

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 492 (Senator Rosapepe, *et al.*)

Budget and Taxation and Education, Health,
 and Environmental Affairs

Investment in Job Skills Act of 2019

This bill provides annual funding for various programs to promote, support, and expand career and technology education (CTE) and registered apprenticeships in the State. It also expands and extends an existing tax credit for employers who employ apprentices. **The bill generally takes effect July 1, 2019; the new and existing tax credit changes take effect beginning with the 2019 and 2020 taxable years, respectively, and new programs take effect October 1, 2019.**

Fiscal Summary

State Effect: General fund expenditures increase by \$11.1 million in FY 2020 to fund and administer various efforts to boost participation in CTE and registered apprenticeships. Out-year costs reflect annualization and inflation, with one grant program beginning in FY 2021 and ending in FY 2024. General fund revenues decrease by \$500,000 annually beginning in FY 2021 due to the apprenticeship tax credits. No effect on total capital budget expenditures, but fewer funds are available for purposes other than school construction. **This bill increases a mandated appropriation beginning in FY 2021.**

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	\$0	(\$0.50)	(\$0.50)	(\$0.50)	(\$0.50)
GF Expenditure	\$11.12	\$13.15	\$13.16	\$13.16	\$11.17
Net Effect	(\$11.12)	(\$13.65)	(\$13.66)	(\$13.66)	(\$11.67)

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

Local Effect: Local revenues and expenditures increase from State grants for CTE capital expenses and to support local government apprenticeship programs, both of which require local matching funds.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

CTE Capital Grants

The bill establishes a CTE Grant Program administered by the Interagency Commission on School Construction (IAC) and authorizes the Governor to include up to \$2.0 million in the annual budgets from fiscal 2021 through 2027 for the program. Grant funds may be used to equip school facilities that provide CTE instruction. IAC must develop procedures for local school boards to apply for the grants and eligibility criteria to receive a grant, including a requirement to provide matching funds. Funding under the program is supplemental to any other funds that would otherwise be provided.

Statewide and Local Media Campaigns

The Department of Labor, Licensing, and Regulation (DLLR) must create a statewide media campaign to promote participation by employers and students in CTE, apprenticeships, and workforce shortage occupations. Subject to limitations in the State budget, the Governor must include at least \$5.0 million in the budget annually for the campaign.

The bill also creates a matching grant program to provide grants to local workforce development boards to create similar local media campaigns. The Governor must include at least \$3.0 million in the budget annually for the matching grants subject to budget limitations.

Apprenticeship Programs

The bill creates two matching grant programs in DLLR to provide grants to (1) local governments to create apprenticeships for hard-to-fill local government jobs and (2) apprenticeship sponsors to create degree apprenticeships in specified workforce shortage employment categories. Annual appropriations for the two matching grant programs, subject to budget limitations, are at least \$1.0 million for local governments and at least \$2.0 million in fiscal 2021 through 2023 for apprenticeship sponsors. DLLR must adopt regulations to administer the grant programs.

Tax Credits

The bill repeals the termination date for the apprenticeship tax credit in current law, repeals the \$500,000 annual cap on total tax credits that can be claimed, and adds a youth apprentice tax credit for employers who employ a youth apprentice in a registered youth apprenticeship program for at least seven months. The youth apprenticeship credit is the lesser of \$2,000 per youth apprentice or the taxpayer's tax liability.

Higher Education Provisions

The bill increases the mandated appropriation for the Workforce Development Sequence Scholarship by \$2.0 million, from \$1.0 million to \$3.0 million.

By July 1, 2020, the Maryland 529 Plan must (1) enhance its marketing efforts to highlight the ability to use college savings plan proceeds for approved workforce development programs and apprenticeship training programs in the State and (2) beginning July 1, 2020, provide an option for account holders to opt to receive information regarding approved workforce development programs and registered apprenticeship training programs in the State.

