Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 1035 (Senator Muse)
Budget and Taxation

Job Creation and Economic Growth Act of 2012

This bill indefinitely extends and expands the Job Creation and Recovery Tax Credit for qualified employers that fill qualified positions on or after July 1, 2012. In addition, the bill establishes a Public School Apprenticeship Program and establishes a Retraining and Related Education Grant Program within the Department of Labor, Licensing, and Regulation (DLLR). Finally, a State unit that uses a competitive sealed bidding process to award a construction contract is required to give preference to any company that participates in the apprenticeship program established by the bill.

The bill takes effect July 1, 2012, and is applicable to all taxable years beginning after December 31, 2011.

Fiscal Summary

State Effect: General fund revenues decrease by approximately $22.3 million annually from tax credits taken under the bill. Higher Education Investment Fund (HEIF) revenues decrease by $347,400 annually, and Transportation Trust Fund (TTF) revenues decrease by $466,700 beginning in FY 2013 and additionally in the out-years. General fund expenditures increase by more than $1.1 million in FY 2013 to fund the grant program and for staffing expenses for the grant and apprenticeship programs at DLLR. General fund expenditures increase by another $1.7 million beginning in FY 2014 for DLLR to hire 24 teachers to implement the apprenticeship program. General fund expenditures increase for the Comptroller and DLLR by $39,400 in FY 2013 for one-time programming expenses. The alteration of the State's competitive sealed bidding processes is not anticipated to materially affect State finances.

($ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	($22.34)	($21.85)	($21.85)	($21.85)	($21.96)
SF Revenue	($.81)	($1.31)	($1.31)	($1.31)	($1.19)
GF Expenditure	$1.18	$2.84	$2.88	$2.96	$3.01
Net Effect	($24.34)	($26.00)	($26.03)	($26.12)	($26.17)

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

Local Effect: Meaningful. Local highway user revenues decline by approximately $44,800 in FY 2013 and by approximately $92,000 annually in the out-years. Local governments are required to consult with the Maryland Apprenticeship and Training Council (MATC) on the establishment of at least one apprenticeship program in at least one school in each county.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Job Creation and Recovery Tax Credit

The bill modifies and extends the Job Creation and Recovery Tax Credit Act of 2010 (Chapter 1), as it indefinitely extends the time period in which employers can create qualified positions to qualify for the tax credit; removes the $20 million cap on total credits that DLLR can certify; increases the standard credit amount; alters the eligibility requirements for a qualified position; and adds additional credits for part-time positions, veterans who are hired in qualified positions, and for businesses with fewer than 100 employees.

For each *full-time* qualified employee that is hired, a qualified employer may claim a credit against the State income tax in an amount equal to:

- $7,500;
- an additional $5,000 per employee who is a military veteran; and
- an additional $2,500 per employee if the employer has fewer than 100 employees.

For each *part-time* qualified employee that is hired, a qualified employer may claim a $1,000 credit against the State income tax.

There is no established limit to the total amount of credits which may be claimed statewide or by an individual business. If the credit amount exceeds the tax liability, the taxpayer can claim a refund for the excess.

A "qualified employee" means an individual who, at the time of hiring, is a resident of the State and has been unemployed for the past six months. A "qualified position" means a position that requires or is expected to require the services of an employee for an indefinite duration and without interruption for a period of six months, and it includes a part-time position.

The tax credit may only be claimed for individuals hired into qualified positions for which they begin receiving wages on or after July 1, 2012. The Secretary of Labor, Licensing, and Regulation must certify an applicant as a qualified employer eligible for a tax credit and the maximum amount of the tax credit for which a qualified employer is eligible, based on information submitted by the applicant.

If a certified qualified position is vacated for any reason, the qualified employer must submit an amended application. If a qualified position is filled for less than the required six-month period, the employer is entitled to a prorated portion of the tax credit. The credit may not be claimed for specified changes in employment, such as the displacement of an existing employee.

On or before April 1 of each year, DLLR must report to the Governor and the General Assembly on the qualified employers certified as eligible for the tax credit, the number of qualified positions for which they were certified, the total amount of credits per employer, and the total amount of credits certified.

Public School Apprenticeship Program

A Public School Apprenticeship Program, administered by MATC, is established within DLLR. By the beginning of the 2013-2014 school year, the council, in consultation with the board of education of each county, must establish at least one apprenticeship program in at least one school in each county, as determined by the board of education.

Retraining and Related Education Grant Program

DLLR must establish and administer the retraining program, which must provide a one-time grant for low-income individuals who are unemployed for at least 90 days before applying to the program. The total grant for each low-income individual may not exceed $5,000, and it must be paid directly to the organization that provides the retraining or related education program. However, a portion of the grant may be paid directly to the low-income individual for transportation costs to and from the retraining or related education program.

