

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

Senate Bill 707  
 Finance

(Senators Kelley and Gladden)

**Health Club Services Providers - Registration and Renewal Fees - Fund**

This bill increases to \$75, \$300, and \$1,200 the maximum annual registration and renewal fees that health club service providers must pay to the Division of Consumer Protection in the Office of the Attorney General. The bill also requires fees to be paid on or before October 1 of each registration or renewal year. Unexpended funds revert to the general fund at the end of each registration year.

The bill takes effect June 1, 2004.

**Fiscal Summary**

**State Effect:** Special fund revenues would increase by \$94,700 annually beginning in FY 2005 due to increased registration and renewal fees. Special fund expenditures would increase by \$86,600 annually beginning in FY 2006. General fund revenues would increase by \$31,200 in FY 2006 due to reversion of unexpended FY 2005 special fund revenues. Out-year revenues and expenditures reflect the annual renewal cycle, elimination of the current general fund subsidy, limited growth in expenditures, and ongoing excess special fund revenues reverted to the general fund.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$0	\$31,200	\$30,100	\$29,000	\$27,900
SF Revenue	94,700	94,700	94,700	94,700	94,700
GF Expenditure	0	(55,400)	(56,500)	(57,600)	(58,800)
SF Expenditure	0	86,600	86,600	86,600	86,600
Net Effect	\$94,700	\$94,700	\$94,700	\$94,700	\$94,700

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

**Local Effect:** None.

**Small Business Effect:** Minimal impact due to increased fees.

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## **Analysis**

**Current Law:** Each person who provides health club services in the State must register with the division. The level of fee required is dependent upon the outstanding liabilities of the club to members, whether the club requires prepayment of services, and whether the club is required to purchase a surety bond or file an irrevocable letter of credit or cash with the division. **Exhibit 1** details the types of health club providers and the current annual registration and renewal fees. Registration and renewal fees are due to the division on or before September 1 of each year.

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### **Exhibit 1 Health Club Service Providers and Annual Registration and Renewal Fees**

<b><u>Type of Health Club Service Provider</u></b>	<b><u>Current Fee</u></b>
No outstanding liabilities to members and initiation fee or prepayment of services not required	Up to \$50
Initiation fee of up to \$200 or prepayment of services for up to three months	Up to \$150
Initiation fee of over \$200 or prepayment of services for three months or more and a surety bond required to be purchased or irrevocable letter of credit or cash required to be filed	Up to \$800

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**Background:** Health club services include health spas, figure salons, weight reduction centers, self-defense schools, or other physical culture service enterprises offering facilities for the preservation, maintenance, encouragement, or development of physical fitness or physical well being.

Revenues generated from registration and renewal fees are paid into the Health Club Administration Fund which is a special fund.

**State Fiscal Effect:** The division indicates that a total of 518 health clubs paid the maximum registration and renewal fees allowed under current law.

The division indicates that the full authority for fees provided in the bill would be exercised; accordingly, fees would increase to \$1,200, \$300, and \$75 in fiscal 2005. For the purposes of this estimate, it is assumed that the number of health clubs required to pay registration and renewal fees would remain constant. **Exhibit 2** details the expected total fees to be generated in fiscal 2005 and beyond as a result of the new fees. The new fees would generate \$220,200 annually beginning in fiscal 2005 with an annual net increase of \$94,700 in fee revenue.

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**Exhibit 2**  
**Health Club Service Providers**  
**Current Fees and Revenue and Proposed Fees and Potential Revenue**

<b>Number of Health Clubs by Type</b>	<b>Current Fee</b>	<b>FY 04 Revenue</b>	<b>Proposed Fee</b>	<b>Potential Annual Revenue</b>	<b>Additional Revenue Due to Fee Increase</b>
76	\$800	\$60,800	\$1,200	\$91,200	\$30,400
426	150	63,900	300	127,800	63,900
16	50	<u>800</u>	75	<u>1,200</u>	<u>400</u>
<b>518</b>		<b>\$125,500</b>		<b>\$220,200</b>	<b>\$94,700</b>

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The fiscal 2005 special fund budget for activities related to the registration of health clubs is \$134,725 even though projected fee revenue under current law is approximately \$10,000 less. Additionally, the program has a general fund subsidy of \$54,285 in fiscal 2005 for costs not covered by registration fee revenue. Accordingly, the cost of the activities to run the program in fiscal 2005 is \$189,010. Out-years reflect 2% growth in costs above and beyond fee revenue to operate the program and elimination of the general fund subsidy to the program beginning in fiscal 2006.

As the program has not been self-supporting and registration fees would not be due until October 1, 2004, the special fund would not have a balance on September 30, 2004 and no funds would be reverted to the general fund in fiscal 2005. However, fee revenue generated by this bill should cover all future costs to operate the program. Any special fund revenue earned in fiscal 2005 that is not expended by September 30, 2005 must be reverted to the general fund. After all expenses are paid for the fiscal 2005 registration

year, excess special fund revenues of approximately \$31,190 would remain on September 30, 2005; this estimate assumes special fund revenue generated by the bill would cover costs currently covered by the general fund subsidy. Accordingly, \$31,190 would be reverted to the general fund in fiscal 2006. The difference between annual registration and renewal fees and total costs to run the program would be reverted to the general fund in each subsequent fiscal year.

**Small Business Effect:** Minimal effect on small businesses. Fees for smaller health club operators would only increase \$25 annually. Larger health club operators would face fee increases of \$150 and \$400.

**Additional Comments:** Assuming the bill is enacted, the additional revenues generated by the bill's provisions would be sufficient to cover all anticipated expenditures in fiscal 2005. The fiscal 2005 budget analysis of the Office of the Attorney General recommended increasing health club service provider fees. This would allow for the elimination of the general fund subsidy of \$54,285 in the fiscal 2005 budget.

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### **Additional Information**

**Prior Introductions:** A similar bill was introduced in the 2003 session as HB 671. An amended version of the bill was passed by the full House, but was reported unfavorably by the Senate Finance Committee. This bill is identical to the amended version of HB 671 of 2003.

**Cross File:** HB 861 (Delegate Love) – Economic Matters.

**Information Source(s):** Office of the Attorney General, Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2004  
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