

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 168 (Senator Jones-Rodwell, *et al.*)
Budget and Taxation and Finance

The Lorraine Sheehan Health and Community Services Act of 2011

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 six nonlapsing special funds to be administered by the Department of Health and Mental Hygiene (DHMH) and the Department of Labor, Licensing, and Regulation. The bill specifies the distribution of alcoholic beverages tax revenues to the various special funds.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: General fund revenues decrease by \$1.5 million in FY 2012 and Transportation Trust Fund (TTF) revenues decrease by \$93,600. Special fund revenues increase by \$214.6 million in FY 2012. Future year revenues reflect the current alcoholic beverages tax forecast. State expenditures are not directly affected.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.6)
SF Revenue	\$214.5	\$218.1	\$221.8	\$225.6	\$229.4
Expenditure	0	0	0	0	0
Net Effect	\$213.0	\$216.6	\$220.3	\$224.0	\$227.9

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 six special funds – the Developmental Disability Support Fund; the Addiction Treatment, Prevention, and Recovery Support Fund; the Mental Health Care Fund; the State Tobacco Use Prevention and Cessation Fund; the Maryland Medicaid Trust Fund; and the Health Care Personnel Training Fund – and specifies the following distribution of total alcoholic beverages tax revenue, after distributions into an administrative cost account:

- 2.1% to the Health Care Personnel Training Fund;
- 6.2% to the State Tobacco Use Prevention and Cessation Fund;
- 15% to the Developmental Disability Support Fund;
- 15% to the Addiction Treatment, Prevention, and Recovery Support Fund;
- 15% to the Mental Health Care Fund;
- 33.95% to the Maryland Medicaid Trust Fund; and
- the remainder 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 for, 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 with developmental disabilities is supplemental to funding that would otherwise be appropriated for those programs and may not be used to cover inflationary adjustments required under current law.

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, Prevention, and Recovery Support Fund (ATPRSF)

The purpose of this fund is to support community-based programs funded through the Alcohol and Drug Abuse Administration for the treatment and prevention of drug and alcohol addictions and for recovery support services for adults and adolescents, including treatment for those with co-occurring substance use and mental health disorders.

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.

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. Money from the fund may be used only to provide additional funding for these purposes.

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.

State Tobacco Use Prevention and Cessation Fund (STUPCF)

The purpose of this fund is to supplement the Cigarette Restitution Fund to address issues relating to tobacco use prevention and cessation so as to create a lasting legacy of public health initiatives that result in a reduction of tobacco use in the State and otherwise benefit the health and welfare of the State's residents.

The fund may be used only to provide additional funding for the State Tobacco Use Prevention and Cessation Program. Any money expended from the fund to support the State Tobacco Use Prevention and Cessation Program is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for this purpose.

Health Care Personnel Training Fund (HCPTF)

The purpose of this fund is to provide grants to training consortiums that involve labor-management partnerships that train and upgrade the qualifications of health care

personnel. The fund may be used only to provide grants to training consortiums that involve labor-management partnerships that train and upgrade the qualifications of health care personnel.

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: Total alcoholic beverages tax revenues in Maryland are estimated at \$31.2 million for fiscal 2012. Compared to other states, Maryland has relatively low tax rates on alcoholic beverages. The tax on distilled spirits was last increased in 1955, and the tax on beer and wine was last increased in 1972. **Appendix 1** shows alcoholic beverages tax rates for the 50 states and the District of Columbia as of January 2010. A federal excise tax on alcoholic beverages is also imposed – these rates are \$13.50 per gallon for distilled spirits, \$1.07 per gallon for wine, and \$0.58 per gallon for beer.

As noted in Appendix 1, the government directly controls the sales of distilled spirits in 18 states, including Pennsylvania, Virginia, and West Virginia. Sales of wine are controlled by the government in four states, including Pennsylvania. In these states, sales of these products are subject to a variety of taxes and fees.

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. 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 a 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. 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 meet certain income and asset requirements.

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 illnesses.

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 \$214.8 million in fiscal 2012. This proposal, in effect, increases the per drink excise tax by \$0.10 for distilled spirits and beer and by \$0.12 for wine. This equates to consumers paying \$0.118 in State excise tax per glass of distilled spirits (currently \$0.018); \$0.139 in State excise tax per glass of wine (currently \$0.019); and \$0.109 in State excise tax per glass of beer (currently \$0.008). These increases occur regardless of the cost of each drink as the tax is paid at the wholesale level, by the gallon, and is embedded in the cost of each unit of alcohol sold. **Exhibit 1** shows the tax increase for common units sold resulting from the tax rates proposed by the bill.

