

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 546
 Appropriations

(The Speaker, *et al.*) (By Request - Administration)
 Education, Energy, and the Environment

Serving Every Region Through Vocational Exploration Act of 2023

This Administration bill repeals the existing Maryland Corps Program and related fund and statutorily reestablishes them within the Department of Service and Civic Innovation (DSCI) to provide service placements to recent high school graduates and other individuals. However, the mandated appropriation for the existing program is not reestablished. Program participants must work 30 hours a week, partner with an on-site mentor, and be provided health insurance benefits and compensation of \$15 per hour by the participating employer. DSCI *may* provide stipends of up to \$6,000 and education awards of \$6,000 to participants who complete a placement and *must* (1) evaluate the program as specified and (2) adopt regulations to implement the program. **The bill takes effect June 1, 2023.**

Fiscal Summary

State Effect: No *net* effect in FY 2023, as discussed below. Although general fund expenditures increase in FY 2024, sufficient funding is included in the budget, and all but \$350,000 of the funds for the program are assumed to be transferred to the special fund created by the bill. Repeal of the mandated appropriation does not affect funding until FY 2025, when mandated general fund expenditures decrease by at least \$10.0 million a year (escalating to \$20.0 million in FY 2027 and subsequent years). These savings are offset by general fund expenditures to further capitalize the special fund as program costs for awards increase; in FY 2027, the net effect is an increase in general fund expenditures of \$5.2 million. Special fund expenditures beginning in FY 2024 reflect ongoing program costs and the phase-in of participants, and special fund revenues beginning in FY 2027 reflect needed support once the balance is drawn down. Other effects are not shown but are discussed below. **This bill eliminates a mandated appropriation beginning in FY 2025.**

(\$ in thousands)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	\$14,003	\$0	\$0	\$5,177	\$25,000
GF Expenditure	\$14,353	(\$10,000)	(\$15,000)	(\$14,823)	\$5,000
SF Expenditure	\$2,250	\$3,530	\$6,650	\$15,050	\$25,150
Net Effect	(\$2,600)	\$6,470	\$8,350	\$4,950	(\$5,150)

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

Local Effect: Local government expenditures may increase to the extent they accept, at their discretion, placements of Maryland Corps Program participants and have to pay wages and benefits. However, they may benefit to the extent the program enhances the pipeline of potential local government employees. Local revenues are not affected.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary:

Maryland Corps Program

The purposes of the reestablished Maryland Corps Program are to (1) provide service placements to recent high school graduates and other individuals with similar levels of education as an additional option to pursuing career and technical training or postsecondary education; (2) equip program participants with professional development, mentoring, job training, and other support while working in high-impact service placements; (3) help address the State's greatest challenges by channeling the next generation into public impact work; (4) strengthen a pipeline of talent into State and local governments to fill present and future staffing needs; (5) equip program participants with the skills that will enable them to successfully make the transition from high school to postsecondary education or the workforce; and (6) provide scholarships to program participants who have completed the program.

DSCI is charged with administering and providing staff for the program as provided in the State budget. Among its statutory responsibilities are (1) identifying and working with nonprofit entities who may receive grants to serve as regional program leaders across the State; (2) building and maintaining an accurate and up-to-date online portal to manage openings and service placements; and (3) evaluating the program's operation in collaboration with an independent entity.

Regulations adopted by DSCI must address the application process, eligibility requirements, program requirements, and the disbursement of stipends.

Program Participants

A program participant is an individual who either (1) has received, within the previous two years, a high school diploma, GED, comparable proof of educational level, or a Maryland high school certificate of completion or (2) qualifies under alternative criteria

developed by the Secretary of Service and Civic Innovation. DSCI must set targets for program participation, including 200 participants in the first year and 2,000 participants in the fourth year. A program participant must (1) perform the duties of the service placement to the satisfaction of the employer and DSCI; (2) participate in all related training; and (3) participate in specified program-wide events.

