



The Senate
NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
P.O. BOX 500129
SAIPAN, MP 96950

STANDING COMMITTEE REPORT NO. **23-91**
Date: April 25, 2024
RE: House Bill No. 23-48

Honorable Edith E. DeLeon Guerrero
President of the Senate
Twenty-Third Northern Marianas
Commonwealth Legislature
Saipan, MP 96950

Dear Madam President:

Your Committee on Health, Education and Welfare, to which was referred House Bill No. 23-48, entitled:

“To amend Title 4, Division 9 of the Commonwealth Code to place the apprenticeship program within the Department of Labor and to repeal 3 CMC §1351 through §1358 in their entirety; and for other purposes.”

begs leave to report as follows:

I. RECOMMENDATION:

After considerable discussion and deliberation, your Committee recommends passage of the proposed legislation in the form of House Bill No. 23-48, Senate Substitute 1.

II. ANALYSIS:

A) Purpose:

The purpose of House Bill No. 23-48 is to provide the Commonwealth with a registered apprenticeship program within the Department of Labor sought to implement a structure for employers to take on and train apprentices, expand the skills and number of local U.S. workers, and to authorize tax credits on training expenses for long-term apprenticeship programs.

B) Committee Findings:

Your Committee finds that various provisions of the Covenant of the Northern Mariana Islands in Political Union with the United States of America became effective in the year of 1978 affording the Commonwealth authority over its minimum wage and immigration policies provided that the United States Congress may assume control with the need to do so. Your Committee further finds that on May 7, 2008, the U.S. President signed the Consolidated Natural Resources Act of 2008, Public Law 110-229, inclusive of Subtitle A of Title VII, for the federal administration of immigration policies in the Commonwealth. Your Committee finds that the United States Congress required phasing out of the CW-1 worker program which was scheduled to end on December 31, 2019. Your Committee further finds that The Northern Mariana Islands U.S. Workforce Act of 2018, Public Law 115-218 was enacted on July 24, 2018, extended the CW-1 worker program in the Commonwealth through December 31, 2029.

Your Committee finds that amid the required transition from the CW-1 worker program to the employment of U.S. eligible workers, it was necessary to begin charting plans of action to implement and invest in effective programs aimed at developing a robust local U.S. workforce including apprenticeship programs. Your Committee finds that apprenticeship programs are economical training programs consisting of significant work-based learning and classroom instruction with a moderate cost to the government. In apprenticeship programs, apprentices are provided with incentives for hard work and learning skills that they will be able to carry with them into their careers.

Your Committee finds that CNMI Public Law 15-5, codified as 3 CMC §1351 et. seq., provided the Northern Marianas College with the authority to implement the United States Registered Apprenticeship Program, however, this implementation has been found to be ineffective without the requirement of the CNMI Department of Labor's (DOL) collaboration in the effort. Your Committee further finds that as proposed, House Bill No. 23-48 seeks to amend Title 4, Division 9 of the Commonwealth Code to place the apprenticeship program within the CNMI DOL and to repeal 3 CMC §1351 through §1358.

Your Committee met on September 21, 2023 to discuss the provisions of the proposed legislation. During the meeting, the members agreed to table the proposed legislation until a meeting is scheduled with the CNMI DOL, the Northern Marianas College, and the Northern Marianas Technical Institute.

Your Committee met on December 27, 2023 which continued to December 28, 2023 to discuss the provisions of the proposed legislation with the CNMI Department of Labor and the Division of Revenue and Taxation under the Department of Finance. Present during the meeting were Frances Torres, Program Director for the Workforce Investment Agency; Joe Villacrusis, Program Manager for the Workforce Investment Agency; Leila F. Staffler,

Secretary of the Department of Labor; and Daniel Dean T. Alvarez Jr., Acting Director of the Division of Revenue and Taxation.

Your Committee finds that an apprenticeship training program was first mentioned around 40 years ago through Public Law No. 03-66, a time where there was a high demand for expertise in construction, maintenance and installation which are still in high demand based on DOL data. Furthermore, in the year of 2006, Public Law 15-05 amended Public Law 03-66 by mandating the Northern Marianas College's established apprenticeship program to be focused on business, tourism, industrial/technical, and professional programs.

Your Committee further finds that from 2019 through 2023, the CNMI DOL was granted the Apprenticeship State Expansion grant for the purpose of promoting the U.S. DOL's Registered Apprenticeship Programs (RAP) and upskilling incumbent workers in the demand-driven occupations in the Commonwealth. However, this program was initiated around the time of the global pandemic, therefore, there was not as much action in the beginning stages of the program. Your Committee finds that the economy has been slowly recuperating since then, and the program has gained momentum and the number of registered apprentices has increased in 2023. Your Committee further finds that in year 2020 and up to 2024, NMC was awarded the State Apprenticeship Expansion grant which provides for the institution to offer technical support and assist with the structure building in collaboration with the CNMI DOL. Your Committee finds that by the year 2020, it was clear that NMC's original establishment of the apprenticeship program was not adequately funded resulting in a setback. However, with the new grant and the CNMI DOL taking over, the new apprenticeship program followed the U.S. DOL guidelines which eliminates the need for an apprenticeship program to be instituted from scratch at NMC.

Your Committee finds that there are five components of the RAP as described by Mr. Joe Villacrusis, Program Manager for the Workforce Investment Agency under DOL. Your Committee finds that these components include (1) employer commitment; (2) structured on-the-job training with mentorship; (3) related training instruction, (4) reward for skills gained, and (5) national occupation credentials. Apprenticeship programs have been present in the U.S. as well as other foreign countries and have been performing well and produce loyal employees that would reduce turnover rates.

Your Committee and the CNMI DOL representatives further discussed the processes of the apprenticeship program within DOL and the entities involved in these processes. Further discussion involved the application processes for potential apprentices. Currently, RAP has a total of 8 sponsors to include Pacific Biomedical Services, Inc.; Salt and Barber; Naked Fish; CHCC- Community Guidance Center; CHCC- Pharmacy; 500 Sails; MANGO; and Priority Care Services. In sum, these eight sponsors hold 34 apprentices. Initially, the RAP was established with Pacific Biomedical Services as the first sponsor in 2021 with two biomedical technician apprentices that are still currently in the program with a 4-year term. Pacific Biomedical Services also has a company on the island of Guam that also runs an apprenticeship program and has been accommodating towards the CNMI DOL.

Your Committee raised the concern of whether the proposed legislation would conflict with the Northern Marianas Technical Institute (NMTECH). Clarification was provided that NMTECH is a training provider and the institute is an intermediary of the apprenticeship system. Secretary Staffler stated that NMTECH does not have the processes and staff to conduct the monitoring and application processes necessary for the RAP which the CNMI DOL has. Therefore, CNMI DOL acts as a conduit for these services and connects the apprentices with training providers and employers. Your Committee asked if the proposed legislation would increase the operational expense of the CNMI government. Secretary Staffler replied that CNMI DOL would be able to apply for additional federal grants. However, presently the RAP has 34 apprentices and the goal is to reach 100 apprentices in order to apply for the next federal grant. Your Committee asked what was the reason for the federal grant terminating in December of 2023. It was mentioned that the grant performance period ended in December of 2023 which was actually the end of a no-cost extension request. Your Committee further finds that no further grant opportunities have been announced yet, however, CNMI DOL continues to monitor these opportunities and continues to fund the RAP through existing WIOA federal funds as well as CW funds.

Your Committee asked how apprentices are being compensated in the current RAP under CNMI DOL. Your Committee finds that the program offers an "earn while you learn" type of compensation as the apprentice would be employed under the specific employer that hires them. Your Committee finds that this is the reason for the separation between CNMI DOL, NMC and NMTECH - the institutes offer the education component, then employers determine what skills they may need within their company. As stated by Director Torres, these individuals are earning an income while the employer is building their skills, and the employer is also being reimbursed up to 50% for on-the-job learning. Your Committee raised a concern about stakeholder alignment. As stated by Secretary Staffler, part of this issue is outreach and education as there is a need to have more stakeholders at the table which is what CNMI DOL's focus would be in partnership with NMC for the years to come.

