

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 832 (Delegate Bronrott, *et al.*)
 Ways and Means and Health and
 Government Operations

The Lorraine Sheehan Health and Community Services Act of 2010

This bill increases the State tax rates for alcoholic beverages from \$1.50 to \$10.03 per gallon for distilled spirits, from 40 cents to \$2.96 per gallon for wine, and from 9 cents to \$1.16 per gallon for beer. The bill also establishes four nonlapsing special funds – the Developmental Disability Support Fund, the Addiction Treatment and Prevention Fund, the Mental Health Care Fund, and the Maryland Medicaid Trust Fund – to be administered by the Department of Health and Mental Hygiene (DHMH). The bill specifies the distribution of alcoholic beverages tax revenues.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: General fund revenues decrease by \$1.7 million in FY 2011 and Transportation Trust Fund (TTF) revenues decrease by \$106,000. Special fund revenues increase by \$206.8 million in FY 2011. Future year revenues reflect the current alcoholic beverages tax forecast.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	(\$1.7)	(\$1.7)	(\$1.8)	\$1.9	\$2.2
SF Revenue	\$206.7	\$210.2	\$213.8	\$217.4	\$221.1
Expenditure	0	0	0	0	0
Net Effect	\$205.0	\$208.5	\$212.0	\$219.3	\$223.3

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: In addition to increasing the alcoholic beverages tax rates, the bill establishes four special funds – the Developmental Disability Support Fund, the Addiction Treatment and Prevention Fund, the Mental Health Care Fund, and the Maryland Medicaid Trust Fund – and specifies the following distribution of alcoholic beverage tax revenue, after distributions into an administrative cost account:

- 15% to the Developmental Disability Support Fund;
- 15% to the Addiction Treatment and Prevention Fund;
- 15% to the Mental Health Care Fund;
- 42.25% to the Maryland Medicaid Trust Fund; and
- the remainder going to the general fund (approximately 12.75%).

Developmental Disability Support Fund (DDSF)

The purpose of this fund is to support community-based services for individuals with developmental disabilities. DHMH must use 50% of the money in the fund to support licensed providers by providing funding for the average cost of wages and benefits of community-based direct support staff, as determined by the community services reimbursement rate commission. The remaining 50% of the money in the fund must be used to support services for individuals who are on the administration waiting list and are eligible, but not receiving one or more services, as follows: (1) 25% of the funds for community-based residential services, community-based day services, and supported employment services to individuals; and (2) 75% of the funds for providing community based respite care, individual support services, and family support services to individuals living with their families. Money from the fund to support community-based services for individuals is supplemental to funding that would otherwise be appropriated for those programs.

DHMH must report to the Governor and the General Assembly by December 1 of each year on the number of individuals served and the services provided in the preceding fiscal year using the fund.

Addiction Treatment and Prevention Fund (ATPF)

The purpose of this fund is to support community-based programs for the treatment and prevention of drug and alcohol addictions in adults and adolescents, including treatment for those with co-occurring substance use and mental health disorders. The fund may only be used to provide additional funding to support such community-based programs. Money from the fund used to support community-based programs for treatment and prevention of drug and alcohol addictions is supplemental to funding that would otherwise be appropriated for those programs.

The Mental Health Care Fund (MHCF)

The purpose of this fund is to support community-based programs for the treatment and prevention of mental illnesses in children and adults, including treatment for those with co-occurring substance use and mental health disorders. The fund may be used only to provide additional funding for these purposes.

The Maryland Medicaid Trust Fund (MMTF)

The purpose of this fund is to provide health services under the Maryland Medical Assistance Program to the population of specified individuals beyond the level of primary care services. Expenditures from the fund may only be made in accordance with the State budget.

Current Law: State tax rates for alcoholic beverages in Maryland are \$1.50 per gallon for distilled spirits, 40 cents per gallon for wine, and 9 cents per gallon for beer.

Background: Compared to other states, Maryland has relatively low tax rates on alcoholic beverages. The tax on distilled spirits has not increased since 1955, and the tax on beer and wine was last increased in 1972. **Appendix 1** shows alcoholic beverages tax rates in all 50 states and the District of Columbia as of January 2010.

The Developmental Disabilities Administration (DDA)

A developmental disability is a condition attributable to a mental or physical impairment that results in substantial functional limitations in major life activities and which is likely to continue indefinitely. Examples include autism, blindness, cerebral palsy, deafness, epilepsy, intellectual disability, and multiple sclerosis. The Developmental Disabilities Administration (DDA) provides direct services to these individuals in three State residential centers and through funding of a coordinated service delivery system that supports the integration of these individuals into the community. Because the majority of the individuals served are Medicaid-eligible, the State receives federal matching funds for services provided to Medicaid enrolled individuals.

The Waiting List Equity Fund (WLEF) was established to ensure that funding associated with serving individuals in an State Residential Center follows them to the community when they are transitioned to a community-based care setting and that any funds remaining be used to provide community-based services to individuals on the waiting list. According to statute, WLEF funds may not be used to supplant funds for emergency placements or transitioning youth.