In addition to providing compensation and health insurance benefits to program participants, a participating employer may provide them with specified wraparound services.

An education award provided to participants who complete their placement must be deposited into a tax-exempt Maryland 529 account and may be used only for qualified higher education expenses, as defined by current law.

Maryland Corps Program Fund

The Maryland Corps Program Fund is a continuing and nonlapsing fund, the purposes of which are to provide stipends and scholarships to program participants and pay the costs to administer the program. The fund consists of money appropriated to the fund, gifts or grants received by DSCI, federal funds, investment earnings, and any other money accepted for the benefit of the fund.

Program Evaluation

DSCI must procure the services of a third-party entity to conduct an independent study and assessment of the program. The study must use random assignment or other research methods for the strongest possible causal inferences if random assignment is not feasible. The evaluator must submit its findings and recommendations by July 1, 2028. By October 1, 2028, DSCI must publish an online dashboard of key performance indicators included in the report.

Current Law:

Department of Service and Civic Innovation

In accordance with the Governor's constitutional authority to reorganize State government by executive order, the Governor established DSCI as a principal department in January 2023 by [Executive Order 01.01.2023.02](#). The executive order established the purpose of the department to be promoting service and volunteerism in the State and assigned the department eight responsibilities, including promoting the use of volunteers in State and local government, businesses, and nonprofit entities. It also transferred all employees of the Maryland Corps Program and the Governor's Office of Service and

Volunteerism to the new department. The executive order does not specifically address the department's role in administering the program, but it does assign the Secretary of Service and Civic Innovation the responsibility to "identify and expand initiatives to increase service and volunteerism in the State to create opportunities and strengthen communities."

Maryland Corps Program

The Maryland Corps Program was established by Chapter 654 of 2016 and substantially restructured by Chapter 37 of 2022, but it received no funding and, thus, was not operational through fiscal 2022. In fiscal 2023, the program received \$5.3 million (\$150,000 as general funds and the balance as special funds) for operations, stipends, and scholarships; however, none of the funding has been spent yet. (The bill requires the Department of Budget and Management to transfer \$5.0 million of this amount to DSCI for the Maryland Corps Program established by the bill. The fiscal 2024 budget as passed by the General Assembly transfers the full \$5.3 million for fiscal 2023 to DSCI for Maryland Corps.) In addition, five of the six positions on the Maryland Corps governing board remain vacant, and no executive director has been named.

As currently established in statute, the purpose of the Maryland Corps Program is to (1) provide meaningful service opportunities to participants that will address the social needs of the community; (2) equip participants with the skills that will enable them to successfully make the transition from high school to postsecondary education or the workforce; and (3) provide scholarships to participants who have completed the program to be used at institutions of higher education. It is administered by a board of directors appointed by the Governor, Speaker of the House, and President of the Senate.

The purpose of the Maryland Corps Program Fund is to provide stipends and scholarships to program participants, cover expenses incurred by the board, and provide funding for the program to match gifts or grants received by the board. As noted above, the program and fund did not receive funding until fiscal 2023. The Governor is required to include \$5.0 million in the fiscal 2024 budget for the fund, with the mandatory appropriation increasing by \$5.0 million each year thereafter through fiscal 2027; it remains at \$20.0 million each year thereafter. The fiscal 2024 budget as passed by the General Assembly reduces the appropriation by \$2.0 million for that year.

Background: On April 3, 2023, the Governor nominated Mr. Paul Monteiro to be the first Secretary of the Department of Service and Civic Innovation. Prior to his nomination, Mr. Monteiro served as the director of the Community Relations Service in the U.S. Department of Justice.

