

**Department of Legislative Services**  
 Maryland General Assembly  
 2016 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

Senate Bill 922

(Senator Rosapepe, *et al.*)

Finance and Budget and Taxation

Ways and Means

**Career Apprenticeship Opportunity Act of 2016**

This bill requires the State Board of Education (SBE), in consultation with the Department of Labor, Licensing, and Regulation (DLLR) and the Governor’s Workforce Investment Board (GWIB), to develop yearly statewide goals for 2016 through 2024 so that, by 2025, 45% of high school graduates successfully complete a career and technical education (CTE) program or earn industry-recognized occupational or skill credentials before leaving high school. 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 Comptroller may approve up to \$500,000 of credits annually.

The bill takes effect June 1, 2016, and the tax credit applies only to tax year 2016 through tax year 2018.

**Fiscal Summary**

**State Effect:** No effect in FY 2016. However, general fund revenues decrease by \$448,500 annually from FY 2017 through 2019 due to tax credits claimed against the income tax, while Transportation Trust Fund (TTF) revenues and Higher Education Investment Fund (HEIF) revenues decrease by \$36,500 and \$15,000, respectively. General fund expenditures increase by at least \$32,000 in FY 2017 due to implementation costs at the Comptroller’s Office and potential staffing and outreach needs at DLLR; out-year expenditures by DLLR depend on apprenticeship goals set.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$0	(\$448,500)	(\$448,500)	(\$448,500)	\$0
SF Revenue	\$0	(\$51,500)	(\$51,500)	(\$51,500)	\$0
GF Expenditure	\$0	\$32,000	-	-	-
Net Effect	\$0	(\$532,000)	(\$500,000)	(\$500,000)	(-)

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

**Local Effect:** Local highway user revenues decrease by approximately \$3,500 annually from FY 2017 through 2019 as a result of credits claimed against the corporate income tax.

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

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## Analysis

**Bill Summary:** By December 1, 2016, DLLR and GWIB must develop annual income earnings goals for high school graduates who have not earned at least a two-year college degree by age 25. Also by December 1, 2016, SBE must develop a method to consider a student's attainment of a State-approved industry credential or completion of an apprenticeship program as equivalent to earning a score of 3 or better on an advanced placement examination for purposes of the School Performance Index if the student (1) was enrolled in, and earned the credential aligned with, the State-approved CTE program of study at the concentrator level or higher or (2) successfully completed an MATC-approved apprenticeship program. By December 1, 2016, and annually thereafter, SBE must report to the Governor and the General Assembly on progress toward attaining specified goals.

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

The income tax credit is equal to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. The credit may be initially claimed for tax years 2016 through 2018 and may be carried forward to succeeding tax years until the full amount of the credit is exhausted. A taxpayer claiming the credit must attach to his or her return proof of each eligible apprentice's enrollment in a registered apprenticeship program and duration of employment. The Comptroller must adopt regulations to implement the tax credit and specify criteria and procedures relating to the tax credit.

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

Generally, apprenticeship is a voluntary, industry-sponsored system that prepares individuals for occupations typically requiring high-level skills and related technical knowledge. Apprenticeships are sponsored by one or more employers and may be administered solely by the employer or jointly by management and labor groups. An apprentice receives supervised, structured, on-the-job training under the direction of a skilled journey person and related technical instruction in a specific occupation. Apprenticeships are designed to meet the workforce needs of the program sponsor. Many industry sponsors use apprenticeship as a method to train employees in the knowledge necessary to become a skilled worker. This also means the number of apprenticeships available is dependent on the current workforce needs of the industry.

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

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

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

Chapter 646 of 2014 established a Youth Apprenticeship Advisory Committee in DLI to evaluate the effectiveness of existing high school youth apprenticeship programs in the State, other states, and other countries based on a systematic review of data. The committee must review and identify ways to implement high school youth apprenticeship programs in the State and means through which employers and organizations can obtain grants, tax

credits, and other subsidies to support establishment and operation of high school youth apprenticeship programs. The committee must set targets for the number of apprenticeship opportunities for youth that the State should reach over the next three years. The committee must report by December 1 of each year to the General Assembly regarding any recommended legislation to promote high school youth apprenticeship programs in the State.

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

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

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

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

The School Performance Index referenced in the bill has been replaced by the School Progress Index, which evaluates schools on a continuous scale based on the variables of achievement, growth, gap reduction, and college and career readiness. It uses multiple measures, including achievement data in English/language arts and mathematics, cohort graduation rates, and cohort dropout rates. The indicators used are specific to elementary and middle or high schools, and each indicator comprises specific measures for those levels of schools.

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

It is assumed that the Comptroller approves the maximum \$500,000 of tax credits annually from tax year 2016 through tax year 2018 as there are approximately 1,200 eligible apprentices and the credit may not exceed \$1,000 for each eligible apprentice. Individual income tax revenues are distributed to the general fund, whereas corporate income tax revenues are distributed to the general fund (79.4%), TTF (14.6%), and HEIF (6.0%). As a result, general fund revenues decrease by \$448,525 in fiscal 2017, TTF revenues decrease by \$36,475 in fiscal 2017, and HEIF revenues decrease by \$15,000. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit.

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**Exhibit 1**  
**Revenue Impact of the Career Apprenticeship Tax Credit**  
**Fiscal 2017-2019**

	<u><b>FY 2017</b></u>	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>
General Fund	(\$448,525)	(\$448,525)	(\$448,525)
Higher Education Investment Fund	(15,000)	(15,000)	(15,000)
Transportation Trust Fund	(36,475)	(36,475)	(36,475)
<i>Portion Retained at the State Level</i>	<i>(32,973)</i>	<i>(32,973)</i>	<i>(32,973)</i>
<i>Portion Distributed to Local Governments</i>	<i>(3,502)</i>	<i>(3,502)</i>	<i>(3,502)</i>
<b>Total</b>	<b>(\$500,000)</b>	<b>(\$500,000)</b>	<b>(\$500,000)</b>

Source: Department of Legislative Services

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This estimate assumes that 50% of all credits are claimed against the personal income tax and 50% are claimed against the corporate income tax.

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

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

DWDAL must identify opportunities to create registered apprenticeship programs, including goals for the number of registered apprenticeships each year, to help address the workforce needs of the State. DWDAL can identify these opportunities with existing resources, but to achieve the goals for the number of registered apprenticeships set each year, additional resources may be needed. As of December 2015, there were 8,653 registered apprentices in the State. DLLR employs one permanent employee and one contractual employee as apprentice navigators to ensure connections are made with Maryland's businesses and to connect students with those businesses. Depending on the goals established by DWDAL for the number of registered apprenticeships each year, general fund expenditures could increase for marketing and for additional apprentice navigators. The Department of Legislative Services estimates an additional apprentice navigator is needed for every 4,300 apprenticeships added. *For illustrative purposes only*, if DWDAL establishes a goal of 13,000 apprentices, general fund expenditures increase by \$90,296 in fiscal 2017 and by \$96,770 in fiscal 2021 for an apprentice navigator to ensure connections are made with Maryland's businesses and to connect students with those businesses.

**Local Revenues:** Local highway user revenues decrease by approximately \$3,502 annually from fiscal 2017 through 2019 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

**Additional Comments:** While the bill allows for the tax credit to be carried forward each year, the tax credit is limited to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. Since the tax credit is limited to the taxpayer's tax liability, there is no remaining credit available to be carried forward. Also, as noted above, the School Performance Index referenced in the bill has been replaced by the School Progress Index.

## Additional Information

**Prior Introductions:** None.

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

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

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