Medicaid

Medical Assistance (Title XIX of the Social Security Act) is a joint federal and state program that provides assistance to indigent and medically indigent individuals. The federal government covers 50% of Medicaid costs. Medical Assistance eligibility is limited to children, pregnant women, elderly or disabled individuals, and low-income parents. To qualify for benefits, applicants must pass certain income and asset tests.

Individuals qualifying for cash assistance through the Temporary Cash Assistance program or the federal Supplemental Security Income program automatically qualify for Medicaid benefits. People eligible for Medicaid through these programs comprise most of the Medicaid population and are referred to as categorically needy. The U.S. Congress has extended eligibility to include pregnant women and children who meet certain income eligibility standards through the Pregnant Women and Children Program. Federal law also requires the Medicaid program to assist Medicare recipients with incomes below the federal poverty level in making their coinsurance and deductible payments. In addition, the State provides Medicaid coverage to parents below 116% of the federal poverty level.

Another major group of Medicaid-eligible individuals is the medically needy. The medically needy are individuals whose income exceeds categorical eligibility standards but are below levels set by the State. People with incomes above the medically needy level may reduce their income to the requisite level through spending on medical care.

The Maryland Medical Assistance program funds a broad range of services. The federal government mandates that the State provide nursing facility services; hospital inpatient and outpatient services; x-ray and laboratory services; early and periodic screening, diagnosis, and treatment services for children; family-planning services; transportation services; physician care; federally qualified health center and rural health clinic services; and some nurse practitioner services. The federal government also allows optional services which Maryland provides that include vision care; podiatric care; pharmacy; medical supplies and equipment; intermediate-care facilities for the intellectually disabled; and institutional care for people over age 65 with mental diseases.

Most Medicaid recipients are required to enroll in HealthChoice, which is the name of the statewide mandatory managed care program which began in 1997. Populations excluded from the HealthChoice program are covered on a fee-for-service basis, and the fee-for-service population generally includes the institutionalized and individuals who are dually eligible for Medicaid and Medicare.

State Fiscal Effect: As a result of the tax increases on alcoholic beverages, total alcoholic beverages tax revenues increase by \$207.0 million in fiscal 2011. These revenues are distributed as follows:

- 15% to the Developmental Disability Support Fund;
- 15% to the Addiction Treatment and Prevention Fund;
- 15% to the Mental Health Care Fund;
- 42.25% to the Maryland Medicaid Trust Fund; and
- the remainder to the general fund (approximately 12.75%).

As a result, general fund revenues increase by \$183,000 (over currently estimated collections) and total special fund revenues increase by \$206.8 million. **Exhibit 1** shows the estimated revenue increase and the distribution of revenues pursuant to the bill. The estimate is based on the following facts and assumptions:

- 10.3 million gallons of distilled spirits are projected to be purchased in Maryland in fiscal 2011, including distilled spirits of over 100 proof; due to the tax increase, sales could decrease by 14.2%.
- 14.3 million gallons of wine are projected to be purchased in Maryland in fiscal 2011; due to the tax increase, sales could decrease by 2.6%.
- 98.1 million gallons of beer are projected to be purchased in Maryland in fiscal 2011; due to the tax increase, sales could decrease by 6.0%.

Future year revenues are expected to increase by approximately 1.7% annually, based on the forecast of the Bureau of Revenue Estimates.

Exhibit 1
Distribution of Alcoholic Beverages Tax Revenue
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Total Revenues	\$237.0	\$241.0	\$245.1	\$249.3	\$253.5
DDSF Revenues	35.6	36.2	36.8	37.4	38.0
ATPF Revenues	35.6	36.2	36.8	37.4	38.0
MHCF Revenues	35.6	36.2	36.8	37.4	38.0
MMTF Revenues	100.1	101.8	103.6	105.3	107.1
General Fund Revenues	30.2	30.7	31.3	31.8	32.3
GF Revenues – Under Current Law	30.0	30.5	31.1	31.6	32.1
Additional GF Revenues	0.18	0.19	0.19	0.19	0.20

To the extent that the tax increases proposed by the bill result in a higher incidence of cross-border sales activity than is accounted for in the estimate, revenues would in turn be lower than estimated. This would most likely apply to the sale of distilled spirits, since these sales are likely to be more price sensitive than the others.

In addition, the total increase in alcoholic beverages tax revenues may be offset to some degree by a reduction in sales tax revenues attributable to sales of alcoholic beverages. As noted, the increased tax on alcoholic beverages results in a decline in demand for these products. Accordingly, sales tax revenues resulting from sales will decrease due to the decline in demand. It is assumed that the price increase attributable to the increase in the excise taxes will be passed along to the end consumer, thereby resulting in a higher retail price for alcoholic beverages, which in turn mitigates the decrease in sales tax revenues to some degree, especially for beer and wine, as these are not as price sensitive as distilled spirits.

