GO Item 1
September 22, 2020
Worksession
ADDENDUM

M E M O R A N D U M

September 18, 2020

TO: Government Operations and Fiscal Policy Committee

FROM: Christine Wellons, Legislative Attorney

SUBJECT: Expedited Bill 40-20, Licensing and Regulations – Uniform Trader's License Fee

PURPOSE: Worksession – recommendation expected

The Office of Management and Budget and the Office of Legislative Oversight forwarded the Fiscal Impact statement and the Economic Impact statement for Expedited Bill 40-20 after the Government Operations and Fiscal Policy Committee packet went to print.

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OFFICE OF MANAGEMENT AND BUDGET

Marc Elrich
County Executive

Jennifer Bryant
Acting Director

M E M O R A N D U M

September 17, 2020

TO: Sidney Katz, President, County Council

FROM: Jennifer Bryant, Acting Director, Office of Management and Budget

SUBJECT: FIS for Expedited Council Bill 40-20, Licensing and Regulations – Uniform Trader's License Fee

Please find attached the Fiscal Impact Statement for the above-referenced legislation.

JB:cm

c: Richard S. Madaleno, Acting Chief Administrative Officer
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Fiscal Impact Statement
Bill 40-20, Licensing and Regulations- Uniform Trader's License Fee

1. **Legislative Summary**

Bill 40-20 would select a uniform trader's license fee under State Law. This license fee would be $15.

2. **An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.**

Current Law: Under the current law, an applicant for a trader's license must pay an annual license fee to the Clerk of the Court ranging from $15 to $800, based on the value of the person's stock-in-trade (i.e., inventory). The revenues are generally split between local government (92%) and the State general fund (8%).

If the business is located in a municipality, the local government portion of the revenue is distributed to the municipality; otherwise, the revenue goes to the county in which the business is located.

In FY 2018, in Montgomery County there were approximately 7,010 trader's licenses issued with revenue totaling $1 million across the county. Distribution of revenue is shown in Table 1.

Under the proposed bill, the fee would be $15 for all traders, and the State would keep all revenues from the fee.

The selection by the government body of the County of a uniform trader's license fee under State Law is irrevocable. (HB 34 Chapter 569, 17-1807.1.(B))

Table 1

Montgomery County- FY 2018- Revenue from trader's Licenses					
	Licenses	Montgomery County	Municipal	MD State	Total Revenue
Current Fees	7010	$ 724,259	$ 249,305	$ 62,142	$ 1,035,706
Proposed uniform License Fee $15	7010	0	0	$ 105,150	$ 105,150
Revenue(Loss) gain	7010	$ (724,259)	$ (249,305)	$ 43,008	**$ (930,556)**

Source: Judicial (Administrative Office of the Courts): MD Department of Legislative Services

3. **Revenue and expenditure estimates covering at least the next 6 fiscal years.**

If Bill 40-20 is adopted, the County will lose revenue of approximately $955K annually (Table 2).

Table 2

Fiscal Year	Total County fees- Trader's Business License
FY16	$ 1,201,706.8
FY17	$ 839,555.1
FY18	$ 871,737.5
FY19	$ 907,050.1
Average	**$ 955,012.4**

Source: Montgomery County - Finance Department General Ledger- account 41046 "Traders License"

As a result of the new uniform fee of $15, changes to the trader's license fee are as follow:

Revenue Projected under Current Fees	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	Total 6-Year
Forecasted Trader's License Fees	$ 955,012	$ 955,012	$ 955,012	$ 955,012	$ 955,012	$ 955,012	$5,730,074

Revenue Projected under Proposed Fees	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	Total 6-Year
Forecasted Trader's License Fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Summary:

The proposed fee change to the trader's license fee is estimated to result in a decrease of $5.7M over the FY21-26 period vs. the current fees. This amounts to an average annual decrease of $955,012 in trader's license fees over the FY21-26 period.

4. **An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.**

   Not applicable.

5. **An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.**

   Not applicable.

6. **Later actions that may affect future revenue and expenditures if the bill authorizes future spending.**

   Bill 40-20 does not authorize future spending.