Current Law/Background:

Public School Construction

As enacted by Chapter 14 of 2018 (the 21st Century School Facilities Act), IAC manages State review and approval of local school construction projects. Each year, local systems develop and submit to IAC a facilities master plan that includes an analysis of future school facility needs based on the current condition of school buildings and projected enrollment. The master plan must be approved by the local school board. Subsequently, each local school system submits a capital improvement plan to IAC that includes projects for which it seeks planning and/or funding approval for the upcoming fiscal year, which may include projects that the local system has forward funded.

Based on its assessment of the relative merit of all the project proposals it receives, and subject to the projected level of school construction funds available, IAC determines which projects to fund. By December 31 of each year, IAC must approve projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school systems may appeal these preliminary decisions by IAC. By March 1 of each year, IAC must recommend to the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC approves projects comprising the remaining school construction funds included in the

enacted capital budget, no earlier than May 1. The final allocations are not subject to appeal.

The Governor's proposed fiscal 2020 capital budget includes \$280.0 million in general obligation (GO) bonds for public school construction and an additional \$40.0 million in GO bonds for a supplemental grant program for school systems that have high enrollment growth or a large number of relocatable classrooms, as established by statute. It also includes \$45 million from the Education Trust Fund (ETF) for additional public school construction projects, \$30.0 million in pay-as-you-go general funds for the Healthy School Facility Fund established by Chapter 561 of 2018, and \$20.0 million from ETF for a revolving loan fund created by Chapter 14 to assist local governments in forward funding school construction projects. The fiscal 2020 *Capital Improvement Program* includes \$280.0 million annually for public school construction in fiscal 2021 through 2024 and \$40.0 million annually for the supplemental grant program. Additional funding totaling \$1.8 billion beginning in fiscal 2021 from revenue bonds supported by \$125 million from ETF is also projected for public school construction projects, as proposed by the Governor.

Career and Technical Education

The Strengthening Career and Technical Education for the 21st Century Act is the 2018 reauthorization of the federal Carl D. Perkins Career and Technical Education Act (Perkins), which was last overhauled in 2006. The new Perkins law provides approximately \$1.2 billion in formula grants to states to implement CTE programs in their secondary schools and postsecondary institutions. The new law allows states to set their own goals for CTE programs, requires them to make progress toward those goals, and makes other changes to federal CTE law. Generally, Perkins requires states to develop sequences of academic and CTE coursework, called programs of study, that prepare students for postsecondary degrees or industry-recognized credentials. Many of the programs of study – which range from plumbing and culinary arts to aerospace engineering and cybersecurity – include or encourage apprenticeship or pre-apprenticeship opportunities.

In federal fiscal 2018, Maryland received \$17.0 million in Perkins Title I grants to support CTE programs in secondary schools and postsecondary institutions. Of that amount, \$14.4 million (85%) was distributed to local governments and the remaining 15% was designated for statewide activities and administration. Of the \$14.4 million distributed to local governments, 65% was used for secondary school programs and 35% was spent on postsecondary programs. Perkins funds are used for a variety of purposes at the local level, including teacher professional development, equipment, and program development and administration.

The Maryland State Department of Education (MSDE) has developed several dozen programs of study grouped within 10 career clusters. Each program of study includes

a sequence of four courses that begin in either grade 10 or 11 and prepares students for either further study or industry certification; students that complete the course sequence by high school graduation are considered “CTE completers.” Almost one-quarter of the class of 2017 (22.5%) completed a CTE program of study, and more than half of those also completed the requirements for admission to the University System of Maryland (*i.e.*, “dual completers”).

Chapter 149 of 2017 required MSDE, in consultation with DLLR and the Governor’s Workforce Development Board, to develop statewide goals each year from 2018 through 2024 so that by January 1, 2025, 45% of high school students successfully complete a CTE program, earn industry-recognized occupational or skill credentials, or complete a registered youth or other apprenticeship before graduating high school.

Apprenticeships

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 1 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. In calendar 2018, there were 10,031 registered apprentices and 3,737 participating employers.

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.

