

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 exhibitors 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.

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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.

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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>.

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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.

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economic development, and
competitiveness

WORKS CITED

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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.