7. **An estimate of the staff time needed to implement the bill.**

   Not applicable.

8. **An explanation of how the addition of new staff responsibilities would affect other duties.**

   Not applicable.

9. **An estimate of costs when an additional appropriation is needed.**

   Not applicable.

10. **A description of any variable that could affect revenue and cost estimates.**

    Not applicable.

11. **Ranges of revenue or expenditures that are uncertain or difficult to project.**

    Not applicable.

12. **If a bill is likely to have no fiscal impact, why that is the case.**

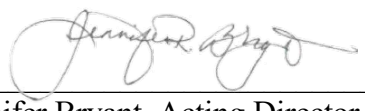
    Not applicable.

13. **Other fiscal impacts or comments.**

    None.

14. **The following contributed to and concurred with this analysis:**

    Estela Boronat de Gomes, Office of Management and Budget



Jennifer Bryant, Acting Director
Office of Management and Budget

9/17/20
Date

Economic Impact Statement

Office of Legislative Oversight

Expedited Bill 40-20

Licensing and Regulations – Uniform Trader's License Fee

SUMMARY

The Office of Legislative Oversight (OLO) expects enacting Expedited Bill 40-20 to have a minimal economic impact on the County as a whole. However, retail stores and exhibitors required to purchase trader's licenses would also benefit from reduced administrative costs associated with determining the value of their inventories.

BACKGROUND

The State of Maryland requires certain retail stores and exhibitors to attain a trader's license. The Circuit Court collects the fee for the license.[1] Under current law, the trader's license ranges from $15 to $800, depending on the value of the trader's inventory.[2] The State of Maryland and the County share the revenue collected from the traders.[3]

In 2019, State lawmakers passed House Bill 34 to allow Counties to adopt a uniform trader's license fee in the amount of $15, irrespective of the size of the business's inventory.[4] If Expedited Bill 40-20 is enacted, businesses would pay flat fees of $15 to receive trader's licenses.[5] All of the revenue from the fee would accrue to the State general fund, as stipulated in State law.[6] However, these changes would only apply to municipalities in the County that have opted into Chapter 30 of the County Code. Moreover, under State law, the adoption of the uniform fee would be "irrevocable." Expedited Bill 40-20, however, would permit the County to revoke the change if State law changes.[7]

If enacted, the changes to the rate of the trader's license fees and allocation of the revenues would take effect on the date Expedited Bill 40-20 becomes law.[8]

METHODOLOGIES, ASSUMPTIONS

To evaluate the annual economic impacts of enacting Expedited Bill 40-20, OLO uses figures for the licenses and revenue from the trader's licenses from fiscal year 2018.[9] In this year, 7,010 licenses were issued to retail stores and exhibiters in the County. The County and its municipalities collected a total of $973,564 in revenues. The State of

[1] Christine Wellons, Memorandum, Expedited Bill 40-20, Licensing and Regulations – Uniform Trader's License Fee, Montgomery County Council, September 10, 2020, 1.
[2] Ibid.
[3] Ibid.
[4] State of Maryland, House Bill 34, Business Regulation – Trader's Licenses – License Fees, Enacted on May 29, 2019.
[5] Montgomery County Council, Expedited Bill 40-20, Licensing and Regulations – Uniform Trader's License Fee, Introduced on September 15, 2020, Montgomery County, Maryland, 2 and 3.
[6] Fiscal and Policy Note, Business Regulation – Trader's Licenses – License Fees, House Bill 34, Maryland General Assembly.
[7] Montgomery County Council, Expedited Bill 40-20, 2.
[8] Ibid.
[9] See Exhibit 1 in Fiscal and Policy Note, House Bill 34, 3.

and UNCERTAINTIES

Maryland collected $62,142 in revenues. The average fee that the retail stores and exhibitions paid was $148.