State Fiscal Effect: As shown in **Exhibit 1**, the fiscal 2024 budget as passed by the General Assembly includes \$13.7 million for DSCI in fiscal 2024, of which \$11.4 million is specifically to support the Service Year Option Program and is contingent on the enactment of this bill or Senate Bill 551 establishing the program. Another \$4.5 million for DSCI is included as a deficiency appropriation in fiscal 2023; \$3.6 million of that amount is likewise contingent. The total funding includes funding for 18 *new* positions in DSCI (in addition to any positions that transfer from other programs or offices). Of those, 14 are funded as deficiencies in fiscal 2023 and 4 are newly funded in fiscal 2024. Further, the total contingent funding for the program is approximately \$15.0 million and is specifically designated for certain purposes: \$9.8 million for grants (\$1.5 million as a deficiency in fiscal 2023 and \$8.3 million in fiscal 2024); \$2.0 million for a program evaluation (\$1.0 million in each year); \$1.6 million combined for the development of the online portal; and \$1.5 million combined for program outreach (specifically advertising and legal publication). The fiscal 2024 budget as passed by the General Assembly also includes another \$3.0 million for Maryland Corps (reflecting the \$2.0 million reduction from the \$5.0 million mandated appropriation), which is transferred to DSCI. (Another \$7.6 million, mostly federal funding for AmeriCorps is also transferred to DSCI.)

This analysis assumes that most of the funds are designated primarily to operate the Maryland Corps Program as reestablished in the bill (which acts as a service year option program and satisfies the contingencies in the budget bill). Thus, although the program incurs significant costs beginning as early as fiscal 2023, the initial implementation costs are already budgeted.

Maryland Corps Program

The bill allows the Maryland Corps Program Fund to be used for program administration, so this analysis assumes funding for activities that are exclusive to the program (such as the stipends, education awards made to Maryland 529 – assumed to be the scholarships referred to in the bill, the portal, evaluations, and certain program outreach) are covered by the special fund. Further, despite the repeal of the mandated appropriation, special funding is assumed to be available through fiscal 2026 for all these expenditures due to distributing monies appropriated for specified purposes in the fiscal 2024 budget bill (for both fiscal 2023 and 2024, as discussed below) to the Maryland Corps Program Fund. These transfers allow monies not needed in fiscal 2023 or 2024 to be retained as fund balance and drawn down in the out-years, rather than the bulk of them being subject to reversion. Staffing costs for Maryland Corps (specifically \$350,000 included in the \$3.0 million general fund appropriation for Maryland Corps in fiscal 2024) and other activities not exclusive to the program are assumed to remain general funded and are not otherwise accounted for in this analysis. Accordingly, special fund revenues and expenditures increase.

Exhibit 1
Funding in the Fiscal 2024 Budget Bill for the
Department of Service and Civic Innovation and the Maryland Corps Program

	<u>FY 2023</u>	<u>FY 2024</u>
Funding Transferred to DSCI in FY 2023		
Maryland Corps	\$5,300,000	
<i>General Funds</i>	150,000	
<i>Special Funds</i>	5,150,000	
Deficiency Appropriation for DSCI in FY 2023	\$4,456,405	
<i>Amount Contingent on the Bill</i>	3,600,000	
Funding Transferred to DSCI in FY 2024		
Maryland Corps		\$3,000,000
Office of Community Initiatives		7,625,924
<i>General Funds</i>		290,613
<i>Special Funds</i>		269,600
<i>Federal Funds</i>		7,065,711
New Funding for DSCI in FY 2024		\$13,657,296
<i>Amount Contingent on the Bill</i>		11,353,000
Subtotal for DSCI	\$9,756,405	\$24,283,220
Total for DSCI in FY 2024 Budget Bill		34,039,625
<i>Subtotal for Maryland Corps</i>	\$8,900,000	\$14,353,000
Total for Maryland Corps in FY 2024 Budget Bill		\$23,253,000
Amount Assumed Distributed to the Special Fund	\$8,750,000	\$14,003,000
Total in Budget Bill Assumed Distributed to Special Fund		\$22,753,000
Estimated Special Fund Expenditures in FY 2024		\$2,250,000
End of Year Special Fund Balance		20,503,000