Youth Apprenticeships

Chapter 140 of 2015 established Apprenticeship Maryland as a two-year pilot program with two participating school systems (Frederick and Washington counties). During the 2016-2017 school year, the program’s first full year of operation, 11 students participated in the program. The following year, 27 students participated, and DLLR reports that 38 students are participating in school year 2018-2019.

Although the pilot program was authorized for only two years, the program has continued and expanded. In May 2018, MSDE adapted the program into a career and technology program of study and made it available to all local school systems in the State. As a result, the program is expanding to additional school systems beginning in September 2019.

MSDE received a three-year \$600,000 federal grant to continue to expand the program statewide in September 2018.

Apprenticeship Tax Credit

Under the More Jobs for Marylanders Act of 2017 (Chapter 149), there is 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. 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 claimed. The taxpayer claiming the credit must attach specified proof of eligibility to the taxpayer's return, and DLLR may approve tax credits of up to \$500,000 annually. The tax credit terminates January 1, 2020.

The Department of Budget and Management advises that 177 tax credits were claimed in fiscal 2017 and 43 were claimed in fiscal 2018.

Workforce Development Sequence Scholarships

The More Jobs for Marylanders Act established Workforce Development Sequence Scholarships for eligible students who are enrolled in a program at a community college composed of courses that are related to job preparation or an apprenticeship, licensure or certification, or job skills enhancement. The Career Preparation Expansion Act of 2018 (Chapters 694 and 695) expanded the scholarship to include a registered apprenticeship program approved by the Division of Workforce Development and Adult Learning in DLLR.

To be eligible for a scholarship, a student must be a Maryland resident or have graduated from a Maryland high school and be enrolled at a community college in the State in a workforce development sequence. An eligible individual may apply to the Office of Student Financial Assistance for a scholarship. An award may be used for tuition, mandatory fees, and other associated costs of attendance or costs to participate in a registered apprenticeship program. The annual amount of a scholarship awarded to an eligible student may not exceed \$2,000. Beginning in fiscal 2019, the Governor is required to appropriate at least \$1.0 million for the program annually. The fiscal 2019 budget and the Governor's proposed fiscal 2020 budget include \$1.0 million for the scholarships.

Maryland 529

The Maryland 529 program administers three programs to encourage and reward saving for college: the Maryland Prepaid College Trust (MPCT), the Maryland College

Investment Plan (MCIP), and the new Achieving a Better Life Experience (ABLE) program. In 2018, the first two plans were renamed in honor of retired Senator Edward J. Kasemeyer.

Maryland 529, formerly known as the College Savings Plans of Maryland, is an independent agency, originally established during the 1997 session. An 11-member board administers the trust and oversees the administration of the plans. The plans are also known as 529 plans after the section in the Internal Revenue Code (IRC) that permits states to establish and administer tax-deferred savings plans. The plans offer federal and State tax benefits including:

- federal and State taxes deferred on growth;
- federal and State tax-free earnings, provided funds are used for qualified expenses; and
- State income tax deduction of contributions to any of the plans up to \$2,500 annually per taxpayer per account or beneficiary. Excess annual contributions over \$2,500 may be carried forward and deducted in future years.

Funds from the plans may be used only for qualified higher education expenses, as defined by the federal IRC.

As of June 30, 2018, the combined assets of MPCT and MCIP were about \$7.0 billion. The new ABLE program had about \$1 million in assets as of January 2018.

State Fiscal Effect:

Expenditures

Exhibit 1 shows the increase in general fund expenditures by fiscal year due to the appropriations required by the bill, which are subject to budget limitations except for the mandated \$2 million increase in Workforce Development Sequence Scholarships. The bill specifies that appropriations for the private-sector apprenticeship matching grants begin in fiscal 2021, so Exhibit 1 reflects that start date for that appropriation. The remaining appropriations do not have a start date specified, so Exhibit 1 reflects those appropriations beginning in fiscal 2020, including the increase in scholarship funding. The scholarship increase is mandated beginning in fiscal 2021. The exhibit does not include CTE capital grants, as explained below.

