

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 239

(Senator Jones, *et al.*)

Budget and Taxation

Economic Matters

Pilot Program for the Long-Term Employment of Qualified Ex-Felons

This bill reestablishes the Pilot Program for the Long-Term Employment of Qualified Ex-Felons. The Department of Labor, Licensing, and Regulation (DLLR), in consultation with the Governor's Workforce Investment Board, is to reestablish the program effective January 1, 2006.

The bill takes effect July 1, 2005 and applies to tax year 2006 through 2010, with respect to individuals hired on or after January 1, 2006 through December 31, 2010. The bill terminates December 31, 2010.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$240,300 in FY 2007 due to credits being claimed against the personal and corporate income taxes. Transportation Trust Fund (TTF) revenues could decrease by approximately \$15,300 in FY 2007 due to credits being claimed against the corporate income tax. Future year revenues reflect estimated wages paid. General fund expenditures would increase at DLLR beginning in FY 2006 for the purchase of fidelity bonds and grant money to designated training centers.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$0	(\$240,300)	(\$360,500)	(\$360,500)	(\$360,500)
SF Revenue	0	(15,300)	(23,000)	(23,000)	(23,000)
GF Expenditure	57,500	115,000	115,000	115,000	115,000
Net Effect	(\$57,500)	(\$370,600)	(\$498,500)	(\$498,500)	(\$498,500)

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

Local Effect: Local highway user revenues would decrease by approximately \$4,600 in FY 2007 and by \$6,900 annually in FY 2008 through 2010.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill requires DLLR to reestablish and administer the pilot program in consultation with the Governor's Workforce Investment Board. The pilot program is intended to provide incentives for the hiring of up to 150 qualified ex-felons each year through existing one-stop employment and training centers in at least two of the State's Workforce Investment Areas. The one-stop centers will work with community organizations and any State or local government entities that provide services to ex-felons and will also provide outreach and education to employers about the program.

A business entity that hires a qualified ex-felon through the pilot program will be able to obtain a one-year federal fidelity bond for the qualified ex-felon for the first year of employment. The department is required to purchase federal fidelity bonds and to provide the bonds to the designated one-stop centers for up to 150 qualified ex-offender participants each year.

A business entity may claim a tax credit for wages paid to a qualified ex-felon employee. For each taxable year, a credit is allowed in an amount equal to: (1) 30% of up to the first \$6,000 of the wages paid to the qualified ex-felon employee during the first year of employment; and (2) 20% of up to the first \$6,000 of the wages paid to the qualified ex-felon employee during the second year of employment. A tax-exempt organization may apply the credit against income tax due on unrelated business taxable income or for the payment to the Comptroller of taxes that the organization is required to withhold from the wages of employees and is required to pay to the Comptroller.

A business entity may not claim the credit under this section until it has notified DLLR that a qualified ex-felon employee has been hired. A business entity may not claim the credit: (1) if the business entity is simultaneously receiving federal or State employment training benefits for the same employee; or (2) the ex-felon (a) is related to an individual who owns 50% or more of the business; or (b) was hired to replace a laid off or striking employee.

Any excess credit may be carried forward for up to five taxable years. A taxpayer claiming the credit is required to make an additional modification in the amount of the credit claimed. DLLR, in consultation with the Governor's Workforce Investment Board, and the Comptroller are required to adopt regulations to carry out the provisions of the bill.

Current Law: The Pilot Program for the Long-Term Employment of Qualified Ex-Felons terminated December 31, 2004.

Background: Chapter 533 of 2002 established the Pilot Program for the Long-Term Employment of Qualified Ex-Felons. The pilot program was to be in existence for three years. The legislation provided incentives for the hiring of up to 150 qualified ex-felons each year through existing one-stop employment and training centers in at least two of the State's Workforce Investment Areas. Although the legislation required DLLR to establish and implement the pilot program, DLLR indicates that this never occurred. As a result, no employers were issued federal fidelity bonds and no employers were authorized to claim State tax credits for individuals certified as ex-felons. DLLR advises that plans to implement the pilot program were initially taken and that Baltimore City and Prince George's County were identified as the pilot program counties. DLLR further indicates that some training was done in the one-stop centers in these jurisdictions and some promotional materials were developed for distribution to potential employers. Despite the initial planning to implement the pilot program, actual implementation never occurred.

The federal Work Opportunity Tax Credit program provides tax credits to employers for employing individuals in eight target groups including qualified ex-felons, TANF recipients, individuals employed in empowerment zones, and disabled individuals. Employers can qualify for a maximum \$2,400 federal tax deduction per qualifying employee. The federal tax credit is available for individuals hired on or after December 31, 2003 and before January 1, 2006.

Under federal law, a qualified ex-felon is any individual who: (1) is certified as having been convicted of a felony under federal or State law; (2) has a hiring date which is not more than one year after the date of conviction or release from prison; and (3) is a member of a family with an income during the prior six months that is 70% or less of the Bureau of Labor Statistics lower living standard.

There are 12 Workforce Investment Areas (WIAs) in Maryland and in each area there is at least one one-stop employment and training center. The 12 WIAs are: Anne Arundel County, Baltimore County, Baltimore City, Frederick County, Mid-Maryland (Carroll and Howard counties), Montgomery County, Prince George's County, Southern Maryland, Susquehanna Region (Cecil and Harford counties), Upper Shore (Kent, Queen Anne's, Talbot, Caroline, and Dorchester counties), Lower Shore (Somerset, Wicomico, and Worcester counties), and Western Maryland (Washington, Allegany, and Garrett counties).

State Revenues: The bill authorizes tax credits beginning with tax year 2006. As a result, general fund revenues could decrease by approximately \$240,300 in fiscal 2007

and by approximately \$360,500 from fiscal 2008 through 2010. TTF revenues could decrease by approximately \$15,300 in fiscal 2007 and by \$23,000 annually in fiscal 2008 through 2010. This estimate is based on the following facts and assumptions:

- DLLR will establish a viable program that provides for the employment of 150 qualified ex-felons.
- 25% of credits are claimed against the corporate income tax.
- 75% of qualified ex-felons are employed in the second year of employment.
- The add-back provision in the bill reduces revenue losses by approximately \$14,300 in fiscal 2007 and by \$21,500 in fiscal 2008 through 2010.

To the extent that DLLR establishes a program that provides for employment of fewer than 150 qualified ex-felons annually, or none at all as under the previous program, revenue losses will be less than estimated.

State Expenditures: DLLR reports that it would incur additional expenses in order to purchase fidelity bonds, provide grant money to the one-stop centers in the workforce investment areas, and hire one job service specialist to administer the program. DLLR estimates that purchasing the bonds will cost \$15,000 on an annual basis and would need to provide \$100,000 in grant money. DLLR estimates that general fund expenditures would increase by approximately \$162,500 in fiscal 2006 in order to implement the program.

Legislative Services estimates that the program can be administered within existing budgeted resources. In addition, the program is effective January 1, 2006. There would be six months of the program in fiscal 2006, halving the bonding and grant money costs incurred in fiscal 2006. General fund expenditures would increase at DLLR by approximately \$57,500 in fiscal 2006 and \$115,000 annually in fiscal 2007 through 2010.

Additional Information

Prior Introductions: None.

Cross File: HB 626 (Delegate Marriott, *et al.*) – Economic Matters and Ways and Means.

Information Source(s): Bureau of Labor Statistics; Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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