Current Law/Background:

Job Creation and Recovery Tax Credit

Chapter 1 of 2010 established a temporary $5,000 tax credit for each individual hired by a qualified employer during the period between March 25, 2010, and December 31, 2010. The tax credits may not exceed $250,000 per qualified employer or $20 million statewide. If the credit amount exceeds tax liability, the taxpayer can claim a refund for the excess.

A “qualified employee” is defined as an individual who at the time of hiring: (1) is a State resident; (2) is receiving unemployment insurance benefits or has exhausted unemployment insurance benefits within the past 12 months; and (3) is not employed full time. “Qualified employers” include (1) persons conducting a trade or business in the State and filing Maryland income tax returns; or (2) nonprofit organizations. A “qualified position” is (1) full time; (2) expected to require the services of an employee for an indefinite duration and an uninterrupted period of at least 12 months; (3) located in the State; and (4) newly created or has been vacant for a period of at least six months.

The credit may not be claimed if a job is the result of (1) the shift of an employment function within the entity’s operations within the State; (2) a change in business ownership; (3) a business consolidation or restructuring, if the position is not a “net new job”; (4) a contractual shift from existing businesses; or (5) a “displacement” of an existing employee.

DLLR is required to certify a person as a qualified employer eligible for the tax credit within 60 days of receiving an application that an employer and the position for which the credit is sought meet the eligibility requirements. Applicants seeking the credit are required to include specified information and make the application under penalty of perjury.

In its 2011 report on the tax credit to the Governor and the General Assembly, DLLR indicated that, as of March 31, 2011, 858 employers were certified as eligible for the tax credit, 1,830 qualified positions were certified for these employers, and $9.2 million had been obligated for the tax credit. Current law does not contain a deadline for applying for the tax credit, and Maryland businesses are allowed to claim the tax credit on a corporate income tax schedule that does not coincide with the personal income tax schedule. DLLR indicated in its report that it anticipated receiving additional applications for tax credits and, as of March 18, 2012, has certified 2,033 qualified positions and $10,170,000 has been obligated for the tax credit.

Public School Apprenticeship Program

A national apprenticeship and training program was established in federal law in 1937; however, Maryland has chosen to operate its own apprenticeship program. In 1962, the General Assembly passed an apprenticeship and training law, which created a 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 it created specified guarantees for workers who become apprenticed. MATC formulates apprenticeship policies, registers standards and agreements, determines which skilled trades are apprenticeable, and formulates and adopts standards of apprenticeship that safeguard the welfare of all apprentices. MATC serves in a regulatory and advisory capacity by providing guidance and oversight to the Maryland Apprenticeship and Training Program, also within DLLR, which is responsible for the daily oversight of State apprenticeship programs.

Chapter 687 of 2009 created the State Apprenticeship Training Fund to promote pre-apprenticeship programs and other workforce development programs in the State's public secondary schools and community colleges, to help prepare students to enter apprenticeship training programs. In 2011, with the goal of increasing the level of participation in apprenticeships, DLLR launched the Apprenticeship Maryland initiative, which works collaboratively with partners in State government, private-sector organizations, the labor community, and higher education to (1) promote apprenticeship and training opportunities to jobseekers and employers; (2) identify avenues to expand opportunities to earn while learning; and (3) improve skills training. The program also seeks to expand registered apprenticeships to nontraditional fields and identify strategies that allow apprenticeships to grow by working with partner organizations.

Retraining and Related Education Grant Program

The federal Workforce Investment Act (WIA) of 1998 requires Maryland to create workforce development activities to be undertaken in the State and to decide how special populations, including welfare recipients, veterans, and individuals with multiple barriers to employment, will be served. The WIA State plan also incorporates other services relating to the delivery of employment services, including the One-Stop Career Centers run by Local Workforce Investment Boards (LWIBs). One-Stop Career Centers provide job referral and placement assistance for job seekers, reemployment services to unemployment insurance claimants, and recruitment services to employers with job openings. LWIBs work to provide workforce development services to recipients of temporary assistance for needy families, those with disabilities, and ex-offenders – these populations are all primarily served by different State agencies.

Within DLLR, the Governor's Workforce Investment Board (GWIB) coordinates the efforts among all of these agencies to deliver education and training for anyone seeking employment, as well as basic job-search skills development. GWIB is charged with performing duties specified in the federal WIA, including development of the State plan, development of allocation formulas for distribution of specified funds, and development and continuous improvement of comprehensive State performance, among other related duties.

Competitive Sealed Bidding

Competitive sealed bidding is the preferred method of State procurement, except for human, social, cultural, or educational services, or for leases of real property. The competitive sealed bid procurement process begins with the issuance of an invitation for bids, which for most procurements must occur at least 20 days before bid opening and be posted on eMaryland Marketplace. Among other requirements, the invitation must specify whether the award will be made based on the lowest bid, the lowest evaluated bid, or (for revenue-generating procurements) the bid most favorable to the State. The University System of Maryland, Morgan State University, and St. Mary's College of Maryland are exempt from most provisions of State procurement law, and many agencies are exempt in whole or in part from State procurement law.

