

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 1014 (Delegate Hecht, *et al.*)
 Economic Matters

Maryland Nonprofit Development Center Program

This bill creates the Maryland Nonprofit Development Center Program (NDCP) in the Department of Business and Economic Development (DBED) to provide training and technical assistance to nonprofit organizations throughout the State. It also increases the fee assessed on charitable organizations with certain levels of charitable contributions from the public, and also increases the nonrefundable processing fee assessed on articles of incorporation filed by a nonstock corporation.

Fiscal Summary

State Effect: Special fund revenues would increase by \$445,800 in FY 2008 and by \$594,400 annually thereafter from additional fee revenue. Special fund expenditures would increase by an equal amount to provide technical assistance to nonprofits and for administrative expenses.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$445,800	\$594,400	\$594,400	\$594,400	\$594,400
SF Expenditure	445,800	594,400	594,400	594,400	594,400
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: Potential meaningful for small nonprofit organizations.

Analysis

Bill Summary: A nonprofit entity is defined as a corporation incorporated in the State, or otherwise qualified to do business in the State, that has been determined by the Internal Revenue Service to be exempt from taxation under § 501 (c) (3), (4), or (6) of the Internal Revenue Code.

DBED is charged with assisting the economic growth and revitalization of nonprofit entities in the State by providing training and technical assistance services. Specific types of assistance include individual consultation and technical assistance to any nonprofit entity that requests the service, training, and the operation of a technical information and data exchange.

The bill also establishes the Maryland Nonprofit Development Center Program Fund. The fund consists of: ● money appropriated in the State budget; ● a portion of the annual fee assessed on charitable organizations that receive more than \$25,000 in charitable donations from the public annually; ● and an additional \$100 fee for processing the articles of incorporation of a nonstock corporation.

In addition, the bill raises the annual fee paid by a charitable organization that collects at least \$25,000 in charitable contributions from the public; the increase is dedicated to the fund:

- \$20 if charitable contributions from the public are at least \$25,000 but less than \$50,001 (\$70 total annual fee);
- \$30 if contributions total between \$50,001 and \$75,000 (\$105 total annual fee);
- \$40 if contributions total between \$75,001 and \$100,000 (\$140 total annual fee); and
- \$80 if contributions total at least \$100,001 (\$280 total annual fee).

DBED must designate at least one private nonprofit entity to receive grants from the fund to implement NDCP. DBED must give priority to organizations that:

- have experience in providing the scope of assistance and services required to nonprofit entities in the State;
- demonstrate the capacity to provide the assistance and services required on a statewide basis; and
- have current expenditures equal to at least three times the amount of funding received by the fund, and that have been received from other sources for providing these types of services.

Current Law: Charitable organizations that receive more than \$25,000 in charitable contributions from the public are subject to an annual fee. The fee schedule is detailed below:

- \$50 if charitable contributions from the public are at least \$25,000 but less than \$50,001;
- \$75 if contributions total between \$50,001 and \$75,000;
- \$100 if contributions total between \$75,001 and \$100,000; and
- \$200 if contributions total at least \$100,001.

In addition, nonstock corporations are subject to a nonrefundable processing fee of \$100 for articles of incorporation.

Background: According to a compilation of Internal Revenue Service data from the Urban Institute, in 2004 there were approximately 28,600 nonprofit 501(c) tax-exempt organizations in the State. Of these, approximately 18,200 were public charities, 2,285 were private foundations, and 8,055 were other nonprofit organizations. These organizations or charities vary widely by function and include groups that promote the arts, public safety, health, and the environment and provide public services for local governments and the State. Their size, funding sources, and operational needs can vary significantly.

The Maryland Association of Nonprofits provides technical and management assistance to its 1,458 members. There is no State program that provides technical assistance specifically for nonprofit organizations, though similar services are provided to small businesses.

The Secretary of State advises that in fiscal 2006, there were 7,020 charitable organizations registered in the State. Of those, 580 had charitable contributions totaling between \$25,000 and \$50,000, 425 had charitable contributions totaling between \$50,001 and \$75,000, 280 had charitable contributions totaling between \$75,001 and \$100,000, and 3,085 had charitable contributions of at least \$100,001.

The State Department of Assessments and Taxation advised that the number of new nonstock corporations formed in the State totaled 3,148 in 2004, 3,065 in 2005, and 3,148 in 2006.

State Fiscal Effect: Special fund revenues and expenditures would increase by \$445,788 in fiscal 2008, and by \$594,383 annually thereafter from increased charitable contribution fees and nonstock corporation nonrefundable processing fees. This estimate

reflects the October 1, 2007 effective date of the bill for nonstock corporation processing fees, and is based on the following assumptions:

- approximately 3,120 nonstock corporations are formed annually, based upon the three-year average from 2004 to 2006;
- the number of charitable organizations receiving charitable contributions from the public stays constant at fiscal 2006 levels;
- the level of charitable contributions received by each organization stays constant at fiscal 2006 levels and the new annual fee would be paid by each organization beginning in fiscal 2008; and
- all revenue generated would be expended annually on assistance for nonprofit organizations.

DBED advises it could implement the program and provide oversight using existing resources.

Small Business Effect: Nonprofit organizations would benefit from technical assistance and individual consultation from NDCP. In addition, DBED must select one private nonprofit to receive grants from NDCP to implement the program.

Additional Information

Prior Introductions: Similar bills, SB 333 and HB 386, were introduced in 2001. SB 333 received an unfavorable report from the Senate Finance Committee, while HB 386 received an unfavorable report from the House Environmental Matters Committee. A substantially similar bill, HB 258 of 1995, was heard by the House Economic Matters Committee and later withdrawn.

Cross File: SB 689 (Senator Pugh) – Finance.

Information Source(s): Urban Institute, Maryland Association of Nonprofits, Department of Business and Economic Development, State Department of Assessments and Taxation, Secretary of State, Department of Legislative Services

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