 2018, the State funds \$3,248 per full-time equivalent student (FTES) enrolled at a local community college and \$8,379 per FTES at BCCC in fiscal 2021.

The Comptroller's Office can make changes to the apprenticeship tax credit program with existing resources.

Nonbudgeted expenditures for the Maryland 529 agency may increase, likely minimally, to make changes to its current recordkeeping system and to enhance its marketing efforts.

Local Fiscal Effect: Local highway user revenues decrease by approximately \$13,170 in fiscal 2019 and by \$18,003 in fiscal 2023, as shown in Exhibit 1, as a result of credits claimed against the corporate income tax.

To the extent that local governments participate in matching grants, and that the matching grants are funded in the State budget, local revenues increase by approximately \$4.0 million and expenditures increase by approximately \$8.0 million annually beginning in fiscal 2020.

To the extent that the media campaigns in the bill to promote CTE result in additional State-eligible enrollment at local community colleges, local community college revenues from State aid and expenditures may increase beginning in fiscal 2021.

MSDE advises that schools have staffing, equipment, and facility constraints. Thus, expenditures are likely to increase to accommodate increased CTE program enrollment or students may be placed on a waiting list for CTE programs.

Small Business Effect: Small businesses that employ eligible apprentices may benefit by claiming an additional \$1,000 in income tax credits for each eligible apprentice who is 16 or 17 years old. Small businesses that employ eligible apprentices may also benefit from the annual cap on the tax credit being removed and the termination date of the tax credit being repealed.

Small businesses that are apprenticeship sponsors that create degree apprenticeships in workforce shortage employment categories, including construction management, child care management, information technology, and nursing, may benefit from receiving up to \$2.0 million in grants in fiscal 2020 through 2022.

Additional Information

Prior Introductions: None.

Cross File: SB 517 (Senator Rosapepe, *et al.*) - Finance.

Information Source(s): Comptroller's Office; Maryland Higher Education Commission; Maryland 529; fafsa.ed.gov; Internal Revenue Service; Department of Budget and Management; Department of Labor, Licensing, and Regulation; Maryland State Department of Education; Department of Legislative Services

Fiscal Note History: First Reader - February 18, 2018
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