Your Committee asked what the difference is between the certification provided by the U.S. DOL and the one provided by NMTECH. Program Manager Villacrusis replied that a certification from NMTECH means that an individual goes through specific levels specific to a trade, whereas the certification from the RAP is vetted by the U.S. DOL and is nationally recognized. Your Committee further finds that NMTECH certification is specific to various occupations and there are instances where apprentices need to go through multiple training providers.

Your Committee asked if additional costs would be incurred by CNMI DOL should the proposed legislation become law. Your Committee finds that because there are existing personnel from WIA that would be implementing the program operations so there would not be additional costs for CNMI DOL. Your Committee further finds that any additional cost would be the employer incentives. Your Committee finds that CNMI DOL would need to address future funding sources beyond 2029 especially with the CW program sunseting. In other jurisdictions, these costs are covered by sources such as contractor licensing fees

that are dedicated percentages to the apprenticeship. Secretary Staffler has suggested to the House of Representatives to consider revenue generating legislation that could aid in funding an apprenticeship program beyond 2029. Your Committee finds that there is a need to look into future funding sources. As stated by Secretary Staffler, in Guam, there is a HB Visa fee that accrues \$1,200 per HB Visa and currently the CNMI has less than 130 HB Visas. She further expressed that if the House of Representatives considered doing a revenue generating legislation to implement additional fees, it could go towards apprenticeships after 2029. Your Committee asked if CNMI DOL is tracking the costs that are being covered presently. Director Torres expressed that they did not have the numbers during the Committee Meeting, however it may be provided to the Committee. Your Committee asked if the \$1,200 per HB Visa collected in Guam is done through legislative mandate. Your Committee finds that there is a law written that does require additional fees for processing. Furthermore, Secretary Staffler shared that she has reached out to the Guam DOL Director to discuss other aspects of the law as they do have the foreign labor certification approval and it is a system that hopefully CNMI DOL can migrate into one day. Your Committee asked if employers are paying for the wages of apprentices to which DOL replied that employers are funding apprentice wages as they are incumbent workers and the employer is getting reimbursements.

Your Committee asked if the partnership between the Department of Fire and Emergency Medical Services and CNMI DOL was considered an apprenticeship program. Your Committee finds that this particular program is CNMI DOL's customized training program and in order to be considered a registered apprenticeship program, the individuals would need to be employed from the beginning. Your Committee asked what happens, if after the program is completed, the employer decides not to employ the apprentice. Your Committee finds, the apprentice is an employee and the program creates a pipeline of skilled workers and aids in building workforce capacity.

Your Committee asked if there are any costs passed to the apprentice. Your Committee finds that the apprentice is an employee of the respective organization, therefore the employer funds the wages. However, CNMI DOL provides 50% of the extraordinary costs to the employer. These costs include anything related to on-the-job training. Your Committee finds that there are benchmarks incorporated in the work process schedule that require specific hours of training which is what will be reimbursed.

Your Committee asked if the 50% tax deduction is a different aspect of the program compared to the 50% reimbursement to the employer. Your Committee finds that there are two incentives offered to employers, one being the 50% tax deduction, or the 50% reimbursement through the CNMI DOL programs. However, the employer must choose between the two different incentives. Your Committee asked if this defeats the purpose of offering a tax deduction as it would only be applicable to costs that are part of implementing the program in comparison to receiving a flat-out reimbursement. Secretary Staffler replied that this process is modeled after the Guam legislation and that the difference would depend on the size of the business.

Your Committee finds that if signed into law, the proposed legislation will allot CNMI DOL and the Division of Revenue and Taxation under the Department of Finance a 90-day period to implement the provisions. Your Committee asked if there has been an exchange of discussion between the two departments regarding how the reimbursement would be applied. Secretary Staffler stated that there have been discussions with regard to the aforementioned, however, if more days were to be added to the timeframe, it would be more preferable. Your Committee asked if there is a present CNMI State Workforce Development Board which it was clarified that there is one and it is a complete board and is represented by a majority of business representatives. Your Committee asked what the funding from the education tax credit (ETC) would be utilized for which it was mentioned that these funds would be used under the ETC program for staffing and paying for reimbursements, however it is leveraged with existing federal funds. Your Committee asked if additional personnel would be needed to assist in implementing the RAP which DOL expressed that presently, the CNMI DOL does not see a need for additional personnel for the RAP. However, as the program progresses, and the number of apprentices expands, there may be a need to hire more personnel. Your Committee asked if there will be personnel that ensures that guidelines and requirements of the RAP are being followed. Your Committee finds that within WIA, there is the Business Service Division and the Career Service Division which handles the RAP and the tracking of guidelines and requirements. CNMI DOL has multiple systems that are utilized to track and monitor activities, one being Hire Marianas and the other being the requirement of the U.S. DOL's Office of Apprenticeship to enter the hours and activities into their system called Rapids.

Your Committee asked how the 50% tax credit and 50% reimbursement to employers are implemented through the RAP. The proposed legislation would introduce the 50% tax credit as it is currently not implemented through the RAP. Your Committee asked why would the ETC be incorporated in the proposed legislation. The ETC was included as an additional support for the RAP funding source when the grant has reached its expiration and beyond the 2029 CW sunset. Your Committee asked what the drop-out rate is for the RAP. Since the RAP was established, there have been no drop-outs. The Committee asked how the pipeline is created upon graduation at NMTECH. Secretary Staffler stated that graduates are not enrolled in an apprenticeship program, which is part of the intent of the proposed legislation to have the appropriate entities aligned to aid these graduates. Your Committee raised concern regarding the proposed legislation's intent to repeal 3 CMC §§1351-1358 with Section 1354 regarding the Public School System Technical Education Program. Your Committee finds that this provision is not incorporated in the proposed legislation and asks if there is a necessity to include it. Secretary Staffler stated that the provision is not needed because it is a collaborative effort as a whole. Director Torres also stated the proposed legislation is solely regarding the RAP, however, the program between CNMI DOL and PSS is the Pre-Apprenticeship Opportunities Program.

Your Committee finds that as stated by Program Manager Villacrusis, a lot of the processes of RAP have to do with the needs of employers and there was assistance provided when the Saipan Chamber of Commerce had all the employers present. Although the number of apprentices could be greater, the absence of the construction industry hinders that growth.

There have been efforts to collaborate with NMC, PSS and NMTECH to determine how the entities can develop different initiatives to get individuals into the RAP. Efforts taken within CNMI DOL include outreach to companies upon completion of WIA Subsidy Training to make efforts to migrate these individuals into the RAP. As stated by Director Torres, the proposed legislation would assist CNMI DOL with enrolling more apprentices because it would allow the department to streamline the approval process as through the proposed legislation they would be recognized as a state apprenticeship agency. Your Committee asked if CNMI DOL's receipt of the U.S. DOL grant would affect the grant presently within NMC. Your Committee finds that CNMI DOL was awarded the Apprenticeship State Expansion Grant which funds the program, however, NMC applied for the State Apprenticeship Expansion Grant, which is a completely different grant that allows NMC to assist in building the infrastructure of the RAP.

Your Committee asked if NMC currently has apprentices within the institute. Your Committee finds that the RAP is developed by the WIA and that NMC is a related training provider with coursework that may be used in a registered apprenticeship. Your Committee finds that the provision regarding the 50% tax deduction was modeled after Guam and that the Division of Revenue and Taxation should have the ability to provide insight on the matter considering Guam's population is larger than the CNMI. Your Committee further asked if the grant awarded to CNMI DOL is assisting the RAP or if it is done so through indirect costs. Secretary Staffler stated that it is assisted through direct program costs.

Your Committee finds that as stated by Director Alvarez, he had received a report from CNMI DOL regarding \$143,022 in paid out reimbursements among 34 sponsors. He shared that this amount is consistent with the 50% reimbursement criteria of the costs incurred. Furthermore, Director Alvarez shared that he sees no incentive for businesses that decide on going with the tax credit as there is a 1% fee on tax credits to be charged by CNMI DOL. Director Alvarez shared concern with the potential loss of federal funding resulting in 100% of the sponsors resorting to the tax credit in addition to the ETC. He shared that upon research, he learned that the return on investment for participants is at a median of 44.3%. Your Committee asked, how long would it be before the 44.3% return on investment would be realized. Director Alvarez shared that it would be realized at the point that the apprentice completes the RAP.

