



## Maryland Municipal League

*The Association of Maryland's Cities and Towns*

March 31, 2020

### MEMORANDUM

TO: Mayors/Managers/Administrators/Clerks/Treasurers/Clerk-Treasurers/Finance Directors

FROM: James P. Peck, Research Specialist

SUBJECT: Budget Preparation Assistance Memo #2

*Normally this second annual memo is largely devoted to informing you of actions by the Maryland General Assembly in the just completed session that could affect your budgetary decision making for the coming fiscal year and future years. This year this memo focuses in largest part on potential impacts of the COVID-19 emergency on your budget deliberations. (We know some of this is readily apparent, but we want to be sure you cover all your bases.)*

### **POTENTIAL IMPACTS OF THE COVID-19 EMERGENCY ON MUNICIPAL BUDGETING FOR FISCAL 2021**

#### **Highway User Revenues (HURs)**

Included with the first Budget Preparation Memo MML sent earlier this month were estimates for your HURs for Fiscal Year 2021. Because so many businesses have shut down and people are hunkering down at home, we can anticipate significant decreases in gasoline sales and vehicle titling. Resulting decreases in gasoline tax revenues and vehicle titling fees that support HURs will depress these revenue receipts and result in lower HUR distributions for both this fiscal year and next. You will want to factor that in plugging HUR projected revenues into your budget revenue projections.

The actual impacts of the emergency on HUR distributions will not be known until the emergency is over. So, your HUR revenue projections will need to be based essentially on your best guess.

#### *Income Tax Revenues*

Corona virus-related emergency business shutdowns and resulting job losses and work week reductions will similarly depress income tax receipts for both this and next fiscal years. Projecting income tax revenues is difficult in the best of years. It will be more so this time around.

#### *Property Tax Revenues*

Job loss and hourly reductions will weigh heavily on homeowners too. Expect resulting increases in property tax delinquencies, property abandonments and foreclosures as a result. Some businesses too will not survive the temporary shutdowns and lost business associated with the COVID-19 crisis with similar results.

#### *Admissions and Amusement Tax Revenues*

Closed businesses will not generate A&A taxes either.

#### *Water and Wastewater User Fees*

Distressed homeowners and businesses will have difficulties paying service fees. Maryland Governor Hogan has issued an executive order preventing service cutoffs during the emergency. Revenues will fall.

#### *Municipal Personnel Expenses*

The federal Families First Coronavirus Act requires provision of mandatory sick and family leave. While businesses may access tax credits to offset the costs of providing this leave, no similar cost offsets are available to municipal governments.

#### *Federal Assistance*

### **MINIMUM WAGE INCREASE PHASE-IN REMINDER**

Legislation (SB 280) enacted last year by the Maryland General Assembly requires employers, including municipal governments, to pay phased-in higher minimum wages capping out at \$15.00 per hour in 2025 for employers with 15 or more employees and in 2026 for employers with fewer than 15 employees. The phase-in is outlined below.

Unless the federal minimum wage is set at a higher rate, the State minimum wage generally is as follows for those with 15 or more employees:

- \$11.00 per hour for the current year;
- \$11.75 per hour as of January 1, 2021;
- \$12.50 per hour as of January 1, 2022;
- \$13.25 per hour as of January 1, 2023;
- \$14.00 per hour as of January 1, 2024; and
- \$15.00 per hour as of January 1, 2025.

The State minimum wage for a small employer (an employer that employs 14 or fewer employees) is as follows:

- \$11.00 per hour for the current year;
- \$11.60 per hour as of January 1, 2021;
- \$12.20 per hour as of January 1, 2022;
- \$12.80 per hour as of January 1, 2023;
- \$13.40 per hour as of January 1, 2024;
- \$14.00 per hour as of January 1, 2025;
- \$14.60 per hour as of January 1, 2026; and
- \$15.00 per hour as of July 1, 2026.

An employer may no longer pay a training wage as authorized under the federal Fair Labor Standards Amendments of 1989 or pay 85% of the State minimum wage rate to employees younger than age 20 for the first six months of employment or to employees who work for specified amusement, recreational, or swimming pool establishments. Instead, an employer may pay 85% of the State minimum wage rate to employees younger than age 18.

The CARES Act (HR 748), which was signed into law March 27, will provide federal funding to various entities as a result of the COVID-19 crisis. However, at this time it is unclear how much of the funding, if any, local governments will ultimately receive. The bulk of the funding allotted for governments will go to the states and other governmental units greater than 500k in population; it is then at the state's discretion whether to disperse a portion of the funding to local governments. In short, it is very difficult to predict if Maryland's municipalities will receive any federal funding for COVID-19 related expenditures.