State Revenues:

Job Creation and Recovery Tax Credit

This bill indefinitely extends and expands the Job Creation and Recovery Tax Credit for qualified employers that fill qualified positions on or after July 1, 2012. Further, it removes the $20 million cap on total credits that DLLR can certify; increases the standard credit amount; alters the eligibility requirements for a qualified position; and adds additional credits for part-time positions, veterans who are hired in qualified positions, and for businesses with fewer than 100 employees.

General fund revenues decline by $22.3 million in fiscal 2013 and by about $21.9 million annually thereafter. TTF revenues decline by $466,700 in fiscal 2013, $957,900 annually in fiscal 2014 through 2016, and $844,900 in fiscal 2017, as the proportion of corporate income tax revenues attributable to TTF changes over time. HEIF revenues decline by $347,400 annually. The assumptions for these calculations assume that employers take:

- the full amount of the expanded credit for 2,033 full-time employees annually;
- the full amount of the credit for 2,033 part-time employees annually;
- the small business enhanced credit for 2,033 full-time employees annually; and
- the veterans enhanced credit based on the proportion of veterans in the State.

These estimates assume businesses in the State apply for and receive the tax credits in a similar quantity to the original one-time credit; however, given the enhanced incentives and altered eligibility criteria provided under the bill, it is possible that more businesses will apply for credits.

State Expenditures: DLLR advises that two of its divisions are affected by the bill. The Division of Workforce Development and Adult Education (DWDAL) will administer the grant program, while the Division of Labor and Industry (DLI) will administer the apprenticeship program. Most DWDAL programs are federally funded through WIA and other related federal programs, but there are no federal funds within DWDAL available to implement the grant program. Therefore, it is assumed that funding for the program comes from general funds. The maximum grant that may be awarded may not exceed $5,000. DLLR advises that, given the past popularity of grant programs with employers, a minimum of $1 million annually is required to fund the program. Both DWDAL and DLI advise that the bill will require additional staff. DLLR will also incur a one-time programming expense of $20,000 to update its electronic certification system for employers taking the credit. The Comptroller will also incur a one-time programming expense of $19,360 in fiscal 2013. The alteration of the State's competitive sealed bidding processes is not anticipated to materially affect State finances.

General fund expenditures increase by $1,184,563 in fiscal 2013, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one full-time administrator to oversee the grant program, one full-time administrator to oversee the apprenticeship program, and one contractual administrator to support the apprenticeship program's initial development. It includes salaries, fringe benefits, one-time start-up costs, ongoing operating expenses, and $1 million to fund the grant program.

In addition, a significant cost associated with this bill will begin in fiscal 2014. The bill requires an apprenticeship program in one school in each of the 24 school systems. Annual general fund expenditures may increase by $1.7 million beginning in fiscal 2014, which reflects the cost to DLLR of hiring one teacher in each county and Baltimore City to implement the apprenticeship program.

Full-time Positions	2
Contractual Position	1
Regular Salaries and Fringe Benefits	$97,133
Grant Program Funding	1,000,000
Contractual Salary and Fringe Benefits	30,052
One-time Programming Expenses	39,360
Other Operating Expenses	18,018
Total FY 2013 State Expenditures	**$1,184,563**

Future year expenditures reflect the additional positions for the apprenticeship program, full salaries with annual increases and employee turnover, annual increases in ongoing operating expenses, and elimination of one-time costs and, in fiscal 2017, the contractual position.

Local Fiscal Effect: Local highway user revenues decrease by $44,799 in fiscal 2015 and by $91,956 annually thereafter. In addition, the bill's requirement that an apprenticeship program be established in at least one school in each county will have an operational impact on local school systems.

Small Business Effect: Small businesses will benefit from the tax credit claimed per eligible employee hired, up to $15,000 for a business with fewer than 100 employees that hires a veteran. As of 2009, Maryland had 93,191 businesses with fewer than 20 employees, and an additional 10,546 businesses with between 20 and 99 employees. This equates to approximately 100,000 businesses that could receive a $10,000 credit per full-time employee under the bill. A significant portion of credits claimed will provide money to businesses that would have otherwise hired individuals, representing a windfall gain to these businesses. Small businesses that participate in the bill's apprenticeship program will also have increased opportunities to be awarded State procurement contracts, though the impact is anticipated to be minimal.

Additional Comments: The Maryland State Department of Education advises that most apprenticeship programs are for persons older than age 18; thus, implementing an apprenticeship program in public schools may prove difficult.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Maryland State Department of Education; U.S. Census Bureau; Department of Legislative Services

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