Your Committee expressed that there is a provision in the proposed legislation that would allow the Division of Revenue and Taxation in consultation with CNMI DOL to promulgate the regulations for assessing qualified tax deductions. Your Committee shared that one option to this includes applying the tax deduction only after all federal funds have been exhausted and at a lowered rate. Director Alvarez shared that it is an idea that he can bring before CNMI DOL. However, he shared concern with the proposed legislation not defining eligible expenses and that CNMI DOL would be the appropriate entity to determine what expenses are eligible. Your Committee asked if the RAP should be considered an educational program in terms of the ETC, in comparison to other institutes. Director Alvarez shared that there is no clear definition for what a qualified educational institution is, however, there are criteria to make this determination. These criteria include

a curriculum, full-time staff, and students. Your Committee asked if a ceiling should be placed on the tax credit. Director Alvarez shared that it is a discussion that he would need to have with CNMI DOL to determine what an appropriate ceiling would be. He shared that there are alternatives such as converting it from a tax credit to a deductible, however, it would require more time and discussion.

Your Committee expressed concern with CNMI DOL being the deciding entity on eligible expenses as the Division of Revenue and Taxation may have guidelines from the IRS to follow. Your Committee asked that if the tax credit is in place, would the Division of Revenue and Taxation need extra resources to promulgate the rules, implement them and maintain them. Director Alvarez shared that this would not require additional personnel, however, if the Division of Revenue and Taxation were to be the entity that is in charge of certifying tax credits, then it would require additional staffing and training. Your Committee asked what fiscal impact the proposed legislation would impose on the CNMI government. Director Alvarez shared that there would be an impact on BGR collections. He shared that presently with 34 participants there is no impact realized, however should funding be fully exhausted, then there would be an impact. Director Alvarez further shared that there is a need to revisit the tax credit provisions of the proposed legislation to make changes.

Your Committee offered an amendment to the proposed legislation to impose a \$5,000 ceiling on tax credits per businesses on qualified expenses as determined by CNMI DOL and Division of Revenue and Taxation regulations after federal reimbursements have been exhausted in replacement of the ETC. Your Committee finds that as stated by Director Alvarez, a \$5,000 cap would be significantly lower in comparison to what is being reimbursed presently. Your Committee shared that not imposing a ceiling may result in hundreds and thousands in qualified expenses and that placing the \$5,000 ceiling would act similarly to an ETC and then it can later be determined if it is sufficient or not.

Your Committee expressed concern with regard to the ETC being given to businesses as it was shared that the Division of Revenue and Taxation does certain tests to determine as to whether an institution, business or non-profit qualifies as an educational institution. Your Committee shared that there is a need to eliminate the language altogether. Furthermore, it is federal funds that are received by CNMI DOL and there was uncertainty shared as to whether there is a limitation on the grants, and that the discussion should be made when that time arrives. Your Committee shared that when comparing the tax credit and the tax deduction it would be safer to offer a tax deduction as the CNMI government is limited in resources to support the tax credits.

Upon discussion of the proposed legislation, the committee members agreed to table the proposed legislation until there are comments received on other proposed legislations within the Committee and to allow the CNMI DOL and the Division of Revenue and Taxation to have further discussions regarding the application of tax credits and tax deductions. Furthermore, to allow the Division of Revenue and Taxation to reach out to its

Guam counterparts to gather more information regarding status updates with regards to tax credit applications there.

Your Committee met on April 25, 2024 to discuss the provisions of the proposed legislation. Your Committee discussed the proposed amendments made by the Department of Labor and the Division of Revenue and Taxation. These amendments include substituting the term deduction with tax credit throughout the legislation. Furthermore, a recommendation was made to remove the education tax credit section of the proposed legislation. It was suggested that the proposed legislation be substituted with the version provided by the Department of Labor and the Division of Revenue and Taxation which includes the additional proposed amendments. No member objected to the passage of House Bill 23-48, Senate Substitute 1.

C) Legislative History:

House Bill No. 23-48 was formally introduced by Representative Denita K. Yangetmai on May 10, 2023 and was subsequently passed by the House of Representatives on First and Final Reading during its First Day, Fifth Special Session on July 28, 2023. House Bill No. 23-48 was transmitted to the Senate on July 31, 2023 and referred to the Senate Standing Committee on Health, Education and Welfare for disposition.

In the Twenty-Second Northern Marianas Commonwealth Legislature, a similar legislation, House Bill No. 22-118 was formally introduced by Representative Leila H.F.C Staffler on October 18, 2022 and was referred to the House Standing Committee on Judiciary and Government Operations for disposition. No further action was taken.

D) Public Hearing and Comment:

1. Public Hearing. No public hearing was scheduled for House Bill No. 23-48. However, committee meetings, which are open to the public, were held to receive written and oral testimonies on any proposed legislation appearing on the agenda. See below for further details.
2. Committee Meeting. The proposed legislation made its first appearance during the scheduled committee meeting on September 21, 2023 in which your Committee deliberated on the provisions stated in the proposed legislation and the comments provided to the Committee for review.

The proposed legislation made its second appearance during the scheduled committee meeting on December 27, 2023. During this committee meeting, the Department of Labor and the Division of Revenue and Taxation under the Department of Finance appeared to provide comments regarding the proposed legislation.

The proposed legislation made its third appearance during the scheduled committee meeting on April 25, 2024 in which your Committee deliberated on the provisions stated in the proposed legislation and the comments provided to the Committee for review.

The respective Committee Meeting notices and agendas were officially posted on various legislative forums and social media sites in accordance with the Open Government Act to invite members of the general public to provide comments as indicated under Item No. III. Public Comment of the Committee Agenda.

3. Written Comment. Your Committee requested for comments with a deadline to respond by September 8, 2023.

i. To date, status of comments received from the foregoing government agencies are as follows:

- a. *Leila Staffler, Secretary, CNMI Department of Labor, letter dated September 7, 2023.*
- b. *Joe C. Guerrero, President, Saipan Chamber of Commerce, not received*
- c. *Daniel Dean T. Alvarez Jr., Acting Director, Division of Revenue and Taxation, Department of Finance, letter dated April 26, 2024*

ii. Documents received on the date of the scheduled committee meeting(s) are as follows:

- a. *Leila F. Staffer, Secretary, Department of Labor, submission received on December 27, 2023*
- b. *Joe Villacrusis, Program Manager, Workforce Investment Agency, Department of Labor received on December 27, 2023*

E) Estimated Fiscal Cost:

The enactment of House Bill No. 23-48 will result in additional costs to the CNMI government for the purpose of funding a newly established apprenticeship program under the CNMI Department of Labor with personnel and office equipment necessary to perform the necessary duties and responsibilities to maintain the program. However, the implementation of an apprenticeship program that will provide ample opportunities for the students of the Commonwealth outweigh the fiscal cost.

F) Summary of Committee Amendments:

Your Committee agreed to the proposed amendments as follows:

1. **Section 1. Short Title.** Amendment made to the short title to replace the year 2023 with the year 2024.
2. **Section 2. Findings and Purpose.** Language was added that the obstacle in NMC's implementation of the registered apprenticeship program is due to the lack of a specified funding source to administer the program. Additional language added highlighting that the CNMI Department of Labor Workforce Investment Agency has been administering a U.S. DOL Registered Apprenticeship Program (RAP) since 2019 upon receiving the Apprenticeship State Expansion grant as well as the purpose of the grant and the program. Further language was added to replace tax deduction with tax credit and that the tax credit would be for eligible costs associated with the RAP.
3. **Section 4. Amendment.** Amendments to the proposed legislation sought to amend Title 4, Division 9 of the Commonwealth Code by adding a new Chapter 9 beginning on Page 3 line 17-21 through Page 15 line 14 are as follows:
 - a. **§9901. Definitions.** Language added to incorporate the definition "eligible training costs". Furthermore, the terms under this section were re-ordered to be alphabetized and the succeeding subsections were renumbered accordingly. Language was deleted that highlighted the definition of educational tax credit. The proposed subsection (l) included language deleted generalizing post-secondary institutions in the CNMI and language was added to detail post-secondary institutions approved by DOL. The proposed subsection (t) includes language replacing tax credit with tax deduction with additional language added defining tax deduction as a reduction in BGR subject to 100% of eligible costs.
 - b. **§9902. CNMI Registered Apprenticeship Program.** Language deleted that detailed the "CNMI SWDB Registered Apprenticeship Program". Additional language added to detail that the Secretary of Labor certify eligible training costs paid or incurred pursuant to the program. New subsection (g) added detailing that the Secretary of Labor shall collaborate with the Public School System so that students of the PSS Technical Education Program established under Public Law 14-54. The succeeding subsection after the newly added subsection (g) was renumbered.
 - c. **§9905. Eligibility.** Technical amendments made to punctuation and formatting of the section.
 - d. **§9907. Administration of the Commonwealth Registered Apprenticeship Program.** Language deleted to detail that the CNMI Workforce Development agency shall establish an advisory council rather than a CNMI Registered Apprenticeship Advisory Council. Further language added to detail that DOL is authorized to collect an Eligible Costs

Tax Deduction Certification processing fee. Language deleted showing that the fee shall be equal to 1% of the approved tax credit. Deleted Subsection (e) highlighting that the subject funds shall be deposited into the CNMI Apprenticeship Program Fund.