DSCI: Department of Service and Civic Innovation

Notes: The amount contingent on the bill is dedicated entirely to Maryland Corps, and all such funding is assumed to be distributed to the new special fund (the Maryland Corps Program Fund). Of the \$3.0 million in general funds for Maryland Corps transferred to DSCI in fiscal 2024, \$350,000 is maintained as general funds for staffing rather than distributed to the new special fund for other purposes. This analysis assumes those positions would have been funded absent the bill and that, in the absence of an active program, the other \$2.65 million, although mandated to be included by the Governor for Maryland Corps under current law, would not necessarily have been retained in the budget as passed by the General Assembly or would have reverted at year-end.

Source: Department of Legislative Services

Stipends and Scholarships: The Governor’s Office advises that it expects the first cohort of program participants to be selected for fall 2023; stipends and scholarships are not payable until successful completion of a service placement, which will, therefore, occur in fiscal 2025. This analysis assumes that full stipends and scholarships (totaling \$12,000 per participant), which are at the discretion of DSCI, are paid to all participants. The bill establishes a goal of 200 participants in the first year (anticipated to be fiscal 2024) and 2,000 participants by the fourth year. **Exhibit 2** summarizes the cost of stipends and scholarships for the program’s first five full years, reflecting that stipends and scholarships for each cohort are paid in the following fiscal year (when participants complete their service). Expenditures for stipends and scholarships may be different than those shown to the extent that (1) the program’s first cohort is delayed; (2) fewer participants are selected each year; (3) the pace of program growth is different than that shown; (4) attrition reduces the number of completed placements; or (5) discretionary gap funding is not provided.

Exhibit 2
Maryland Corps Stipend and Scholarship Awards
Fiscal 2024-2028
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Participants	200	500	1,200	2,000	2,000
Annual Awards Paid	\$0.0	\$2.4	\$6.0	\$14.4	\$24.0
Cumulative Awards Paid	0.0	2.4	8.4	22.8	46.8
Balance for Future Awards*	\$17.6	\$15.2	\$9.2	-\$5.2	-\$29.2

*The starting balance reflects a total of \$17.6 million assumed to be available primarily for making awards: the \$1.5 million deficiency appropriation for grants in fiscal 2023; \$8.3 million appropriation for grants in fiscal 2024; \$5.15 million from the transfer of the fiscal 2023 special fund appropriation for Maryland Corps to DSCI; approximately \$2.65 million of the \$3.0 million included in the fiscal 2024 budget (the other \$350,000 is for staffing and is retained as general funds); and no expenditures from the Maryland Corps Program Fund for awards until fiscal 2025 when the first awards are paid. Fiscal 2027 and 2028 amounts reflect the net balance in the Maryland Corps Program Fund assumed to be primarily used for awards, absent further capitalization with general funds.

Source: Department of Legislative Services

As budgeted funding available for awards is assumed to total \$17.6 million, additional funding for awards is not necessary until fiscal 2027, when \$5.2 million is projected to be needed. In fiscal 2028, another \$24.0 million is needed to fund all awards for that year. Based on the assumption that general funds are used to cover the funding gap, general fund expenditures for this purpose are expected to be \$5.2 million in fiscal 2027 and

\$24.0 million in fiscal 2028. Special fund revenues increase commensurately (under the assumption that the general funds will be paid to the Maryland Corps Program Fund). Special fund expenditures reflect the awards paid each year. Absent this gap funding, the Maryland Corps Program Fund would have a negative balance of \$29.2 million by the end of fiscal 2028 just for these awards.

Program Staffing: The Governor's Office advises that many or all of the 18 positions in the budget are available to work on the Maryland Corps Program and that no additional positions are needed. Further, this analysis assumes that DSCI staff are not necessarily assigned exclusively to Maryland Corps, but also work on other DSCI activities. Therefore, funding for those positions is *not* transferred to the Maryland Corps Program Fund.

