

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 144 (Chairman, Economic Matters Committee)
 (By Request – Departmental – Labor, Licensing and Regulation)

Economic Matters

State Real Estate Commission - Special Fund - Fees

This departmental bill changes the funding source for the State Real Estate Commission from the general fund to a special fund, creates a State Real Estate Commission Fund, and gives the commission fee-setting authority.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: General fund revenues would decrease by \$1.1 million, assuming the current fee structure, and special fund revenues would increase by \$1.6 million in FY 2005. Out-year revenues reflect the differences in licensing activity over each two-year period. General fund expenditures would decrease by \$900,000 in FY 2005 and an additional 4.6% annually thereafter. Special fund expenditures would increase by approximately \$1.4 million in FY 2005 to cover all costs associated with the commission and by 4.6% annually thereafter.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$1,057,600)	(\$906,600)	(\$1,057,600)	(\$906,600)	(\$1,057,600)
SF Revenue	1,627,000	1,389,700	1,627,000	1,389,700	1,627,000
GF Expenditure	(900,000)	(941,400)	(984,700)	(1,030,000)	(1,077,400)
SF Expenditure	1,397,000	1,461,300	1,528,500	1,598,800	1,672,300
Net Effect	\$72,400	(\$36,800)	\$25,600	(\$85,700)	(\$25,500)

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

Local Effect: None.

Small Business Effect: The Department of Labor, Licensing, and Regulation (DLLR) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The bill establishes a State Real Estate Commission Fund as a continuous, nonlapsing special fund.

The Secretary of Labor, Licensing, and Regulation will calculate, in consultation with the board, the direct and indirect costs attributable to the State Real Estate Commission. The commission must establish fees based on the Secretary's calculations. Fees may not increase by more than 12.5% over the previous year's fees.

The bill repeals fees that are set in statute and authorizes the commission to set reasonable fees to cover the direct and indirect costs associated with the commission in the calculation performed by the Secretary. Current fees in statute remain in effect until the board has set fees in accordance with the provisions in this bill.

Current Law: The commission currently deposits the fees it collects into the general fund. The Governor includes a general fund allowance for the commission within the budget of DLLR.

Background: The State Real Estate Commission currently licenses and regulates 39,500 individuals and real estate firms. DLLR advises that licensing activity for real estate professionals is staggered, with a greater share of activity occurring in odd-numbered fiscal years. Current license and renewal fees for real estate professionals are \$95 for a real estate broker, \$65 for an associate real estate broker, and \$45 for a real estate salesperson.

In October 1999, the House Economic Matters Committee formed a work group to study issues identified in the 1998 and 1999 *Joint Chairmen's Report* (JCR) concerning the funding of regulatory boards. Only three of 18 boards generated enough revenues to cover all their direct and attributable indirect costs; the cumulative deficit over those fiscal years for the 18 boards was \$7.1 million. SB 681 was introduced as a departmental bill in 2001 in response to the 1999 JCR; the bill would have created one special fund for the 18 regulatory boards, including the State Real Estate Commission, within DLLR. The bill, modeled after the funding method used by the health occupations regulatory programs, was an attempt to ensure that the total costs attributable to these boards were

covered by fee revenue. The amended bill was passed by the Senate but received an unfavorable report from the House Economic Matters Committee.

DLLR advises that this bill is modeled after Chapter 227 of 2003 which, among other things, established a special fund with related fee-setting authority for the five professional design regulatory boards. However, the Department of Legislative Services (DLS) advises that the fee-setting authority and special fund for the design boards was implemented as a pilot program and will terminate on June 30, 2008.

State Fiscal Effect: DLLR advises that licensing activity for the State Real Estate Commission covered 17,253 and 20,335 licensees in fiscal 2002 and 2003, respectively. Assuming that licensing activity remains stable, general fund revenues would decrease by approximately \$1.1 million in fiscal 2005; this estimate accounts for odd-numbered year licensing activity at the current fee level. General fund revenue decreases in the out-years reflect stable biennial licensing activity at current fee levels. General fund expenditures would decrease by approximately \$900,000 in fiscal 2005; this accounts for all direct costs currently associated with the commission. As the indirect costs currently attributable to the commission are a paper allocation only and are not included in the commission's budget, they are not included in the general fund expenditures. Out-years reflect biennial licensing activity and a growth factor of 4.6% in operating expenses.

Since the bill becomes effective in an odd-numbered fiscal year, special fund revenues must be sufficient in fiscal 2005 to cover all fiscal 2005 costs and generate enough additional funds to cover expenses in fiscal 2006 not met by special fund revenues generated in that year. DLS estimates a fee increase of \$28 for each license type would generate sufficient revenue to cover all odd-numbered year costs, create surplus revenues to cover expenditures in even-numbered years when special fund revenues are below costs, and create a balance to cover other unforeseen circumstances that increase expenditures or decrease revenues. Accordingly, assuming license fees are increased by \$28 each and the number of licensees remains stable, special fund revenues would increase by approximately \$1.6 million in fiscal 2005; this estimate accounts for odd-numbered year licensing activity. Special fund revenues in the out-years reflect stable biennial licensing activity with the fee increase. Special fund expenditures would increase by \$1.4 million in fiscal 2005 and by an additional 4.6% annually thereafter; this accounts for all direct and indirect costs associated with the commission.

For illustrative purposes, **Exhibit 1** details the special fund revenues and expenditures if all license fees are increased by \$28. Under these circumstances, the commission would likely not need to consider another license fee increase until fiscal 2008 at the earliest.

Exhibit 1
Special Fund Balance
State Real Estate Commission

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Starting Balance	\$0	\$229,955	\$158,402	\$256,877	\$47,796
SF Revenues	1,626,955	1,389,709	1,626,955	1,389,709	1,626,955
SF Expenditures	1,397,000	1,461,262	1,528,480	1,598,790	1,672,334
Ending Balance	\$229,955	\$158,402	\$256,877	\$47,796	\$2,416

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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mll/ljm

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