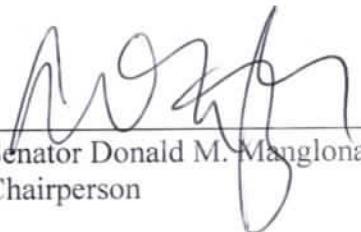
- e. **§9908. Tax Deduction for Apprenticeship Program Participants.** Language added replacing tax credit with tax deduction in the title as well as throughout the section. Language added to show that businesses are entitled to a tax deduction equal to 100% of the remaining eligible costs.
- f. **§9909. Implementation of Tax Deduction by the Director of Revenue and Taxation.** Language added replacing tax credit with tax deduction in the title as well as throughout the section. Language added to detail a 180 day deadline to develop procedures rather than 90 days. Language added highlighting that the Director of Revenue and Taxation shall develop procedures for tax deductions as well as coordinate with the Secretary in certifying tax deductions.
- g. **§9910. Reporting Requirements.** Language added replacing tax credit with tax deduction.

- 4. **Section 5. Amendment.** Section deleted in its entirety.
- 5. Succeeding sections were renumbered accordingly.

III. CONCLUSION:

Your Committee agrees with the intent and purpose of the proposed legislation and recommends passage in the form of House Bill No. 23-48, Senate Substitute 1.

Respectfully submitted,



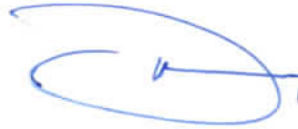
Senator Donald M. Manglona
Chairperson



Senator Corina L. Magofna
Vice Chairperson



Senator Celina R. Babauta
Member



Senator Francisco Q. Cruz
Member



Senator Dennis C. Mendiola
Member

Reviewed by:



Senate Legal Counsel

Attachment(s):

- *Written Comment(s):*
 1. *Leila F. Staffler, Secretary, Department of Labor, letter dated September 7, 2023*
 2. *Daniel Dean T. Alvarez Jr., Acting Director, Division of Revenue and Taxation, Department of Finance, letter dated April 26, 2024*
- *Documents submitted on the date of the scheduled committee meeting(s):*
 1. *Leila F. Staffer, Secretary, Department of Labor, received on December 27, 2023*
 2. *Joe Villacrusis, Program Manager, Workforce Investment Agency, Department of Labor, received on December 27, 2023*

TWENTY-THIRD NORTHERN MARIANAS COMMONWEALTH

LEGISLATURE

IN THE HOUSE OF REPRESENTATIVES

MAY 10, 2023

Second Special Session, 2023

H.B. 23-48, SS1

A BILL FOR AN ACT

To amend Title 4, Division 9 of the Commonwealth Code to place the apprenticeship program within the Department of Labor and to repeal 3 CMC §1351 through §1358 in their entirety; and for other purposes.

**BE IT ENACTED BY THE 23RD NORTHERN MARIANAS
COMMONWEALTH LEGISLATURE:**

1 **Section 1. Short Title.** This Act shall be cited as the
2 “Commonwealth Apprenticeship Program Act of 2024”.

3 **Section 2. Findings and Purpose.** The Legislature finds that pursuant to
4 the Northern Mariana Islands US Workforce Act of 2018, the CNMI was given a
5 period, slated to end 31 December 2029, to transition towards the employment of
6 U.S. eligible workers, especially in the field of skilled labor. Cognizant of such a
7 transition requirement, the Legislature finds it highly pertinent to establish and
8 invest in programs that are intended to develop a local skilled workforce. With the
9 development of a U.S.-based workforce, the CNMI will cease to rely exclusively
10 on non-U.S. workers.

11 The Legislature also finds apprenticeship programs are a system for training
12 new generations of practitioners for trades and/or professions with On-the-Job

1 Learning and Related Training Instruction. Within these programs, a practitioner
2 can be licensed to practice in their respective craft to gain employment in an
3 Apprentice occupation. Other United States jurisdictions, such as Guam, Hawaii,
4 Alabama, and so forth, have implemented necessary laws and registered
5 apprenticeship programs that aim to develop their respective U.S.-based, local
6 workforce. As a Commonwealth of the United States, it is imperative to mirror
7 these programs to provide our people in the CNMI with access to education and
8 training for the necessary skills they need to obtain employment, become
9 financially self-sufficient, to support their respective families, and to contribute to
10 the CNMI economy.

11 The Legislature further finds CNMI Public Law 15-5, codified as
12 3 CMC §1351 et. seq., authorized the Northern Marianas College to establish the
13 United State Registered Apprenticeship Program. Despite this authorization, the
14 Legislature finds its implementation has been troublesome due to a lack of a
15 specified funding source to administer the program. Furthermore, the specified
16 CNMI Public Law does not require the collaboration of the CNMI Department of
17 Labor, a department within the CNMI Government that is tasked to handle private
18 sector labor issues within the CNMI. Mindful of the labor shortages that we are
19 currently facing, it is highly pertinent to allow for the appropriate agency to
20 collaborate with the respective institutions to administer its implementation. As it
21 stands, the CNMI Department of Labor Workforce Investment Agency has been

1 administering a U.S. DOL Registered Apprenticeship Program (RAP) as an
2 approved work-based strategy since 2019 when they received an Apprenticeship
3 State Expansion grant. The grant's purpose was to promote the U.S. Department of
4 Labor (US DOL) Registered Apprenticeship Programs (RAP) as a significant
5 workforce solution. The program was designed to up-skill incumbent workers in
6 demand-driven occupations in the CNMI.

7 Therefore, the purpose of this Act is to amend Title 4, Division 9 of the
8 Commonwealth Code by adding a new Chapter 9 to re-establish an apprenticeship
9 program within the CNMI and to repeal 3 CMC §1351 through §1358 in its entirety
10 and for other purposes. In doing so, this legislation will reestablish a CNMI
11 Registered Apprenticeship Program within the Department of Labor that is
12 designed to: increase local US highly skilled workers; establish systems for
13 employers to hire and train apprentices; authorize tax deductions for eligible costs
14 directly associated with an approved registered apprenticeship program.

15 **Section 3. Repealer.** 3 CMC §1351 through §1358 of the Commonwealth
16 Code is hereby repealed in its entirety.

17 **Section 4. Amendment.** Title 4, Division 9 of the Commonwealth Code is
18 hereby amended by adding a new Chapter 9 to read as follows:

19 **“CHAPTER 9. APPRENTICESHIP.**

20 **Article 1. CNMI Registered Apprenticeship Program.**

21 **§9901. Definitions.** As used in this Article:

1 (a) "Advisory Council" means the Advisory Council Under the
2 CNMI State Workforce Development Board (SWDB).

3 (b) "Apprentice" means a worker at least 16 years of age, except
4 where a higher minimum age standard is otherwise fixed by law, who is
5 employed to learn an apprentice occupation as provided in the Code Federal
6 of Regulations (CFR) Title 29, Subtitle A, part § 29.4 under standards of
7 apprenticeship fulfilling the requirements of part § 29.5.

8 (c) "Apprenticeship Program" means a plan containing all terms and
9 conditions for the qualification, recruitment, selection, employment, and
10 training of apprentices, as required under this part and CFR part 30,
11 including such matters as the requirement for a written apprenticeship
12 agreement.

13 (d) "Business" means a professional group, association, corporation,
14 partnership, sole proprietorship, trust, foundation, or any other individual or
15 organization with good standing with the CNMI DOL and carrying on any
16 business whether or not operated for profit.

