

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

Senate Bill 377

(The President)(By Request - Administration)

Budget and Taxation

Ways and Means

Admissions and Amusement Tax - Revenue Distribution - Maryland State Arts Council

This Administration bill alters the distribution of revenue attributable to a 5% State admissions and amusement (A&A) tax rate on electronic bingo and electronic tip jars so that *up to* an aggregate amount of \$1.0 million in each fiscal year goes to the Special Fund for Preservation of Cultural Arts in Maryland and the remainder is distributed to the Maryland State Arts Council (MSAC), instead of *all* of the revenue going to the special fund. Any funds distributed to MSAC from the A&A tax must be included in MSAC’s prior fiscal year appropriation for purposes of calculating the required mandated general fund appropriation.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Special fund revenues to the Special Fund for Preservation of Cultural Arts in Maryland decrease by at least \$0.8 million beginning in FY 2017, and special fund revenues to MSAC increase by an equivalent amount, so there is no net impact on State revenues. The FY 2017 budget includes a transfer of \$2.0 million from the Special Fund for Preservation of Cultural Arts in Maryland to MSAC, contingent on the enactment of this bill. Future years reflect an expected 1.52% decline in electronic bingo and electronic tip jar proceeds annually. General fund expenditures increase by at least \$875,200 in FY 2018 and by at least \$3.5 million in FY 2021 as a result of including A&A tax revenues distributed to MSAC each year in the calculation of its mandated general fund appropriation. **This bill increases a mandated appropriation beginning in FY 2018.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0.9	1.8	2.6	3.5
Net Effect	\$0.0	(\$0.9)	(\$1.8)	(\$2.6)	(\$3.5)

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

Local Effect: Local government expenditures for local arts councils may decrease minimally to the extent that local arts councils rely less on funding from local jurisdictions and more on revenues from MSAC.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: For fiscal 2016 through 2021, revenues attributable to a State A&A tax rate of 20% imposed on electronic bingo and electronic tip jars are distributed to the Maryland E-Innovation Initiative Fund, and revenues attributable to a rate of 5% are distributed to the Special Fund for Preservation of Cultural Arts in Maryland. After fiscal 2021, revenues attributable to a State A&A tax rate of 20% imposed on electronic bingo and electronic tip jars are distributed to the general fund, and revenues attributable to a rate of 5% are distributed to the Special Fund for Preservation of Cultural Arts in Maryland.

The State A&A tax is only applicable in Anne Arundel and Calvert counties. The tax rate in Anne Arundel County is 25%, distributed as described above. In Calvert County, the total State A&A rate on specified machines is 33%. In fiscal 2014 through 2019, revenues attributable to the additional State A&A tax rate in Calvert County are distributed as follows:

- 1.5% to the Boys and Girls Club of the Town of North Beach in the amount of \$50,000, with the remainder to the Town of North Beach;
- 2.5% to the Town of Chesapeake Beach; and
- 4.0% to the Calvert County Youth Recreational Opportunities Fund (CCYROF).

Beginning in fiscal 2020, distributions are unaltered, except that the revenues attributable to a State A&A rate of 4.0% no longer go to CCYROF but are instead distributed to the Calvert County Board of Education for school renovation and renewal projects.

Special Fund for Preservation of Cultural Arts in Maryland

The Special Fund for Preservation of Cultural Arts in Maryland is a special, nonlapsing fund that consists of State A&A tax revenue from electronic bingo and tip jar machine proceeds and any other money accepted for the benefit of the fund. The fund is used to provide supplemental grants to cultural arts organizations in the State that qualify for general operating support grants from MSAC. These grants may not supplant other funding that the organization qualifies to receive. Due to the diversion of funds for cost

containment and other budgetary purposes, the special fund has never been used for its intended purpose.

MSAC

MSAC is a 17-member State agency established in 1967. The council’s mission is to encourage and invest in the advancement of the arts for the people of the State, which the council accomplishes largely through grants to arts organizations and local arts agencies. The council also makes grants to enhance the availability of artists in public schools, further the creative work of individual artists, and support the preservation of folk and traditional arts. By statutory mandate, the Governor is required to appropriate general funds to the council that increase each year by the expected percentage of growth in general fund revenues. In fiscal 2015, MSAC received a general fund appropriation of \$15.4 million.

Background: Exhibit 1 shows the estimated revenue distribution of A&A revenues from electronic bingo and electronic tip jars in Anne Arundel and Calvert counties under current law from fiscal 2017 through 2021.