Exhibit 1
Excise Tax Increase per Common Unit of Alcoholic Beverage Sold

<u>Sales Unit</u>	<u>Current Excise Tax</u>	<u>New Excise Tax</u>	<u>Difference</u>
Distilled Spirits – 1 liter Bottle	\$0.40	\$2.65	\$2.25
Wine – 750 ml Bottle	0.08	0.59	0.51
Beer – 6-pack	0.05	0.66	0.61

The revenues from the tax rate increases are distributed as follows:

- 2.1% to the Health Care Personnel Training Fund;
- 6.2% to the State Tobacco Use Prevention and Cessation Fund;
- 15% to the Developmental Disability Support Fund;
- 15% to the Addiction Treatment, Prevention, and Recovery Support Fund;
- 15% to the Mental Health Care Fund;
- 33.95% to the Maryland Medicaid Trust Fund; and
- the remainder to the general fund (approximately 12.75%).

As a result, general fund revenues increase by \$0.2 million (over currently estimated collections) and total special fund revenues increase by \$214.6 million. **Exhibit 2** shows the estimated revenue increase and the distribution of revenues pursuant to the bill. The estimate is based on the following facts and assumptions:

- 10.7 million gallons of distilled spirits are projected to be purchased in Maryland in fiscal 2012, including distilled spirits of over 100 proof; due to the tax increase, sales could decrease by 14.2%.

- 14.9 million gallons of wine are projected to be purchased in Maryland in fiscal 2012; due to the tax increase, sales could decrease by 2.6%.
- 101.8 million gallons of beer are projected to be purchased in Maryland in fiscal 2012; due to the tax increase, sales could decrease by 6.0%.

Future year revenues are expected to increase by approximately 1.7% annually.

Exhibit 2
Distribution of Alcoholic Beverages Tax Revenue
(\$ in Millions)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
HCPTF Revenues	\$5.2	\$5.3	\$5.3	\$5.4	\$5.5
STUPCF Revenues	15.2	15.5	15.8	16.0	16.3
DDSF Revenues	36.9	37.5	38.2	38.8	39.5
ATPRSF Revenues	36.9	37.5	38.2	38.8	39.5
MHCF Revenues	36.9	37.5	38.2	38.8	39.5
MMTF Revenues	83.5	84.9	86.4	87.8	89.3
Special Fund Revenues	214.5	218.1	221.8	225.6	229.4
 General Fund Revenues	 31.4	 31.9	 32.4	 33.0	 33.5
Current Revenues	31.2	31.7	32.2	32.8	33.3
Over Current Revenues	0.2	0.2	0.2	0.2	0.2
 Total Revenues	 \$245.9	 \$250.1	 \$254.3	 \$258.7	 \$263.1

Note: Numbers may not sum to totals due to rounding.

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 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 sales of wine or beer.

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 will decrease due to the decline in

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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. This mitigates the decrease in sales tax revenues to some degree, especially for beer and wine, since these products 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 \$1.8 million in fiscal 2012. However the actual amount of the change in sales tax revenues 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 in fiscal 2012 and 2013, and beginning in fiscal 2014, this amount increases to 6.5%. Under the assumptions used, a \$1.8 million reduction in sales tax revenue will result in a general fund revenue decrease of \$1.7 million and TTF revenue decrease of \$93,600, beginning in fiscal 2012.

State Expenditures: The bill requires almost all of the additional revenue generated from the alcoholic beverages taxes (\$214.6 million) to be used for the specified purposes of the six established special funds, as shown in Exhibit 2.

Small Business Effect: The alcoholic beverages tax increases 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 into Virginia and the District of Columbia to purchase alcoholic beverages, where the taxes will be considerably lower. Small businesses that import beer into the State would also be required to prepay the tax.

Additional Information

Prior Introductions: A similar bill was introduced as SB 717/HB 832 in 2010. The Senate Budget and Taxation Committee, the Senate Finance Committee, the House Ways and Means Committee, and the House Health and Government Operations Committee took no action on either bill.

Cross File: HB 121 (Delegate Hubbard, *et al.*) - Ways and Means and Health and Government Operations.

Information Source(s): Comptroller of Maryland; Department of Health and Mental Hygiene; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2011
mm/jrb

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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

State	Distilled Spirits¹ (\$ per Gallon)	Wine² (\$ per Gallon)	Beer³ (\$ per Gallon)
Rhode Island	3.75	.60	0.10
South Carolina	2.72	.90	0.77
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	0.67	0.19

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