17 (e) "Cancellation" means the termination of the registration or
18 approval status of an apprenticeship program at the request of the sponsor
19 or termination of an Apprenticeship Agreement at the request of the
20 apprentice.

21 (f) "CNMI Office of Apprenticeship" shall consist of full-time

1 employees of the CNMI Department of Labor and shall manage registered
2 and potential Business Employers and Apprentices.

3 (g) "DOL" means the Department of Labor of the CNMI
4 Government.

5 (h) "Director" means the Director of Revenue and Taxation.

6 (i) "Eligible Training Provider List (ETPL) Institutions" means
7 institutions or entities with job training programs approved by the State
8 Workforce Development Board.

9 (j) "Eligible Training Costs" means the direct costs incurred for
10 training a registered apprenticeship; including wages, instructional
11 expenses, and supportive services.

12 (k) "Employer" means any person or organization employing an
13 apprentice whether or not such person or organization is a party to an
14 apprenticeship agreement with the apprentice.

15 (l) "Institution of higher education" means the Northern Marianas
16 College, Northern Marianas Technical Institute, licensed post-secondary
17 institutions, or licensed post-secondary training programs approved by the
18 USDOL OA.

19 (m) "Occupation List" means a list of occupations prioritizing the
20 CNMI's needed trades that corresponds with a USDOL-OA apprenticeship
21 training program that lists the occupational trades approved for

1 apprenticeship training within the Program.

2 (n) "Program" means the Commonwealth Registered
3 Apprenticeship Program, an occupationally driven apprenticeship training
4 program meeting the standards of the U.S. Department of Labor, Office of
5 Apprenticeship, that is recognized and approved as an occupational priority
6 by DOL to which this Article applies.

7 (o) "Program Provider" means a business or institution of higher
8 education that conducts a registered apprenticeship program recognized by
9 the United States Department of Labor (USDOL), Office of Apprenticeship
10 (OA). A business with a registered apprenticeship program may be both a
11 program participant and a program provider.

12 (p) "Program sponsor" means an employer that employs apprentices
13 who receive training through a program provider of a registered
14 apprenticeship program.

15 (q) "Secretary" means the Secretary of the CNMI Department of
16 Labor.

17 (r) "Skilled trainer" means a journeyman or journey-worker.

18 (s) "State Workforce Development Board" means the board is a
19 formal body of volunteers with the majority representing the business
20 community, local elected officials (Senate and House), and other required
21 members of government and workforce/labor organizations. Members of

1 the board are appointed and serve at the pleasure of the Governor.
2 Additionally, the CNMI State Workforce Development Board assists the
3 Governor with administrative, fiscal, and policy oversight of the Workforce
4 Innovation and Opportunity Act (WIOA) Title I programs and services.

5 (t) "Tax deduction" means a reduction in business gross revenue
6 (BGR) that is subject to tax equal to one hundred percent (100%) of
7 remaining eligible training costs paid or incurred by a program participant
8 to train an apprentice.

9 (u) "Trade" means the skilled practice of an occupation.

10 (v) "USDOL" means the United States Department of Labor.

11 (w) "USDOL-OA" means the Office of Apprenticeship of the U.S.
12 Department of Labor.

13 **§9902. CNMI Registered Apprenticeship Program.**

14 The Secretary of Labor shall:

15 (a) administer the Commonwealth Registered Apprenticeship
16 Program and coordinate with the Advisory Council;

17 (b) ensure proper educational accreditation standards are met and
18 maintained by program providers, using educational classes provided by an
19 institution of higher education or approved educational learning resources
20 identified in the standards;

21 (c) shall develop standards for apprenticeship agreements in

1 conformity with this Chapter;

2 (d) hire the staff needed for the CNMI Registered Apprenticeship
3 Program;

4 (e) Certify all participating businesses are in good standing pursuant
5 to NMIC Title 80 Department of Labor Subchapter 80-20.1 Employment
6 Rules and Regulations;

7 (f) Collaborate with the CNMI Public School System to assist in
8 their alignment of Career Technical Education programs with Registered
9 Apprenticeships in an effort to:

10 (1) Enhance the quality of CTE program outcomes by
11 aligning CTE programs with industries;

12 (2) Expand post-program opportunities; and

13 (3) Increase the number of qualified apprentices for high-
14 demand, high-wage, and high-skill careers;

15 (g) Certify eligible training costs paid or incurred pursuant to the
16 Program; and

17 (h) Perform other duties as are necessary to carry out the intent and
18 purpose of this Chapter.

19 **§9903. Apprenticeship Program Occupations Approved for the**
20 **Commonwealth Registered Apprenticeship Program.**

21 Annually, the Secretary shall:

1 (a) Establish a list of skilled occupations and trades approved for the
2 program based on JVA data collected from the Division of Employment
3 services.

4 (b) Amend the list of skilled occupations as necessary. Provided,
5 however, that all occupations listed are eligible under the USDOL-OA
6 apprentice occupations.

7 (c) Consider new program participant applications and agreements
8 as they are submitted for review.

9 **§9904. Authorization to Enter into Apprenticeship Agreements.**

10 The SWDB Advisory Council, with the approval of the Secretary,
11 may contract with program providers to prescribe the manner, terms, and
12 conditions of DOL cooperation with the provider in meeting the Program's
13 objectives. The contracts shall be with program providers having a
14 registered and approved apprenticeship training program that complies with
15 applicable laws.

16 **§9905. Eligibility.**

17 An apprentice must:

18 (a) Be a paid employee of RAP Sponsor. To qualify as an apprentice,
19 an individual must have an established and documented employment
20 history with the employer for three months or more;

21 (b) Be a citizen or non-citizen authorized to work in the United

1 States;

2 (c) Be at least 16 years of age or older; and

3 (d) Agree to the terms and conditions of the Program and § 9909 of
4 this Article.

5 **§9906. Participation Requirements for Apprentices.**

6 An apprentice shall sign an agreement with the respective employer
7 and DOL that stipulates that, in exchange for the training, the apprentice
8 will remain and work in the CNMI for a period of one year for each year of
9 participation in the Program.

10 **§9907. Administration of the Commonwealth Registered**
11 **Apprenticeship Program.**

12 (a) The CNMI State Workforce Development Board shall:

13 (1) Establish an Advisory Council to provide leadership and
14 guidance to promote and expand apprenticeship in new high-growth
15 industries; build and maintain partnerships with stakeholders; and
16 coordinate resources that support apprenticeship opportunities;

17 (2) Resolve differences arising out of the apprenticeship
18 agreements where the differences cannot be otherwise adjusted
19 locally;

20 (3) Submit all proposed modifications in legislation,
21 regulations, policies and/or operation procedures planned or

1 anticipated by the Advisory Council, either at the time of application
2 for recognition or subsequently, to the Department for review and
3 obtain the Secretary's concurrence prior to implementation;

4 (4) Perform other duties as are necessary to carry out the
5 intent and purpose of this Chapter;

6 (b) The CNMI Registered Apprenticeship Program duties and
7 responsibilities shall include, but are not limited, to the following:

8 (1) Assist in the development of on-the-job learning
9 programs in national apprentice occupations or local apprentice
10 occupations;

11 (2) Register such apprenticeship agreements as are in the
12 best interest of apprenticeship, and which conform to the standards
13 established by this Chapter;

14 (3) Keep a record of apprenticeship agreements and upon
15 determination thereof issue either an interim credential or a
16 certificate of completion of apprenticeship;

17 (4) Terminate or cancel any apprenticeship agreements in
18 accordance with the agreements or at the request of the sponsor, or
19 termination of an Apprenticeship Agreement at the request of the
20 apprentice;

21 (5) Keep a record of program participants and program

1 provider processing fees and finances; and

2 (6) Establish contracts with government agencies,
3 departments and instrumentalities, public or private organizations,
4 firms, companies, businesses, program providers, or individuals to
5 provide technical or skilled training programs. Said contracts shall
6 provide for specialized training in needed skills not otherwise
7 available through the Program. If this specialized training is not part
8 of an accessory CNMI Government or federally funded program,
9 the program participant shall pay the training cost.