Exhibit 1
Estimated Distribution of A&A Revenues Under Current Law
Fiscal 2017-2021

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
E-Nnovation Initiative Fund	\$7,382,268	\$7,270,058	\$7,159,553	\$7,050,728	\$6,943,557
Preservation of Cultural Arts	1,845,567	1,817,514	1,789,888	1,762,682	1,735,889
Calvert County funds	1,380,633	1,359,647	1,338,981	1,318,628	1,298,585
Total A&A Revenues	\$10,608,468	\$10,447,219	\$10,288,422	\$10,132,037	\$9,978,031

Source: Department of Legislative Services

State Revenues: Special fund revenues to the Special Fund for Preservation of Cultural Arts in Maryland decrease by \$0.8 million beginning in fiscal 2017, and revenues to MSAC increase by an equivalent amount as shown in Exhibit 2. This analysis assumes that \$1.0 million of A&A revenues is available and distributed to the Special Fund for Preservation of Cultural Arts in Maryland in each fiscal year. To the extent that less than \$1.0 million is available or distributed to the Special Fund for Preservation of Cultural Arts in Maryland in any year, special fund revenues to the Special Fund for Preservation of Cultural Arts in Maryland decrease by more than shown in Exhibit 2. Revenues to MSAC

may increase by an equivalent amount if the additional A&A revenues are available. Future years reflect a 1.52% annual decline in electronic bingo and electronic tip jar proceeds. The fiscal 2017 budget includes an appropriation of \$18.4 million to MSAC, plus an additional \$2 million from the transfer of funds from the Special Fund for Preservation of Cultural Arts in Maryland. This transfer of funds is contingent upon the enactment of this bill.

Exhibit 2
Fiscal Impact of Distribution of A&A Revenues Under the Bill
Fiscal 2017-2021

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Preservation of Cultural Arts	(\$845,567)	(\$817,514)	(\$789,888)	(\$762,682)	(\$735,889)
MSAC	845,567	817,514	789,888	762,682	735,889

Source: Department of Legislative Services

State Expenditures: The bill requires funds distributed to MSAC from the A&A tax to be included in MSAC’s prior fiscal year appropriation for purposes of calculating the required mandated appropriation. There is no impact on general fund expenditures in fiscal 2017. Beginning in fiscal 2018, assuming the Board of Revenue Estimates projects 3.5% annual growth in general fund revenues, general fund expenditures increase by \$875,162 and by \$3.5 million in fiscal 2021, as shown in **Exhibit 3**, assuming \$1.0 million of A&A revenues is available and distributed to the Special Fund for Preservation of Cultural Arts in Maryland each fiscal year.

Exhibit 3
Mandated Appropriations to MSAC
Fiscal 2018-2021

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Under the Bill	\$18,926,308	\$20,434,856	\$21,967,611	\$23,525,853
Under Current Law	18,051,146	18,682,936	19,336,839	20,013,628
Increase in General Fund Appropriations	\$875,162	\$1,751,920	\$2,630,771	\$3,512,224

Source: Department of Legislative Services

This analysis assumes that including the A&A revenue in MSAC's prior year appropriation for determining the mandated general fund appropriation is *cumulative*, *i.e.* the A&A revenue is added to the general fund appropriation each year. To the extent the A&A revenue distribution is not intended to be cumulative, the annual increases in general funds due to the bill are significantly less.

Local Expenditures: Local government expenditures for local arts councils may decrease minimally to the extent that local arts councils rely less on funding from local jurisdictions and more on revenues from MSAC. In fiscal 2015, MSAC awarded a total of \$2.4 million in community arts development grants to Maryland's 24 local arts councils.

Additional Comment: The bill does not direct the A&A revenue to a special fund for MSAC. This analysis assumes that the A&A revenue to MSAC cannot be used to fulfill the statutory mandate of the Governor to appropriate general funds to MSAC that increase each year by the expected percentage of growth in general fund revenues.

Additional Information

Prior Introductions: None.

Cross File: HB 451 (The Speaker)(By Request - Administration) - Ways and Means.

Information Source(s): Department of Commerce, Comptroller's Office, State Lottery and Gaming Control Agency, Maryland State Arts Council, Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2016
kb/rhh Revised - Senate Third Reader - March 29, 2016
Revised - Enrolled Bill - May 17, 2016

Analysis by: Heather N. Ruby

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Admissions and Amusement Tax – Revenue Distribution – Maryland State Arts Council

BILL NUMBER: SB 377/HB 451

PREPARED BY: Aaron Barker, DBM Staff Economist

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Maryland small businesses would not be affected by redirecting electronic bingo and tip jar revenue from the Preservation of Cultural Arts program to the Maryland State Arts Council.