

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

Senate Bill 545
 Finance

(Senator Pugh, *et al.*)

Economic Matters

Labor and Employment - Apprenticeship Career Training in Our
 Neighborhoods (ACTION) Program - Establishment

This bill replaces the Construction Apprenticeship Assistance program in the Department of Labor, Licensing, and Regulation (DLLR) with the Apprenticeship Career Training in Our Neighborhoods (ACTION) program.

The bill takes effect June 1, 2016.

Fiscal Summary

State Effect: No effect in FY 2016; however, DLLR general fund expenditures increase by \$200,000 in FY 2017 for an administrative specialist and a contractual assistant Attorney General to implement the ACTION program and to provide grants to eligible employers. Future year expenditures reflect the elimination of the contractual position and one-time start-up costs, annualization, inflation, and the ability to award more grants. Revenues are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	200,000	200,000	200,000	200,000
Net Effect	\$0	(\$200,000)	(\$200,000)	(\$200,000)	(\$200,000)

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

Local Effect: None.

Small Business Effect: Minimal. Small businesses that employ eligible apprentices that are engaged in a building or construction trade may benefit by receiving grants under the ACTION program.

Analysis

Bill Summary: The ACTION program's purposes are to develop a well-trained, productive construction workforce which meets the needs of the State's economy, to encourage employers to hire apprentices in the construction industry, and to help employers offset any additional costs associated with hiring apprentices. DLLR must administer the ACTION program and provide grants on a competitive basis to employers that employ at least one apprentice who (1) has been employed by the employer for at least seven months; (2) is engaged in a building or construction trade; (3) is enrolled in the first year of an apprenticeship program registered with the Maryland Apprenticeship and Training Council (MATC); and (4) lives in a zip code in which the poverty rate is at least 20%.

The ACTION program must award grants, as provided in the State budget, to eligible employers. The bill expresses legislative intent that, beginning in fiscal 2017, the State budget include an appropriation of at least \$100,000 annually for the ACTION program to provide grants to eligible employers and cover administrative costs. DLLR must adopt implementing regulations. The amount of a grant, capped at \$1,000 per eligible apprentice, must be based on the number of eligible apprentices that an eligible employer employs.

Current Law: Chapter 729 of 1998 established the Construction Apprenticeship Assistance program in DLLR to develop a well-trained, productive construction workforce which meets the needs of the State economy. The program awards grants, as provided in the State budget, of up to \$1,000 for each apprentice to eligible private-sector entities that operate apprenticeship programs in the State. Grants must be awarded based on the number of participants and be distributed at the end of the program year but only to the extent that each apprentice has completed the program year.

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.

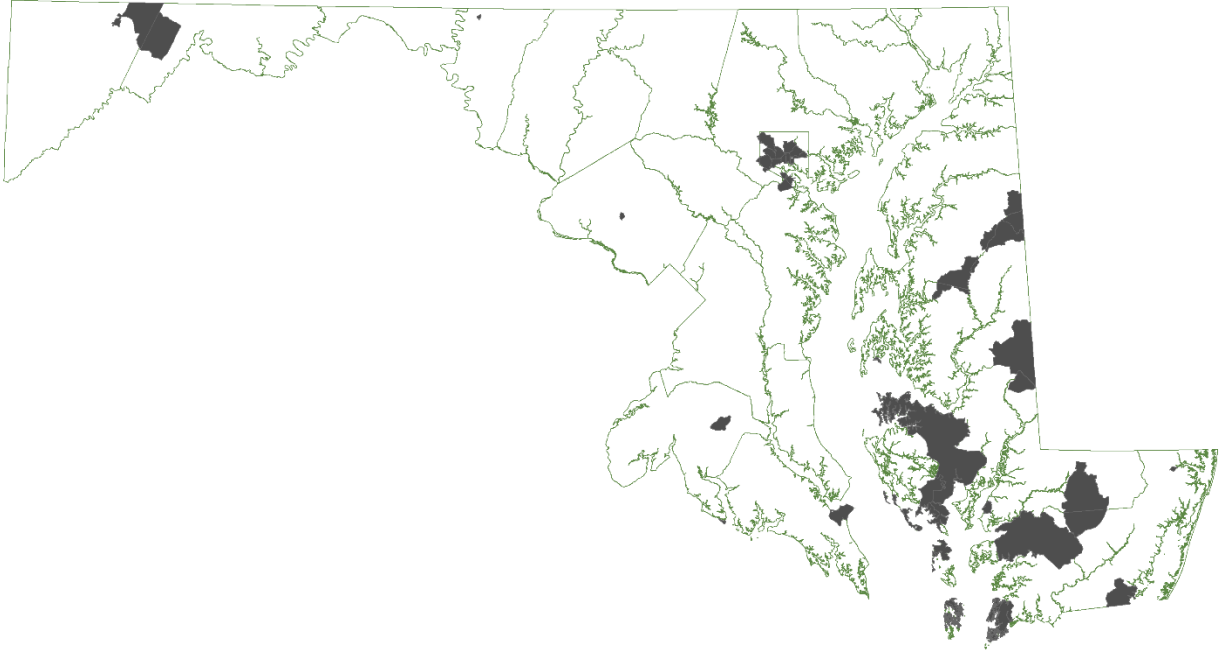
Along with 24 other states, Maryland has chosen to operate its own apprenticeship programs. In 1962, Maryland created the 12-member MATC. Within the framework established in federal law, the State's apprenticeship and training law also established the guidelines, responsibilities, and obligations for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