10 (c) Program sponsors having apprentices in training shall adopt and
11 register with the Secretary a written Affirmative Action Plan and Selection
12 Procedure according to Title 29 C.F.R. Part 30. Program sponsors may set
13 their own minimum requirements, qualifications, and credentials for
14 apprentices in compliance with all applicable Program requirements of
15 USDOL-OA standards; and

16 (d) DOL is authorized to collect an Eligible Costs Tax Deduction
17 Certification processing fee in order to defray the cost of administering the
18 Program and shall be due upon release of the certification.

19 **§9908. Tax Deduction for Apprenticeship Program**
20 **Participants.**

21 (a) Any business that employs apprentices duly enrolled and

1 registered under the terms of the Program is entitled to a tax deduction on
2 their BGR equal to one hundred percent (100%) of remaining eligible costs
3 paid or incurred by the business, provided that:

4 (1) The apprenticeship training program teaches an approved
5 occupation under § 9903 of this Article;

6 (2) The apprentice completes a training stage of an
7 apprenticeship program as determined by DOL, following USDOL-
8 OA standards. No tax deduction shall be claimed by a program
9 participant for an apprentice unless the apprentice completes at least
10 fifty percent of the approved Work Process Schedule;

11 (3) The eligible costs were paid or incurred during the
12 apprentice's participation in the Program;

13 (4) The eligible costs were paid or incurred within the
14 previous three calendar years from the date the costs were submitted
15 to DOL for certification. Costs paid or incurred earlier than the three
16 calendar years preceding the date the costs are submitted to DOL
17 shall not be certified as eligible costs;

18 (5) No business or program participant holding a Qualifying
19 Certificate (QC) shall claim tax deductions pursuant to this Section.
20 The Commonwealth Economic Development Authority shall assist
21 the Secretary in determining whether a participant may claim the

1 deduction;

2 (6) The apprentice must complete a minimum of 2,000 hours
3 of On-the-Job-Training per year unless otherwise required by
4 USDOL standards;

5 (7) A “progressive wage scale” shall be approved to meet
6 USDOL OA standards. Paid wages must meet the federal minimum
7 wage. There must be at least one wage progression scale; and

8 (8) Apprenticeship training costs paid by Workforce
9 Innovation and Opportunity Act (WOIA) funds, Department of
10 Labor CNMI Apprenticeship Program funds, and any training costs
11 paid by the Commonwealth Government or federal funding shall not
12 be eligible Program costs and shall not be applied as a tax deduction.

13 (b) A program participant may only apply the tax deduction if
14 allowed by the CNMI Division of Revenue and Taxation procedures.

15 **§9909. Implementation of Tax Deduction by the Director of**
16 **Revenue and Taxation.**

17 The Director of Revenue and Taxation shall, no later than one
18 hundred and twenty days after the enactment hereof, in cooperation with the
19 Secretary, develop procedures to implement the tax deduction authorized
20 by this Article, and to that end shall:

21 (a) enact such requirements for claimants as may be necessary to

1 implement this Article;

2 (b) promulgate forms and publications to assist eligible businesses
3 claiming the tax deduction;

4 (c) develop procedures to facilitate the tax deductions on BGR; and

5 (d) coordinate with the Secretary relative to verifying certified tax
6 deductions.

7 **§9910. Reporting Requirements.**

8 (a) The Secretary shall include a summary report of this program in
9 the Citizen Centric Report due at the close of each fiscal year. The report
10 shall include:

11 (1) List the number of Registered Apprentices for every
12 corresponding occupation;

13 (2) List the number of Registered Apprentices that
14 completed their training program; and

15 (3) List the total amount of tax deductions claimed by each
16 program sponsor in the preceding fiscal year;

17 (b) Program sponsors and program providers must report to an
18 approved CNMI DOL and US DOL program system.

19 **Section 5. Severability.** If any provisions of this Act or the application of
20 any such provision to any person or circumstance should be held invalid by a court
21 of competent jurisdiction, the remainder of this Act or the application of its

1 provisions to persons or circumstances other than those to which it is held invalid
2 shall not be affected thereby.

3 **Section 6. Savings Clause.** This Act and any repealer contained herein
4 shall not be construed as affecting any existing right acquired under contract or
5 acquired under statutes repealed or under any rule, regulation, or order adopted
6 under the statutes. Repealers contained in this Act shall not affect any proceeding
7 instituted under or pursuant to prior law. The enactment of the Act shall not have
8 the effect of terminating, or in any way modifying, any liability, civil or criminal,
9 which shall already be in existence on the date this Act becomes effective.

10 **Section 7. Effective Date.** This Act shall take effect upon its approval by
11 the Governor, or it becoming law without such approval.

Prefiled: 5/4/2023

Date: 5/4/2023

Introduced by: /s/ Rep. Denita Kaipat Yangetmai

Reviewed for Legal Sufficiency by:

/s/ John M. Bradley
House Legal Counsel



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Department of Labor
1356 Mednilla Avenue Capitol

PO Box 10007, Saipan MP 96950



Date : September 7, 2023

To : **Office of Senator Donald Manglona**
Chairman of Senate Standing Committee on Health, Education,
and Welfare (HEW)
23rd CNMI Legislature

From : Department of Labor

Subject : Comments on Proposed Legislation House Bill 23-48

Dear Chairman Manglona:

Thank you for the opportunity to provide comments from the Department of Labor on House Bill 23-48:

To amend Title 4, Division 9 of the Commonwealth Code to place the apprenticeship program within the Department of Labor and to repeal 3 CMC §1351 through §1358 in their entirety; and for other purposes.

In conferring with DOL Division Directors, we at the CNMI DOL fully support the draft legislation to establish a CNMI Office of Apprenticeship as a part of the DOL. In consideration of the current financial constraints in the government, it would be most cost effective to designate the "CNMI Office of Apprenticeship" as a section/unit under the WIA Division. Through WIOA, we already promote and assist with the development of Registered Apprenticeship Programs (RAP) and would eliminate duplication of costs and services because we already have the infrastructure in place and an ongoing program already in operation. As a standalone, this office would create duplication of WIOA services.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Department of Labor
1356 Mednilla Avenue Capitol
PO Box 10007, Saipan MP 96950



Apprenticeship in the CNMI is growing fast! We have a goal to reach 100 apprentices by 2024 in an effort to be able to qualify for more federal grant funding in support of apprenticeship programs. This legislation will strengthen our chances for grant approvals because it will

establish our authority to run and develop RAPs by law and concur the importance of these types of programs in the community. Thank you for your partnership!

After carefully reviewing the draft, we would like to suggest a few recommendations to further enhance the proposed legislation:

- Section 9908. Tax Credit, (a), (8) -
 - Presently, we promote the Registered Apprenticeship Program (RAP) on the benefits of paid Related Training Instruction (RTI) and 50% reimbursement on On the Job Learning (OJL) through federal/local resources. The language in this section disqualifies a Registered Apprentice (RA) sponsor from a tax credit if they are receiving subsidy from WIA /CW, etc for a RAP. This would mean that the RA sponsor bears all the associated costs for RTI **AND** On the Job Learning (OJL) to avail of the tax credit.
 - *Recommendations:* revise language to only apply the tax credit for the cost of OJL portion of a RAP. This would give sponsors the choice to select a 50% reimbursement on paid wages for the extraordinary costs for the on-the-job training through federal/local resources or the 50% tax credit.

Thank you again for the opportunity to give input and feedback on these proposed legislations.

Sincerely yours,


Leila Staffler, M.S. Ed
Secretary of Labor



Revenue and Taxation Department of Finance



P.O. Box 5234 CHRB Saipan, MP 96950

TEL: (670) 664 1000

FAX: (670) 664-1015

April 26, 2024

24-190REV

VIA EMAIL: sen.dmanglona@gmail.com

Hon. Donald M. Manglona
Chairman, Committee on Fiscal Affairs
The Senate Twenty-Third Northern Marianas
Commonwealth Legislature
Saipan, MP 96950

Subject: Commonwealth of the Northern Mariana Islands (CNMI) Department of Finance, Division of Revenue and Taxation Comments and Recommendations on House Bill (H.B.) No. 23-48 "To amend Title 4, Division 9 of the Commonwealth Code to place the apprenticeship program within the Department of Labor and to repeal 3 CMC §1351 through §1358 in their entirety; and for other purposes."