Evaluation and Other Activities: The fiscal 2024 budget as passed by the General Assembly includes contingent funding for the evaluation in both fiscal 2023 and 2024; however, the evaluation requirement runs through fiscal 2028. This analysis assumes that these funds (\$2.0 million in total) are transferred to the special fund. Only \$500,000 is expended in fiscal 2024; thus, \$1.5 million remains available from fiscal 2025 through 2027 (\$500,000 each year). Another \$1.0 million is needed in fiscal 2028 to finalize the study and publish the report. Funding is assumed to be drawn from the Maryland Corps Program Fund, with gap funding for fiscal 2028 from the general fund.

Contingent funding is also provided in fiscal 2023 and 2024 for program outreach and development of the online portal. This analysis assumes that the portal funding is likewise transferred to the special fund; \$1.0 million of the more than \$1.6 million appropriated for the portal development is assumed to be expended in fiscal 2024. Accordingly, \$630,000 remains available for portal maintenance and related costs (including a software license) in the out-years – with an assumed funding level of approximately \$100,000 a year. As the funding is specifically for the portal, this analysis assumes it cannot be used for any other purpose when transferred to the Maryland Corps Program Fund. Initial outreach activities funded in fiscal 2023 and 2024 (\$1.5 million) are assumed to be specifically for Maryland Corps as they are part of the contingent appropriation; accordingly, that funding is also transferred to the special fund for use in fiscal 2024 and out-years. This analysis assumes approximately \$750,000 is expended in fiscal 2024, \$500,000 in fiscal 2025, and \$50,000 annually thereafter. That funding is provided through the special fund, with any gap funding in the out-years provided by the general fund.

The Governor's Office advises that it has no current plans to designate nonprofit entities as regional program leaders, as authorized by the bill. As the program matures and its leadership becomes aware of promising service models, it may designate the sponsors of those models as regional program leaders. To the extent that State funding is necessary to support those activities, additional funding may be needed, but a reliable estimate at this time is not feasible or practical until the program achieves greater maturity.

Summary of Impact on the Maryland Corps Program Fund and the General Fund

Overall, sufficient funding is included in the fiscal 2024 budget bill to cover costs for the Maryland Corps Programs as reestablished by the bill, with \$22.8 million assumed to be distributed to the new Maryland Corps Program Fund (specifically, \$8.8 million in fiscal 2023 and \$14.0 million in fiscal 2024), with \$2.3 million in expenditures (for the initial evaluation, development of the online portal, and outreach activities) in fiscal 2024. (Another \$500,000 total is also for the program but is assumed to be retained as general funds and used for staffing.) The remaining funds available in the special fund are drawn down over the out-years to administer the program, as shown in **Exhibit 3**.

Beginning in fiscal 2025, the repeal of the mandated appropriation for Maryland Corps provides general fund relief – assuming the program would have become active. However, in fiscal 2027, the balance in the Maryland Corps Program Fund is fully drawn down (except for small amounts remaining for dedicated purposes), and general funds are needed to maintain the program. These gap general fund expenditures for fiscal 2027 are more than offset by the mandate repeal. However, in fiscal 2028, there is no special funding remaining for awards or the program evaluation; accordingly, \$25.0 million in gap general fund expenditures are needed that year. Even so, the net effect on the general fund is additional spending of \$5.0 million in fiscal 2028, which accounts for the \$20.0 million that would have been mandated to fund Maryland Corps that year, absent the bill.

The bill authorizes donations to the fund to support operation of the Maryland Corps Program. The Governor's Office indicates that it is already soliciting donations for the program. To the extent that third parties donate to the fund, fewer general fund expenditures may be needed to provide gap funding to implement the program.

