



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.



Maryland Municipal League
The Association of Maryland's Cities and Towns

March 11, 2020

MEMORANDUM

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

FROM: James P. Peck, Research Specialist

SUBJECT: Budget Preparation Assistance - Memo #1

This is the first of our annual budget preparation memos designed to give administrative and elected officials information to assist in the process leading to budget adoption. Please forward this to the person or persons responsible for formulating your municipal budget. Should questions arise as you proceed, I hope you will take advantage of the League's inquiry service to assist you.

STATE SHARED REVENUES AND STATE ADMINISTERED LOCAL REVENUES

Highway User Revenues (HURs)—Funding for the municipal share of HUR's is estimated to be \$39.1 million for FY 2021, up slightly from estimates that were generated at the end of last year's General Assembly session. The new estimates were mailed to your municipality by the State Highway Administration in January; they are also here: [HERE](#).

Police Aid—The Administration's FY 2021 proposed budget for State Aid for Police Protection estimates a one half of one percent increase over current-year levels. Anna Tisari of the Governor's Office of Crime Control and Prevention (GOCCP) is the person to call if you have questions about the program. You may reach her at 410/697-9332 or via e-mail at anna.tisari@maryland.gov. Ms. Tisari has provided Police Aid estimates for FY 2021; they may be found here: [HERE](#).

Income Tax – Variation between and within counties does not permit examination of this revenue source on a statewide basis. Contact Pharita (Jan) Akbhavasut with the Revenue Administration Division of the State Comptroller’s Office for information to assist you in making a projection for your municipality. You can reach her at PAKBHAVASUT@comp.state.md.us or 410/260-7501. The Revenue Administration Division does not provide tax base growth projections for individual cities and towns. Given the economic conditions and the resulting fluctuations in income tax receipts, the Division believes they have inadequate data to make such projections. They can, however, provide (1) Bureau of Revenue estimates on statewide income tax projections; (2) historic data on your receipts in prior years; and (3) if available, current year income tax projections for your municipality.

There are steps you can take to ensure that income taxes generated by municipal residents are properly attributed to your town. If you provide an accurate street listing to the Comptroller's Income Tax Division, noting the ranges for street address numbers located within municipal boundaries, that listing is used to manually verify that tax returns are properly attributed to your city or town. (Please note that also sharing this list with the Department of Assessments and Taxation can similarly help them accurately determine the location of businesses for purposes of certifying personal property taxes. Sharing the list with the State Highway Administration can help ensure that vehicle registrations used to determine local shares of HURs are properly attributed to your municipality.) The Comptroller’s office asks that you use a specific format to provide addresses. Contact Ms. Akbhavasut to receive a copy of the format.

Municipal governments are currently not affected by action of a county in setting a piggyback income tax rate equal to or less than 2.6% of State taxable income. However, municipal income tax receipts rise or fall proportionally if their county government increases or decreases its local income tax rate within the range above 2.6% to the maximum of 3.2% of State taxable income. You therefore need to be aware of any action on the part of your county that may affect your income tax revenues.

Admissions and Amusement Tax – Pharita (Jan) Akbhavasut is also the person to call to determine if your admissions and amusement tax base has undergone any major changes that would affect revenues. You can reach her at PAKBHAVASUT@comp.state.md.us or 410/260-7501.

Financial Institutions Tax (Bank Shares Tax) – About half of Maryland's cities and towns receive this revenue. It represents a hold harmless grant for a discontinued tax in those municipalities where owners of stock from financial institutions resided within their corporate limits prior to July 1, 1968. Annual grant amounts distributed by the counties vary from as little as \$68 for Garrett Park to as much as \$43,210 in the City of Frederick. For a given municipality there should be no variation in the dollar amount received from year to year.

However, Uniform Financial Reports (UFRs) that each city and town submits to the Department of Legislative Services each year have over time shown significant

variations in this line item for some municipalities. Not only does the figure frequently vary from year to year, the figure is zero for some years for municipalities that previously received Bank Shares Tax monies. We do not know if these represent simple errors in filling out UFRs or whether some counties are in fact remiss in sending the required check on occasion. You may wish to check back through the years to see if your municipality should be receiving this grant and, if so, whether you have received it.

GENERAL ASSEMBLY FISCAL LEGISLATION OF INTEREST

Senate Bill 982/HB 1394 is MML priority legislation that as drafted would increase the funding level of municipal highway user revenues beginning in FY 2025 to prerecession levels.

For information on General Assembly bills with potential municipal impact, visit the League's Bill Position Summary page at <http://www.mdmunicipal.org/index.aspx?nid=438>.

MML DUES AND CONFERENCE COSTS

In January, the MML Board of Directors approved the first draft of the League budget for the fiscal year starting July 1, 2019. A dues schedule can be viewed here: [HERE](#). Please contact MML Finance Director Steve Gindes with any questions at 410/268-5514 or SteveG@mdmunicipal.org.