Dear Chairman Manglona,

On behalf of the CNMI Department of Finance, Division of Revenue and Taxation, I thank you for the opportunity to provide comments and recommendations on House Bill 23-48. Our comments and recommendations are as follows.

House Bill No. 23-30

H.B. 23-48 (the "Bill") would amend Title 4, Division 9 of the Commonwealth Code to place the apprenticeship program within the Department of Labor and to repeal 3 CMC §§ 1351 through 1358 in their entirety; and for other purposes.

Comments on Bill Text

All references to "business privilege tax" should be changed to "business gross revenue tax." These references are in §§ 9901(n), 9909(c), and 9909(d) of the Bill.

In addition, the law does not contemplate whether the tax credits taken under the Bill may be used towards the non-refundable credit. Accordingly, for the purposes of clarity, we recommend incorporating the following language into § 9908 of the Bill:

- (b) The "tax imposed" for purposes of computing the credit under 4 CMC § 1308 is the tax net of any credit taken pursuant to this section.

Identical language is incorporated into the laws governing Education Tax Credits. See 4 CMC §§ 1205(a) and 1306(a).

Tax Impact and Other Considerations

Section 5 of the Bill would amend 4 CMC §1205(c) of the Commonwealth Code to include Commonwealth Registered Apprenticeship Programs as qualifying educational institutions for the purposes of the Education Tax Credit. The Education Tax Credit Statute, 4 CMC § 1205 (the “Statute” or “§ 1205”), provides a nonrefundable credit against taxes imposed under 4 CMC §§ 1201, 1202, for cash contributions made to “qualified educational institutions.”¹ The purpose of the Statute is to enhance education through incentives for private individuals and business entities to contribute to qualified educational institutions. 4 CMC § 1205, Section 1, Findings and Purpose. The legislature acknowledged similar tax benefits contemplated under the NMTIT, via IRC § 170, which provides deductions for donations to qualifying organizations. *Id.* However, rather than implementing a statute providing for deductions in computing local wage and salary, gross receipts, and earnings taxes, like the NMTIT, the legislature believed that it was necessary to provide a “more meaningful tax incentive.” *Id.*

The Statute gives taxpayers a credit for amounts they donate to “qualified educational institutions” up to \$5,000, without any other limitation on the credit. *See* 4 CMC §§ 1205, 1306. Tax credits are deducted *after* taxpayers’ tax liability has been calculated, thereby giving taxpayers dollar-for-dollar credits against their CNMI taxes for sums paid to qualified educational organizations. Tax credits therefore operate differently from tax deductions; whereas tax deductions allow taxpayers only to reduce their income subject to taxation, tax credits allow individuals to make payments to a third party *in satisfaction of* their assessed tax burden. *See Hibbs v. Winn*, 542 U.S. 88, 95 (2004) (discussing nature of tax credits). Thus, §§ 1205 and 1306 allow taxpayers to decide whether to pay their first \$5,000 worth of taxes to the CNMI or “donate” it to a qualified educational institution, without any consequence to the taxpayer. Furthermore, given that there is no limitation other than the \$5,000 cap, taxpayers that owe \$5,000 or less do not have to pay any local taxes to the CNMI; therefore, contributing nothing to the overall funding needs of the CNMI.²

The legislative intent was to incentivize charitable donations by providing a substantially greater tax benefit than the charitable deduction allowed under the NMTIT; however, the enacted tax credit scheme fails to provide any incentive to donate money other than that owed to the CNMI. By comparison, NMTIT charitable deduction functions as a government “matching” contribution for a charitable donation. For example, if a taxpayer in the 25 percent tax bracket contributes \$100 and claims a charitable deduction, it reduces his taxes by \$25 and the government has essentially made a \$25 match to the taxpayer’s charity of choice. This type of deduction incentivizes giving of a taxpayer’s own money, because the government only subsidizes a percentage of the donation. On the other hand, the ETC gives no incentive to donate one’s own money, because the “donation” is fully subsidized by the CNMI government.

The Legislature should consider whether the Statute is best designed to achieve the purpose of enhancing education in the Commonwealth, and assess the viability of other incentives such as deductions and modified credits. If the tax credit remains as currently enacted, the Legislature should strongly consider instituting a limitation on the amount of tax eligible for the ETC, so that the CNMI receives at least a portion of the taxes it is owed. For example, allow a “credit of the lesser of 25% of taxes imposed under 4 CMC §§ 1201, 1202, and 1301-04 or \$5,000.” Otherwise, if every taxpayer utilized the ETC to the extent possible, the CNMI could be deprived of up to \$5,000 worth of taxes for every taxpayer.³

¹ The Education Tax Credit may also be used against Business Gross Revenue Taxes pursuant to 4 CMC § 1306.

² Taxpayers may still be subject to tax income tax under the NMTIT.

³ This is a legitimate policy concern if the number of credits continues to increase. Education Tax Credits claimed for calendar years 2021 through 2023 amounted to \$3,791M, which is more than triple the amount of credits claimed between 2008 and 2010, \$1.255M.

In addition, even if the credit structure is not modified, at minimum the statute should require that all entities listed in 4 CMC § 1205(c), including Commonwealth Registered Apprenticeship Programs, maintain tax exempt status under 501(c)(3). The ability to receive tax deductible or creditable contributions is a significant benefit to charitable organizations and allowing a taxpayer deduction or credit is a substantial expenditure for the government. Requiring 501(c)(3) status will subject qualifying entities to the requirements and regulations imposed under 501(c)(3), which are designed to ensure non-profits are operating as charities and worthy of receiving deductible or creditable donations, and prevent for businesses from utilizing the tax credit for profit. Accordingly, the Statute should require all qualifying educational organizations maintain 501(c)(3) tax exempt status.

On behalf of the CNMI Department of Finance, Division of Revenue and Taxation, I thank you again for the opportunity to provide this letter. If you have any questions or need any additional information, please do not hesitate to contact me at (670)664-1000 or email me at d.alvarez@dof.gov.mp.

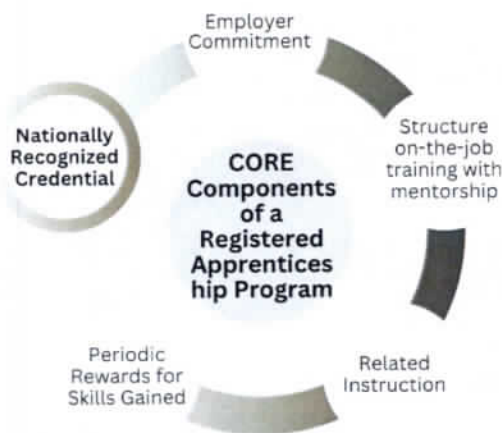
Sincerely,

A handwritten signature in blue ink, appearing to read 'Daniel Dean T. Alvarez Jr.', is positioned above the typed name.

Daniel Dean T. Alvarez Jr.
Acting Director,
Division of Revenue and Taxation

Cc: Edith Deleon Guerrero, Senate President
Senpres.edithdlg@gmail.com

- **1983** CNMI Public Law 03-66: First mention of establishing an “apprenticeship training program” for resident workers
- **2006** CNMI Public Law 15-05: Amend PL03-06 and mandate NMC’s established apprenticeship program to focus on business, tourism, industrial/technical, and professional programs
- **2019-2023** CNMI DOL was granted the Apprenticeship State Expansion grant. The grant’s purpose was to promote the U.S. Department of Labor (US DOL) Registered Apprenticeship Programs (RAP) as a significant workforce solution. Program was designed to up-skill incumbent workers in demand-driven occupations in the CNMI.
- **2020-2024** NMC was awarded the State Apprenticeship Expansion grant. The grant’s purpose was to provide technical support and assist with structure building in collaboration with CNMI DOL.
- **2023-Present** CNMI House Bill 23-48: This legislation will reestablish a CNMI Registered Apprenticeship Program within the Department of Labor that is designed to increase local US highly skilled workers, establish systems for employers to hire and train apprentices, and authorize tax credits for certain long-term apprenticeship training expenses. Bill is now in the CNMI Senate under the Health, Education and Welfare committee.



Direct Business Involvement

Employers must play an active role in building the program and be involved in every step in designing the apprenticeship

On-the-Job Training

Hands-on training from an experienced mentor/trainer at the job site. On-the-job training is developed through mapping the skills and knowledge that the apprentice must learn over the course of the program in order to be fully proficient at the job.

