

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 652 (Delegate McCray, *et al.*)
 Ways and Means and Economic Matters

Career Apprenticeship Opportunity Act of 2017

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 Development Board (GWDB), to develop statewide goals each year from 2017 through 2025 so that by January 1, 2026, 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 bill takes effect June 1, 2017, and the tax credit applies to tax years 2017 through 2019.

Fiscal Summary

State Effect: No effect in FY 2017; however, general fund revenues decrease by \$448,500 in FY 2018 through 2020 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$36,500 in FY 2018, and Higher Education Investment Fund (HEIF) revenues decrease by \$15,000. General fund expenditures increase by \$179,800 in FY 2018 due to implementation costs at the Comptroller’s Office and staffing and consulting needs at DLLR. Out-year expenditures reflect the elimination of one-time costs, salary increases, and ongoing operating expenses through FY 2020.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	\$0	(\$448,500)	(\$448,500)	(\$448,500)	\$0
SF Revenue	\$0	(\$51,500)	(\$51,500)	(\$51,500)	\$0
GF Expenditure	\$0	\$179,800	\$40,500	\$41,900	\$0
Net Effect	\$0	(\$679,800)	(\$540,500)	(\$541,900)	\$0

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

Local Effect: Local highway user revenues decrease by approximately \$3,500 annually in FY 2018 through 2020 as a result of credits claimed against the corporate income tax. Expenditures likely increase significantly for local school systems to expand CTE programs. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: Minimal. Small businesses that employ eligible apprentices may benefit by claiming up to \$1,000 in income tax credits for each eligible apprentice in FY 2018 through 2020.

Analysis

Bill Summary: By December 1, 2017, DLLR 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 School Performance Index 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.

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

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 exhausted. The taxpayer must submit a tax credit certificate application, which must contain specified information, to DLLR, and DLLR must issue tax certificates of up to \$500,000 annually. DLLR must approve all applications on a first-come, first-served basis and notify a taxpayer within 45 days of the denial or approval of the taxpayer's application. By January 31 of each year, DLLR must report to the Comptroller on the tax credit certificates issued during the prior taxable year. DLLR 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 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. 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 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, 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; 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 (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 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.

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.

To maintain a competitive and productive workforce, Maryland has a college completion agenda to increase degree attainment among adults to 55.0% by 2025. As of 2015, the degree attainment rate for the State was 47.3%. The Maryland Higher Education Commission has determined that the goal can be reached if public postsecondary institutions increase degree production by 2.0% per year and the private institutions increase degree production by 1.7% each year. Both sectors surpassed those targets in 2016.

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 2016, 1,070 apprentices began their apprenticeships, and 482 apprentices cancelled their apprenticeships. Assuming apprentices cancelled their apprenticeships prior to completing seven months of employment, there are approximately 588 eligible apprentices, so the Department of Legislative Services assumes the program will be fully subscribed.

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. 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%), TTF (14.6%), and HEIF (6.0%). Based on the assumption that 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 \$448,515 in fiscal 2018, TTF revenues decrease by \$36,485 in fiscal 2018, and HEIF revenues decrease by \$15,000. **Exhibit 1** shows the estimated State and local

revenue impacts resulting from the tax credit. This estimate assumes the program is fully subscribed in future years.

Exhibit 1
Revenue Impact of the Tax Credit
Fiscal 2018-2020

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
General Fund	(\$448,515)	(\$448,515)	(\$448,515)
Higher Education Investment Fund	(15,000)	(15,000)	(15,000)
Transportation Trust Fund	(36,485)	(36,485)	(36,485)
<i>State</i>	(32,983)	(32,983)	(32,983)
<i>Local</i>	(3,503)	(3,503)	(3,503)
Total	(\$500,000)	(\$500,000)	(\$500,000)

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

The credit is nonrefundable, so to the extent that a businesses does not have enough tax liability to claim the full credit, the decrease in income tax revenues is less.

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.

State Expenditures: The Comptroller's Office reports that it incurs a one-time expenditure increase of \$32,000 in fiscal 2018 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.

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 the bill with existing resources.

DLLR’s general fund expenditures increase by \$147,773 in fiscal 2018, which reflects a one-month implementation delay from the bill’s June 1, 2017 effective date. This estimate reflects the cost of hiring one contractual tax credit processor and \$100,000 of contractual services to develop income earning goals for specified high school graduates. The estimate includes a salary, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Contractual Salary and Fringe Benefits	\$42,508
One-time Start-up Costs	104,640
Operating Expenses	<u>625</u>
DLLR Expenditures	\$147,773
Comptroller Expenditures	<u>32,000</u>
Total FY 2018 State Expenditures	\$179,773

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.

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.

Local Revenues: Local highway user revenues decrease by approximately \$3,503 annually beginning in fiscal 2018 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1. 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, 2026. 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: A similar bill, SB 922 of 2016, passed the Senate and was issued a favorable report from the House Ways and Means Committee, but no further action was taken. Its crossfile, HB 1187 of 2016, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: SB 335 (Senator Rosapepe) - Finance and Budget and Taxation.

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

Fiscal Note History: First Reader - February 15, 2017
md/mcr

Analysis by: Heather N. Ruby

Direct Inquiries to:
(410) 946-5510
(301) 970-5510