For illustrative purposes only, if it is assumed that the average price is \$18 for a 750 ml bottle of distilled spirits, \$15 for a 750 ml bottle of wine, and \$6 for a six pack of beer, it is estimated that sales tax revenues may decrease by approximately \$2.0 million in fiscal 2011 as shown in **Exhibit 2**. However the actual amount of the decrease is dependent on the price sensitivity of the various types of alcoholic beverages, particularly distilled spirits. If distilled spirits are more or less price sensitive than estimated the effect on sales tax revenues will vary accordingly.

Any decrease in sales tax revenues affects TTF revenues as 5.3% of sales tax revenues are distributed to the TTF, and beginning in fiscal 2014, this amount increases to 6.5%. Under the assumptions used, a \$2.0 million reduction in sales tax revenue will result in a general fund revenue decrease of \$1.9 million and TTF revenue decrease of \$106,000, beginning in fiscal 2011.

Exhibit 2

Effect on General Fund and TTF Revenues from Decrease in Sales Tax Collections

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
General Fund – Alcohol Tax	\$182,998	\$186,108	\$189,272	\$192,490	\$195,762
General Fund – Sales Tax	(1,894,000)	(1,926,198)	(1,958,943)	(1,967,000)	(2,000,439)
Net General Fund	(1,711,002)	(1,740,090)	(1,769,671)	(1,774,511)	(1,804,677)
TTF – Sales Tax	(106,000)	(107,802)	(109,635)	(136,743)	(139,068)

State Expenditures: The bill requires most of the revenue generated from the alcoholic beverages taxes (\$206.8 million) to be used for the specified purposes of the Developmental Disability Support Fund, the Addiction Treatment and Prevention Fund,

the Mental Health Care Fund, and the Maryland Medicaid Trust Fund established by the bill. Exhibit 1 shows the projected funding for the four funds.

Small Business Effect: The alcoholic beverages tax increase would result in a decline in sales for all retailers and wholesalers of alcoholic beverages. Those businesses located near the State's borders, particularly those in Montgomery and Prince George's counties, could be more adversely affected as customers in those areas could cross the border with the District of Columbia to purchase alcoholic beverages, where the taxes will be considerably lower. Also, small businesses that import beer into the State would be required to prepay the tax.

Additional Information

Prior Introductions: None.

Cross File: SB 717 (Senator Jones, *et al.*) - Budget and Taxation and Finance.

Information Source(s): Department of Health and Mental Hygiene, Federation of Tax Administrators, Comptroller's Office Department of Legislative Services

Fiscal Note History: First Reader - March 9, 2010
mpc/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1
Alcoholic Beverage Taxes by State
January 2010

State	Distilled Spirits¹ (\$ per Gallon)	Wine² (\$ per Gallon)	Beer³ (\$ per Gallon)
Alabama	*	\$1.70	\$0.53
Alaska	\$12.80	2.50	1.07
Arizona	3.00	.84	0.16
Arkansas	2.50	.75	0.23
California	3.30	.20	0.20
Colorado	2.28	.28	0.08
Connecticut	4.50	.60	0.19
Delaware	5.46	.97	0.16
Florida	6.50	2.25	0.48
Georgia	3.79	1.51	0.32
Hawaii	5.98	1.38	0.93
Idaho	*	.45	0.15
Illinois	8.55	1.39	0.235
Indiana	2.68	.47	0.115
Iowa	*	1.75	0.19
Kansas	2.50	.30	0.18
Kentucky	1.92	.50	0.08
Louisiana	2.50	.11	0.32
Maine	*	.60	0.35
Maryland	1.50	.40	0.09
Massachusetts	4.05	.55	0.11
Michigan	*	.51	0.20
Minnesota	5.03	.30	0.15
Mississippi	*	.35	0.43
Missouri	2.00	.30	0.06
Montana	*	1.06	0.14
Nebraska	3.75	.95	0.31
Nevada	3.60	.70	0.16
New Hampshire	*	**	0.30
New Jersey	5.50	.875	0.15
New Mexico	6.06	1.70	0.41
New York	6.44	.30	0.14
North Carolina	*	.79	0.53
North Dakota	2.50	.50	0.16
Ohio	*	.30	0.18
Oklahoma	5.56	.72	0.40
Oregon	*	.67	0.08
Pennsylvania	*	**	0.08
Rhode Island	3.75	.60	0.10
South Carolina	2.72	.90	0.77

State	Distilled Spirits¹ (\$ per Gallon)	Wine² (\$ per Gallon)	Beer³ (\$ per Gallon)
South Dakota	3.93	.93	0.27
Tennessee	4.40	1.21	0.14
Texas	2.40	.20	0.20
Utah	*	**	0.41
Vermont	*	.55	0.265
Virginia	*	1.51	0.26
Washington	*	.87	0.261
West Virginia	*	1.00	0.18
Wisconsin	3.25	.25	0.06
Wyoming	*	**	0.02
District of Columbia	1.50	.30	0.09
U.S. Median	3.75	.67	\$0.190

¹22 states and the District of Columbia have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

²37 states have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

³23 states have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

*In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, and net liquor sales.

**All wine sales are through state stores. Revenue in these states is generated from various taxes, fees, and net profits.

Source: Federation of Tax Administrators