MATC, along with 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.

Background: In fiscal 2015, 3,630 apprentices began their apprenticeships in Maryland. Nationally, of the active apprentices in fiscal 2015, almost one-half were in the construction industry. In December 2015, there were approximately 8,600 registered apprentices in Maryland.

Exhibit 1 highlights the zip codes in the State with at least a 20% poverty rate as established by the U.S. Census Bureau. Approximately 447,000 people live in zip codes with a 20% poverty rate, accounting for 7.8% of the State's population.

Exhibit 1
Zip Codes in the State with at Least 20% Poverty Rate
2010-2014



Source: U.S. Census Bureau; Department of Legislative Services

State Expenditures: Eliminating the Construction Apprenticeship Assistance program has no fiscal effect because the program was never implemented and has remained unfunded.

It is the General Assembly's intent that, beginning in fiscal 2017, the State budget include an appropriation of at least \$100,000 for the ACTION program annually to provide grants to eligible employers and cover administrative costs. However, to cover the *administrative costs* of the program, DLLR's general fund expenditures increase by \$145,233 in fiscal 2017, which assumes a July 1, 2016 start date, following a 30-day start-up delay. This estimate reflects the cost of hiring an administrative specialist to oversee the program and a contractual assistant Attorney General to develop guidelines and regulations in the first year.

Additionally, DLLR must provide grants of up to \$1,000 per eligible apprentice for the ACTION program. There are approximately 3,600 first-year apprentices in the State, one-half of whom are in the construction industry. Additionally, about 8% of residents live

in zip codes with a poverty rate of at least 20%, so the Department of Legislative Services (DLS) estimates that, if 8% of the approximately 1,800 construction apprentices live in a high-poverty zip code, 144 apprentices are eligible. To the extent that construction apprenticeships are clustered more heavily in Baltimore City, DLS estimates 200 apprentices may be considered eligible apprentices. Assuming that each eligible employer receives the maximum grant of \$1,000 for each apprentice, DLS estimates that the ACTION program is funded annually at \$200,000 to be a viable program. If the ACTION program is funded at \$200,000 annually, \$54,767 is available in fiscal 2017 for grants, and approximately \$137,000 is available for grants annually thereafter.

The estimate includes salaries, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Regular Position	1
Contractual Position	1
Regular Salary and Fringe Benefits	\$54,388
Contractual Salary and Fringe Benefits	62,065
Grants to Eligible Employers	54,767
One-time Start-up Costs	25,926
Operating Expenses	<u>2,854</u>
Total FY 2017 State Expenditures	\$200,000

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.

Future year expenditures reflect elimination of the contractual position, annual increases, and employee turnover as well as annual increases in ongoing operating expenses and availability of additional funding for grant awards.

Additional Comments: The U.S. Census Bureau does not report poverty rates on an annual basis by zip code, so the 2010-2014 American Community Survey by the U.S. Census was used to analyze which zip codes had poverty rates of at least 20%.

Additional Information

Prior Introductions: None.

Cross File: HB 290 (Delegate McCray, *et al.*) - Economic Matters.

Information Source(s): Department of Budget and Management; Department of Labor, Licensing, and Regulation; U.S. Census Bureau; U.S. Department of Labor; Department of Legislative Services

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