Related Training Instruction

Delivers the technical, workforce, and academic competencies that apply to the job. It can be provided by a community college, a technical school, or on-line courses – or by the business itself. Education partners collaborate with business to develop the curriculum based on the skills and knowledge needed by apprentices.

Reward for Skills Gained

Apprentices receive increases in pay as their skills and knowledge increase. They start by establishing an entry wage and an ending wage, and build in progressive wage scale through the apprenticeship as skill benchmarks are attained by apprentices.

NATIONAL OCCUPATION CREDENTIAL

Apprenticeship programs are designed to ensure that apprentices master every skill and have all the knowledge needed to be fully proficient for a specific occupation

<u>Sponsors</u>	<u>Apprentices</u>
PACIFIC BIOMEDICAL SERVICES, INC	2
500 SAILS	1
NAKED FISH BAR & GRILL	1
SALT & BARBER ART STUDIO	2
CHCC-COMMUNITY GUIDANCE CENTER	2
CHCC-PHARMACY	6
PRIORITY CARE SERVICES	18
MANGO	2

Senate HEW
RECEIVED
 DATE/BY 122723 - 1030 AM
 D. Macaranas

EMPLOYER BENEFITS

- Creating a pipeline of skilled workers
- Reduce turnover
- Improve productivity, profitability, and your bottom line
- Create flexible training options that ensure workers develop the right skills
- Demonstrate investment in your community
- Minimal to no cost
- Technical assistance
- WIOA Support Services for apprentices to minimize challenges and barriers

PROGRAM CHALLENGES

- Stakeholder Alignment
- Dedicated Funding Source
- Incentives for Employers
- Registration Process
- Outreach and Education

TYPES OF PARTNERS COMMONLY INVOLVED IN APPRENTICESHIP





PACIFIC BIOMEDICAL SERVICES, INC (PBSI)

Biomedical Equipment Technician

- Approved: 04/2021
- Length of Program: 4 years
- Othe Job Learning Hours: 8,000



NAKED FISH BAR & GRILL

Cook

- Approved: 12/2022
- Length of Program: 2 years
- Othe Job Learning Hours: 3,500



SALT & BARBER

SALT & BARBER ART STUDIO

Cosmetologist

- Approved: 03/2022
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000



CHCC - COMMUNITY GUIDANCE CENTER

Certified Drug & Alcohol Counselor

- Approved: 01/2022
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000



COMMONWEALTH HEALTHCARE CORPORATION

Pharmacy Technician

- Approved: 04/2023
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000



500 SAILS

500 SAILS

Office Manager/Admin. Services

- Approved: 10/2022
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000



PRIORITY CARE SERVICES

Emergency Medical Technician

- Approved: 04/2023
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000



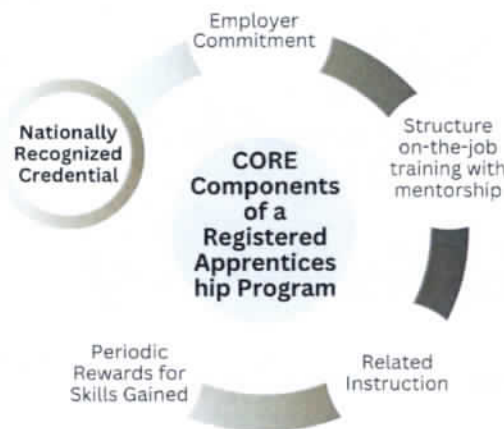
MARIANAS ALLIANCE OF NON-GOVERNMENTAL ORGANIZATIONS

Office Manager/Admin. Services

Accounting Technician

- Approved: 08/2023
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000
- Approved: 11/2023
- Length of Program: 1 years
- Othe Job Learning Hours: 2,000

- **1983** CNMI Public Law 03-66: First mention of establishing an “apprenticeship training program” for resident workers
- **2006** CNMI Public Law 15-05: Amend PL03-06 and mandate NMC’s established apprenticeship program to focus on business, tourism, industrial/technical, and professional programs
- **2019-2023** CNMI DOL was granted the Apprenticeship State Expansion grant. The grant's purpose was to promote the U.S. Department of Labor (US DOL) Registered Apprenticeship Programs (RAP) as a significant workforce solution. Program was designed to up-skill incumbent workers in demand-driven occupations in the CNMI.
- **2020-2024** NMC was awarded the State Apprenticeship Expansion grant. The grant’s purpose was to provide technical support and assist with structure building in collaboration with CNMI DOL.
- **2023-Present** CNMI House Bill 23-48: This legislation will reestablish a CNMI Registered Apprenticeship Program within the Department of Labor that is designed to increase local US highly skilled workers, establish systems for employers to hire and train apprentices, and authorize tax credits for certain long-term apprenticeship training expenses. Bill is now in the CNMI Senate under the Health, Education and Welfare committee.



Direct Business Involvement

Employers must play an active role in building the program and be involved in every step in designing the apprenticeship

On-the-Job Training

Hands-on training from an experienced mentor/trainer at the job site. On-the-job training is developed through mapping the skills and knowledge that the apprentice must learn over the course of the program in order to be fully proficient at the job.

Related Training Instruction

Delivers the technical, workforce, and academic competencies that apply to the job. It can be provided by a community college, a technical school, or on-line courses – or by the business itself. Education partners collaborate with business to develop the curriculum based on the skills and knowledge needed by apprentices.

Reward for Skills Gained

Apprentices receive increases in pay as their skills and knowledge increase. They start by establishing an entry wage and an ending wage, and build in progressive wage scale through the apprenticeship as skill benchmarks are attained by apprentices.

NATIONAL OCCUPATION CREDENTIAL

Apprenticeship programs are designed to ensure that apprentices master every skill and have all the knowledge needed to be fully proficient for a specific occupation

<u>Sponsors</u>	<u>Apprentices</u>
PACIFIC BIOMEDICAL SERVICES, INC	2
500 SAILS	1
NAKED FISH BAR & GRILL	1
SALT & BARBER ART STUDIO	2
CHCC-COMMUNITY GUIDANCE CENTER	2
CHCC-PHARMACY	6
PRIORITY CARE SERVICES	18
MANGO	2

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CNMI Registered Apprenticeship Program

Program updates, December 2023

Apprenticeship State Expansion Program:

- In 2019 a grant by the US Department of Labor was awarded to the CNMI Department of Labor, Workforce Investment Agency
- The grant's purpose was to promote the U.S. Department of Labor (US DOL) Registered Apprenticeship Programs (RAP) as a significant workforce solution.
- Program was designed to up-skill **incumbent workers** in demand-driven occupations in the CNMI.
- A no-cost extension was awarded and the grant performance ended in June 2023

State Apprenticeship Expansion Program:

- In 2020, a grant was awarded to Northern Marianas College
- The grant's purpose was to provide technical support and assist with structure building in collaboration with CNMI DOL
 - Legislation
 - Technical assistance
 - Pipeline between RTI Providers and employers
 - Outreach and Marketing
- Received a no-cost extension and this grant will be ending in June 2024

Core Components of a Registered Apprenticeship Program:

- Employer-Driven Program
- Structured On-the-Job Learning with mentorship
- Related Training Instruction
- Rewards for skills gained
- Nationally Recognized Credential
- Employer Commitment

Process of a RAP

- Connect with employers
 - Business Engagements
 - Outreach Efforts
- Identify needs
 - Occupation Finder
- Application process
 - Standardized application with WIOA Title 1 Programs
 - Sponsor and Apprentice application
 - Work Process Schedule Development
- Registration
 - Certificate of Registration
 - Standards Builder
 - Appendix A and B
- Completion
 - Apprentice gain National Credential from US Department of Labor

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CNMI Registered Apprenticeship Program

Program updates, December 2023

Current RAP Sponsors:

Sponsor	Apprentices
Pacific Biomedical Services, Inc.	2 Biomedical Technicians
Salt & Barber	Approved for 2 Cosmetologist
Naked Fish	1 Certified Cook
CHCC-Community Guidance Center	2 Alcohol and Drug Counselor
CHCC-Pharmacy	6 Pharmaceutical Technicians
500 Sails	1 Admin Manager
MANGO	1 Office Manager & 1 Accounting Tech
Priority Care	18 Emergency Medical Technicians
Sponsors: 8	Apprentices: 34

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