MML 2019 summer conference registration fees for municipal officials and employees are:

- \$555 for early (by April 24) on-line municipal registrants
- \$605 for early (by April 24) "mail-in" registrants

The League will continue offering a \$100 discount to any municipal official who is a first-time MML summer conference attendee.

Projections are not yet available for registration fees for the fall conference in College Park this October.

CONSTANT YIELD TAX RATE PROCEDURES

The State Department of Assessments and Taxation (SDAT) e-mailed constant yield tax rate certifications and instructions to all local governments in February.

Any municipality that did not receive an exemption and plans to levy a tax higher than the constant yield tax rate must follow specific procedures established in the law. Officials of each affected municipality should read and understand the required procedures. Pay particular attention to advertise in a local paper within the time specified by law before the public hearing on the constant yield tax rate. As an alternative, you may mail a notice to every taxpayer.

The required hearing must occur on or before June 17th and Saturdays, Sundays and holidays are included in the counting of days under the law. The law also mandates that you hold the public hearing ". . . on or after the 7th day and on or before the 21st day after the notice is published as required . . ."

The advertisement must be at least one-eighth page in size using at least 12-point type for all letters. The law provides that the headline for the advertisement must be in bold face type with all letters in the headline capitalized. The text of the advertisement under the headline must use both upper and lower case letters. The law specifies the exact form and language that the advertisement must use and allows for no deviation. A copy of the language to be used was included in the notice from SDAT. At your request, SDAT will review your notice prior to publication, frequently on the same day they receive it. Prior approval will help eliminate the need for republication or other remedial action later.

Within 15 days of the date of the advertisement, you must provide a copy of *the entire newspaper page* that carried the public hearing notice to SDAT. Similarly, where municipalities mail notices to each taxpayer, you must provide one copy of the notice to the Department.

State law exempts a municipality from the advertising and hearing requirements if a difference of \$25,000 or less exists between the product of a municipality's current assessable base multiplied by its current property tax rate and the product of its projected assessable base for the coming fiscal year multiplied by its current property tax rate. Following a general trend in recent years, most municipalities are exempt each year. For this current year, 115 cities and towns are exempt, compared with 110 last year.

Municipalities that receive notification that they are exempt are not subject to the notice and hearing requirements of the law. If you were not notified as being exempted from the constant yield rate, SDAT may not arbitrarily grant an exemption. Exemptions are formula driven. If, however, you question the computations for your city or town or have other questions, you may wish to contact Zachary Grisard at SDAT at 410/767-6259 or via e-mail at zachary.grisard@maryland.gov.

HOMESTEAD PROPERTY TAX CREDITS

The homestead property tax credit caps annual property assessment increases that are taxable for purposes of property taxation. Local governments may set the cap anywhere between 0% and 10%. Municipal governments have full authority to set their own assessment caps. But municipal officials need to be cognizant that, in the event that a county lowers its homestead tax credit rate below 10% and a municipality within the county has not affirmatively acted to set its own homestead credit rate, the homestead rate set by the county will apply within the municipality. Thus, county action to provide property tax relief to homeowners will similarly affect homeowners with regard to municipal property taxes unless municipal governing bodies set their own homestead tax assessment caps.

INFLATION

According to the U.S. Bureau of Labor Statistics, the nationwide Consumer Price Index for All Urban Consumers (CPI-U) increased by 2.3% for the 12-month period ending in February 2020. The CPI for the Baltimore/Washington metropolitan area is no longer generated by the Bureau as of January 2018.

The Bureau of Labor Statistics notes that “[l]ocal area indexes are byproducts of the national CPI program. Each local index has a smaller sample size than the national index and is, therefore, subject to substantially more sampling and other measurement error. As a result, local area indexes show greater volatility than the national index, although their long-term trends are similar. Therefore, the Bureau of Labor Statistics strongly urges users to consider adopting the national average CPI for use in their escalator clauses.”

The U.S. Bureau of Labor Statistics released the CPI data cited here on March 11, 2020. The next release date will be on April 10 and will cover the 12-month period ending in March 2020. Consumer price index data are available at www.bls.gov/cpi.

IRS STANDARD MILEAGE REIMBURSEMENT RATE

The Internal Revenue Service as of January 1, 2020 decreased the optional allowable standard auto mileage reimbursement rate to 57.5 cents, down from 58.0 cents for calendar year 2020. The optional allowance is the maximum that an employer may provide to employees to reimburse them for travel without the reimbursement being treated as income to the employee.

BUDGET APPROVAL PROCESS

Just a reminder - state law requires that municipal budgets be approved by ordinance - not by resolution. To do otherwise could jeopardize the validity of your budget and any taxes or fees associated with budget approval.

NEXT MEMO

MML will send you a second budget preparation assistance memo in April. At that time, the League will update you on any legislation passed this year by the General Assembly that may affect your budgets now or in the future.