Exhibit 1
Expenditures under the Bill
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
State Media Campaign	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
Local Media Campaign	3.0	3.0	3.0	3.0	3.0
Local Government Apprenticeships	1.0	1.0	1.0	1.0	1.0
Private-sector Apprenticeships	NA	2.0	2.0	2.0	NA
Workforce Scholarships*	2.0	2.0	2.0	2.0	2.0
Total	\$11.0	\$13.0	\$13.0	\$13.0	\$11.0

*Mandated appropriation beginning in fiscal 2021.

NA: Not available

Source: Department of Legislative Services

Funding for all of the programs except one is maintained indefinitely; the \$2.0 million allocation for the private-sector apprenticeship program terminates in fiscal 2024.

CTE Capital Grant Program

The bill authorizes the Governor to include \$2.0 million for CTE capital grants in fiscal 2021 through 2027. It is assumed that the funds are budgeted in the capital budget, to the extent that the Governor carries out legislative intent. Thus, the bill has no overall effect on total spending under the capital budget, which is determined annually by the Governor and General Assembly through the capital budget process. Instead, funds in the capital budget are reallocated from other purposes to the CTE grant program, so fewer funds are available for other capital purposes. If the Governor elects to use general funds instead, general fund expenditures increase correspondingly.

Apprenticeship Tax Credit

The new credit for youth apprentices and the repeal of the \$500,000 cap on the total credits allowed apply to fiscal 2020 and each fiscal year thereafter. Given that the number of tax credits claimed for each of the first two years was less than 2% of total registered apprenticeships in the State, this analysis assumes that the total number of tax credits claimed is less than 5% annually. With approximately 10,000 registered apprentices in the State (including a small number of youth apprentices), this means that fewer than 500 tax credits are claimed. Even with the \$2,000 credit for fewer than 50 youth apprentices, it is

unlikely that the total value of tax credits claimed exceeds the current cap of \$500,000, so there is no fiscal effect in fiscal 2020.

However, the bill repeals the existing tax credit's January 1, 2020 termination date, so general fund revenues decrease by an estimated \$500,000 annually beginning in fiscal 2021. Given the large number of registered apprentices and the growing number of youth apprentices, the number of tax credits claimed may exceed these estimates. To the extent that occurs, general fund revenues decrease by larger amounts.

Program Administration

DLLR's Division of Workforce Development and Adult Learning is staffed almost entirely by federally funded personnel who are not allowed to work on State activities (unless the federal government is reimbursed for their time). As current staff are fully committed to their federal responsibilities, additional State-funded staff are needed to implement the bill.

Therefore, general fund expenditures increase by \$124,559 in fiscal 2020, which accounts for the October 1, 2019 effective date of the new programs. This estimate reflects the cost of hiring a communication specialist and a program manager to manage and/or oversee the media strategies and matching grant programs. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$113,841
Operating Expenses	<u>10,718</u>
FY 2020 DLLR Administrative Expenditures	\$124,559

Future year expenditures reflect full salaries with annual increases and employee turnover, termination of one-time costs, and ongoing operating expenses.

Since tax credit claims are not expected to increase significantly, it is assumed that the Department of Commerce can continue to process the tax credits using existing resources.

IAC and Maryland 529 can likely implement the bill with existing resources, although Maryland 529 may incur modest information technology-related expenses to upgrade its system.

Small Business Effect: Small businesses that employ registered apprentices benefit directly from the expansion and extension of the apprenticeship tax credit. Small businesses may benefit from the increased availability of apprentice labor due to the substantial investment by the State and local governments in the promotion and development of apprenticeship opportunities.

Additional Comments: Maryland 529 notes that distributing information to plan participants about workforce development programs and registered apprenticeship programs may lead them to mistakenly believe that plan funds can be used for those purposes.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties; Comptroller's Office; Maryland State Department of Education; Maryland Higher Education Commission; College Savings Plans of Maryland; Public School Construction Program; Department of Budget and Management; Department of Labor, Licensing, and Regulation; Baltimore City Public Schools; Baltimore County Public Schools; Anne Arundel County Public Schools; Montgomery County Public Schools; Talbot County Public Schools; Department of Legislative Services

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