In its fiscal analysis, the Office of Management and Budget calculates how the proposed changes to the trader's license fees and allocation of revenues would have impacted the revenues collected in FY 2018. The County and its municipalities would have collected $0 in revenues, a net loss of $973,564. The State of Maryland would have collected $105,150 in revenues, a net increase of $43,008. Retail stores and exhibitions would have each paid $15 for the license, an average net decrease of $133 per business.

As indicated in the analysis for FY 2018, enacting Expedited Bill 40-20 would involve an internal transfer within the County. The revenues that the County and municipalities would forgo would be retained by local businesses. This internal transfer, therefore, would involve no net change in the amount of economic activity in the County. However, due to the revenue allocation stipulations, the County would lose $43,008 in revenue accrued to the state in the FY 2018 example. Thus, the enactment of Expedited Bill 40-20 could potentially result in a negligible decrease in net economic activity in the County.

Ultimately, the total annual economic impact of Expedited Bill 40-20 would equal the difference between: (a) the per year economic benefits of reducing the license fee to businesses operating in the County; and (b) the per year opportunity cost of reducing County revenues. The magnitude of the economic benefits and opportunity costs would be influenced by the positive and negative multiplier effects entailed in the reduction of license fees. The multiplier effect captures how a net change in economic activity affects other rounds of spending. On the positive side, the license fee decrease would increase the net income of private organizations. They would then spend a portion of the additional income within the County, thereby generating a positive multiplier effect. However, on the negative side, the license fee decrease would reduce County revenues. The forgone revenue then could not be used to stimulate the economy through government expenditures.

OLO can calculate the per year positive multiplier effect of reducing the license fee. Using the Regional Input-Output Modeling System (RIMS II) "final-demand multipliers" for Montgomery County developed by the U.S. Bureau of Economic Analysis,[10] economic impacts are estimated in terms of three economic measures:

- Output (sales): total market value of industry output,
- Earnings: employee compensation plus net earnings of sole proprietors and partnerships, and
- Employment: number of full- and part-time employees.[11]

These estimates, however, do not account for the monetary savings that businesses may receive from being relieved of the administrative burden of determining the value of their inventories. Moreover, OLO cannot estimate the opportunity cost of reduced government expenditures.

[10] U.S. Bureau of Economic Analysis, *RIMS II: An Essential Tool for Regional Developers and Planners*, December 2013, https://apps.bea.gov/regional/rims/rimsii/rimsii_user_guide.pdf.
[11] Ibid, 3 – 3 and 3 – 4.

In its fiscal impact analysis, the Office of Management and Budget project that, if Expedited Bill 40-20 is enacted, the County would forgo approximately $955,000 in revenues from license fees that retail stores and exhibitors would not have to pay. The savings to these businesses would generate $1,262,224 to $1,521,888 in total output, $277,046 to $362,136 in earnings, and 9 to 12 jobs per year.[12] However, the true total economic impacts would deduct the loss of output, earnings, and/or jobs that a reduction in government expenditure would create from these estimates. As previously stated, OLO cannot estimate these opportunity costs.

VARIABLES

The variables that could affect the economic impacts of enacting Expedited Bill 40-20 are the following:

- Net change in overhead expenses for businesses from the license fee and administrative costs of determining the value of inventory;
- Opportunity cost from forgone County and municipal revenue; and
- Amount of forgone revenue to the State that is reinvested in the County.

IMPACTS

Businesses, Non-Profits, Other Private Organizations

workforce, taxation policy, property values, incomes, operating costs, private sector capital investment, economic development, and competitiveness

As a change in business license policy, retail stores and exhibitors that are required to attain trader's licenses would be impacted by the enactment of Expedited Bill 39-20. OLO believes that the primary benefit to these businesses would be being relieved of the administrative burden of determining the value of their inventories. Importantly, these businesses have been particularly harmed by the COVID-19 pandemic and economic recession. As reviewed in the OLO COVID-19 Recovery Outlook paper on Small Businesses,[13] businesses in the retail sector, particularly small and minority-owned businesses, are at high-risk of closing. Although many retail stores and exhibitors are need of financial assistance, OLO does not believe that the savings these businesses would receive from the reduced license fee would affect rates of business closure. As shown above, retail stores and exhibitors, on average, would have saved only $133 in FY 2018. Importantly, the savings would not be evenly distributed among businesses. Given the current progressive rate for license fees, businesses with higher-valued inventories would save the most. **Table 1** shows how the per year savings depends on the value of business inventories.

[12] The lower-bound estimates were calculated using Type I RIMS-II multipliers, whereas the upper-bound estimates were calculated using Type II multipliers.
[13] Stephen Roblin, COVID-19 Recover Outlook: Small Businesses, Office of Legislative Oversight, Montgomery County Council, June 12, 2020, https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19Recovery-SmallBusinesses.pdf.

Table 1. Annual Savings from Proposed Changes to Trader's License Fees

Inventory Value	Current License Fee	Proposed License Fee	Savings
$1,000 or less	$15	$15	$0
over $1,000 to $1,500	$18	$15	$3
over $1,500 to $2,500	$20	$15	$5
over $2,500 to $4,000	$25	$15	$10
over $4,000 to $6,000	$30	$15	$15
over $6,000 to $8,000	$40	$15	$25
over $8,000 to $10,000	$50	$15	$35
over $10,000 to $15,000	$65	$15	$50
over $15,000 to $20,000	$80	$15	$65
over $20,000 to $30,000	$100	$15	$85
over $30,000 to $40,000	$125	$15	$110
over $40,000 to $50,000	$150	$15	$135
over $50,000 to $75,000	$200	$15	$185
over $75,000 to $100,000	$250	$15	$235
over $100,000 to $150,000	$300	$15	$285
over $150,000 to $200,000	$350	$15	$335
over $200,000 to $300,000	$400	$15	$385
over $300,000 to $400,000	$500	$15	$485
over $400,000 to $500,000	$600	$15	$585
over $500,000 to $750,000	$750	$15	$735
over $750,000	$800	$15	$785

Among the Council's priority indicators,[14] the enactment of Expedited Bill 40-20 would primarily affect retail stores and exhibitors' operating costs. All businesses with inventories valued at more than $1,000 would experience a reduction in operating costs, with businesses with higher-valued inventories seeing the largest reduction in operating costs in absolute terms. Given the minimal amount of savings, OLO does not believe the Bill would meaningfully impact the Council's other priority indicators, namely workforce, property values, capital investment, taxation policy, economic development, and competitiveness.

Residents

workforce, taxation policy, property values, incomes, operating costs, private sector capital investment,

OLO believes that enacting Expedited Bill 40-20 would have little to no impact on County residents in terms of the Council's priority indicators.

[14] For the Council's priority indicators, see Montgomery County Council, Bill 10-19 Legislative Branch – Economic Impact Statements – Amendments, Enacted on July 30, 2019, Montgomery County, Maryland, 3.

economic development, and competitiveness

WORKS CITED

Fiscal and Policy Note. Business Regulation – Trader's Licenses – License Fees. House Bill 34. Maryland General Assembly.

Montgomery County Council. Bill 10-19 Legislative Branch – Economic Impact Statements – Amendments. Enacted on July 30, 2019. Montgomery County, Maryland.

Montgomery County Council. Expedited Bill 40-20, Licensing and Regulations – Uniform Trader's License Fee. Introduced on September 15, 2020. Montgomery County, Maryland.

Roblin, Stephen. COVID-19 Recover Outlook: Small Businesses. Office of Legislative Oversight. Montgomery County Council. June 12, 2020, https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19Recovery-SmallBusinesses.pdf.

State of Maryland. House Bill 34, Business Regulation – Trader's Licenses – License Fees. Enacted on May 29, 2019.

U.S. Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners.* December 2013, https://apps.bea.gov/regional/rims/rimsii/rimsii_user_guide.pdf.

Wellons, Christine. Memorandum. Expedited Bill 40-20, Licensing and Regulations – Uniform Trader's License Fee. Montgomery County Council. September 10, 2020.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent the OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) drafted this economic impact statement after consultation with Estela Boronat de Gomes, Fiscal and Policy Analyst, with the Office of Management and Budget.