

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 1214
 Economic Matters

(Delegate Hecht, *et al.*)

Finance and Judicial Proceedings

Maryland Not-For-Profit Development Center Program

This bill creates the Maryland Not-For-Profit Development Center Program in the Department of Business and Economic Development to provide training and technical assistance to nonprofit organizations throughout the State. It also increases by \$50 the nonrefundable processing fee on articles of incorporation filed by a nonstock corporation and dedicates the revenues to a special fund to support the program.

Fiscal Summary

State Effect: Special fund revenues would increase by \$78,139 in FY 2009 and by \$104,185 annually thereafter from additional fee revenues. Special fund expenditures would increase by an equal amount to provide technical assistance and grants to nonprofits and for administrative expenses.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	\$78,100	\$104,200	\$104,200	\$104,200	\$104,200
SF Expenditure	78,100	104,200	104,200	104,200	104,200
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 not-for-profit 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; • has annual revenues of \$750,000 or less; • has been in existence for 10 years or less; and • that has, as its principal purpose, providing health, education, environmental, agricultural, or social services through community-based programs.

The new program 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 Not-For-Profit Development Center Program Fund. The fund consists of money appropriated in the State budget and an additional \$50 fee for processing the articles of incorporation of a nonstock corporation.

DBED must designate at least one private not-for-profit entity to receive grants from the fund to implement the new program. DBED is required to develop selection criteria that give priority to organizations that:

- have experience in providing the scope of assistance and services required by 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 from the fund, and that have been received from other sources to provide similar services.

Current Law: Nonstock corporations are subject to a nonrefundable processing fee of \$100 for articles of incorporation.

Nonprofit corporations in Maryland currently benefit from several tax exemptions including for certain sales to or from nonprofit organizations and for the inheritance of property from a decedent.

Background: According to a compilation of Internal Revenue Service data from the Urban Institute, in 2006, the most recent year for which data are available, there were 30,716 nonprofit 501(c) tax-exempt organizations in the State. Of these, 65.9% were public charities, 8.0% were private foundations, and 26.1% were other nonprofit organizations. These organizations or charities vary widely by function and include groups that promote the arts, public safety, health, the environment, and other public services for local governments and the State. Their size, funding sources, and operational needs can vary significantly. Although Legislative Services is unable to determine the number of Maryland corporations that satisfy the definitional requirements for a not-for-profit entity under the bill, as of January 2008, 92.3%, or 21,278 registered 501(c)(3) organizations in the State had revenues of less than \$1 million annually.

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

The State Department of Assessments and Taxation advises that the number of new nonstock corporations formed in the State totaled 3,148 in 2004, 3,065 in 2005, 3,148 in 2006, and 3,080 in 2007.

State Fiscal Effect: Special fund revenues and expenditures would increase by \$78,139 in fiscal 2009, and by \$104,185 annually thereafter from increased nonstock corporation nonrefundable processing fees. This estimate reflects the October 1, 2008 effective date of the bill for fiscal 2009 and assumes approximately two-thirds or 2,084 nonstock corporations that meet the bill's definition are formed annually. Additionally, it is assumed that all revenues generated would be expended annually for assistance to nonprofit organizations.

DBED advises it could implement the program and provide oversight with existing staff and the special fund revenues.

Small Business Effect: Nonprofit organizations would benefit from technical assistance, individual consultation, and grants under the new program. In addition, DBED must select at least one private nonprofit to receive grants from NDCP to implement the program. Legislative Services estimates that the majority of new nonstock corporations are also small businesses that could be minimally affected by the increased processing fee.

Additional Information

Prior Introductions: Similar bills, HB 1014 and SB 689, were introduced during the 2007 session. The House Economic Matters Committee issued an unfavorable report and the Senate Finance Committee took no further action. Similar bills, SB 333 and HB 386, were introduced in 2001. SB 333 received an unfavorable report from Finance, while HB 386 received an unfavorable report from the House Environmental Matters Committee. A substantially similar bill, HB 258 of 1995, was heard by Economic Matters and later withdrawn.

Cross File: SB 605 (Senator Pugh, *et al.*) – Finance and Judicial Proceedings.

Information Source(s): Department of Business and Economic Development,
Department of Legislative Services

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