Exhibit 3
Projected Out-year Effect on Maryland Corps Program Fund and General Fund
Fiscal 2025-2028
(\$ in Thousands)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Starting Fund Balance	\$20,503	\$16,973	\$10,323	\$450
Additional Capitalization from GF	0	0	5,177	25,000
Total Special Funds Available	\$20,503	\$16,973	\$15,500	\$25,450
Special Fund Expenditures	\$3,530	\$6,650	\$15,050	\$25,150
<i>Awards</i>	<i>2,400</i>	<i>6,000</i>	<i>14,400</i>	<i>24,000</i>
<i>Evaluation</i>	<i>500</i>	<i>500</i>	<i>500</i>	<i>1,000</i>
<i>Outreach</i>	<i>500</i>	<i>50</i>	<i>50</i>	<i>50</i>
<i>Online Portal Maintenance/License</i>	<i>130</i>	<i>100</i>	<i>100</i>	<i>100</i>
Ending Fund Balance	\$16,973	\$10,323	\$450	\$300
Elimination of Mandated Appropriation	-\$10,000	-\$15,000	-\$20,000	-\$20,000
GF Needed to Capitalize SF	0	0	5,177	25,000
Net Effect on GF Expenditures	-\$10,000	-\$15,000	-\$14,823	\$5,000

GF: general fund

SF: special fund (Maryland Corps Program Fund)

Notes: The starting fund balance of the Maryland Corps Program Fund in fiscal 2025 is assumed to total \$20.5 million: \$9.8 million for grants; \$7.8 million for Maryland Corps in fiscal 2023 and 2024 combined (which does not include \$500,000 assumed to be retained as general funds); \$1.5 million for evaluations (assuming \$500,000 is expended in fiscal 2024); \$630,000 for the online portal and related expenditures (assuming \$1.0 million is expended in fiscal 2024); and \$750,000 for outreach activities (assuming \$750,000 is expended in fiscal 2024). By depositing those monies in the special fund, amounts not expended in fiscal 2023 or 2024 may be carried forward for use in subsequent years rather than revert to the general fund. Residual funding for the evaluations, online portal, and outreach may only be used for those purposes; thus, by the end of fiscal 2027, evaluation funding will have been fully expended, but \$300,000 and \$150,000, respectively, will still be available (and must be retained) for portal maintenance and outreach (and will be expended from fiscal 2028 through 2030). Gap funding of \$5.2 million in general funds is needed in fiscal 2027; this amount increases to \$25.0 million in fiscal 2028. With an offset due to repeal of the mandated appropriation, the net effect is \$5.0 million in additional general fund spending in fiscal 2028.

Source: Department of Legislative Services

529 Accounts

Maryland 529 is a nonbudgeted State agency and operates using fee revenue from the savings plans it offers. Thus, Maryland 529 nonbudgeted revenues and expenditures increase due to participants receiving an education award that must be deposited into such an account. It is assumed that \$1.2 million is contributed to 200 Maryland 529 accounts in fiscal 2025, increasing to \$12.0 million to 2,000 accounts beginning in fiscal 2028. However, the Department of Legislative Services cannot provide an accurate estimate of the resulting nonbudgeted revenues or expenditures. This estimate assumes that Maryland Corps education awards do not qualify for Maryland 529 State contribution funds or an income tax deduction.

Audits

The Maryland Corps Program Fund is subject to audits by the Office of Legislative Audits (OLA). OLA advises that it will need to add DSCI to its audit rotation and that an audit of the fund will be incorporated into its larger audit of the department. Therefore, the audit requirement has no fiscal effect.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 551 (The President, *et al.*) (By Request - Administration) - Education, Energy, and the Environment.

Information Source(s): Governor's Office; Maryland Higher Education Commission; Department of Budget and Management; Maryland Department of Labor; MarylandMatters.org; Department of Legislative Services – Office of Legislative Audits

Fiscal Note History: First Reader - February 18, 2023
rh/clb Third Reader - March 23, 2023
Revised - Amendment(s) - March 23, 2023
Revised - Updated Information - April 8, 2023
Revised - Budget Information - April 8, 2023

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Serving Every Region Through Vocational Exploration Act of 2023

BILL NUMBER: HB546/SB551

PREPARED BY: Governor's Legislative Office

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS