


GO Committee #1  
January 14, 2016  
**Update**

**MEMORANDUM**

January 12, 2016

TO: Government Operations & Fiscal Policy Committee  
FROM: Jacob Sesker, Senior Legislative Analyst   
SUBJECT: Update – allocation of local income tax revenue

**Background**

On December 4, Finance Director Joseph Beach informed the Council that some income tax returns for County residents had been incorrectly assigned. The coding error may have resulted in certain returns having been assigned to municipalities when in fact those returns should have been assigned to addresses outside of the municipal boundaries. *See* © 1-2.

On December 12, Director of Maryland Revenue Administration Wayne Green informed Mr. Beach that a “reallocation of previously filed tax returns may be necessary.” *See* ©3. Mr. Green added that the Comptroller would expand the review to include the other 23 counties and their municipalities as well.

On December 21, Chair Navarro invited officials from the Office of the Comptroller to participate in this meeting. *See* © 4. The Office of the Comptroller declined the invitation to attend the meeting. Some relevant details will come to light in two other upcoming events:

- On January 15, County and municipal staff will be briefed by Wayne Green, Director of Revenue Administration, and Andrew Schaufele, Director of Revenue Estimates.
- The Senate Budget and Taxation Committee will hold a hearing on the issue on January 26 at 1:45 p.m. in Annapolis. Montgomery County Senator Rich Madaleno is Vice-Chair of Budget and Taxation.

A Washington Post story on December 8 indicated that Andrew Friedson, an official from the Office of Comptroller, said that the problem was discovered during a routine reconciliation of accounts. However, that same story indicated that the investigation might have begun as a result of an effort within the Town of Chevy Chase to better understand its highly volatile income tax revenues. *See* © 5-6.

## Discussion

Chair Navarro identified two priorities in her December 21 memorandum, both of which could be implemented via the State's local income tax reserve fund.

- The County must be made whole as soon as possible.
- Fair and non-disruptive repayment plans should be established for municipalities that received excess distribution.

At this point it is not known when the Office of the Comptroller will complete its review or whether that review will adequately address the issues raised by any affected local governments. Among the issues that could affect the timing of the Comptroller's review are whether the problems began prior to 2010 and the extent to which other counties and their municipalities were affected.

### Attachments:

©1: Director Beach Memo to Council President Floreen (December 4)

©3: Director Green Memo to Director Beach (December 12)

©4: Councilmember Navarro Memo to Comptroller Franchot (December 21)

©5: Washington Post article (December 8)

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DEPARTMENT OF FINANCE

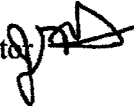
Isiah Leggett  
County Executive

Joseph F. Beach  
Director

MEMORANDUM

December 4, 2015

TO: Nancy Floreen, Council President  
Montgomery County Council

FROM: Joseph F. Beach, Director   
Department of Finance

SUBJECT: Municipal Income Tax Allocation

This memorandum is to bring to your attention a matter that the staff of the Maryland Comptroller has alerted us to. There appears to have been an error in the coding of municipal income tax returns in Tax Years 2010-14 that incorrectly assigned certain returns to municipalities when they were actually outside of the municipal boundaries. To a lesser extent, some income tax returns should have been assigned to a municipality but were not.

The Comptroller of Maryland is examining the manner in which its staff assigns subdivision codes to the taxpayer (the subdivision code is a four-digit code for location of the taxpayer). This ongoing examination involves a significant effort by the Comptroller and because of that effort, and to ensure proper subdivision codes are assigned, the Comptroller has enlisted an outside auditor to review: 1) the subdivision codes, and 2) the quality control process for assigning the codes. In addition, the Comptroller's staff have agreed to meet with representatives of the municipalities and the County in January to discuss the proposed resolution of this matter.

Because of the complexity of resolving this issue along with the ongoing operations of the Comptroller, it is not possible to draw any specific conclusions as to the fiscal implications of this matter for Montgomery County and its municipalities at this time. However, the expectation is that it will be resolved in time to incorporate the results of this review in the FY17 Operating Budget for both the County and the municipalities.

Office of the Director

101 Monroe Street, 15th Floor • Rockville, Maryland 20850 • 240-777-8860 • 240-777-8857 FAX  
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Nancy Floreen, Council President  
December 4, 2015  
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Cc:

Isiah Leggett, County Executive  
Hon. Richard Madaleno, Montgomery County Senate Delegation  
Hon. Shane Robinson, Chair, Montgomery County House Delegation  
Hon. Nancy King, Chair, Montgomery County Senate Delegation  
Timothy L. Firestine, Chief Administrative Officer  
Jennifer Hughes, Director, Office of Management and Budget  
Melanie Wenger, Director of Intergovernmental Relations  
Bonnie Kirkland, Assistant Chief Administrative Officer  
Scott A. Hancock, Executive Director, Maryland Municipal League (MML)  
Monica Marquina, Secretary, Montgomery County Chapter of MML  
David Platt, Chief Economist, Department of Finance  
Robert Hagedoorn, Chief, Division of Fiscal Management Department of Finance  
Andrew Schaufele, Director, Bureau of Revenue Estimates, Office of the Comptroller

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Peter Franchot  
Comptroller

Wayne P. Green, CPA  
Director  
Revenue Administration Division

Mr. Joseph Beach  
Director of Finance, Montgomery County  
101 Monroe Street  
15th Floor  
Rockville, MD 20850-2503

Dear Mr. Beach;

As you know, the Maryland Comptroller's office administers the local income tax on behalf of the counties and their municipalities. We have undertaken a thorough analysis of the municipal classification assigned to every tax return allocated to the County for tax years 2010 through 2014 as well as the process for assigning future codes.

While the results of our analysis remain preliminary and isolated to Montgomery County, we are at this point confident that the process for assigning codes requires review and that a reallocation of previously filed tax returns may be necessary. That said, we have deemed it prudent at this time to solicit support from an outside auditor, both to audit our processes and to audit the reallocation. Additionally, in reviewing the processes that prompted this effort, we have decided to expand our review to the other twenty three counties and their municipalities as well.

It is our goal to complete this thorough review as expeditiously as possible, recognizing the significance of accurate allocations to county and municipal budget processes. We would be happy to participate in a meeting with Montgomery County and any of its municipalities to discuss the outcomes of our preliminary analysis and to answer any questions that you might have.

Please feel free to contact me at 410.260.7445 should you have any questions.

Sincerely,

Wayne P. Green, Director Revenue Administration

DEPARTMENT OF FINANCE  
MONTGOMERY COUNTY, MD

DEC 12 2015

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MONTGOMERY COUNTY COUNCIL  
ROCKVILLE, MARYLAND

NANCY NAVARRO  
DISTRICT 4

The Honorable Peter Franchot  
Office of the Comptroller  
80 Calvert St.  
Annapolis, MD 21404

December 21, 2015

Dear Comptroller Franchot:

I know that you share the strong desire of County and municipal officials in Montgomery County, and our counterparts elsewhere in Maryland, to determine the proper allocation of local income tax revenue as soon as possible. As you know, Montgomery County's current revenue picture is challenging, and we are eager to be made whole for any revenue that should have been directed to us. Our municipalities are eager to understand the extent of any overdistribution to them and to work with you to develop a fair and non-disruptive repayment schedule if one is required.

We were therefore pleased to see the attached letter from Wayne P. Green, Director of the Revenue Administration Division in your office, to the County's Finance Director, Joseph Beach. Mr. Green made clear the determination of your office to resolve the distribution issue. We especially appreciated his offer to brief us on the results of his preliminary analysis and to discuss our questions.

As Chair of the Council's Government Operations and Fiscal Policy Committee, I have scheduled a briefing on this issue for County and municipal officials on January 14, 2016 at either 9:30 or 10:30 a.m., whichever would be more convenient for you, if you are able to attend, or alternatively for Mr. Green or another official from your office.

I look forward to learning whether you can join us, and if not, who your designee will be. Thank you for working with us to resolve this important issue.

Sincerely,

Councilmember Nancy Navarro, Chair  
Government Operations and Fiscal Policy Committee

Attachment

cc: Councilmembers  
Wayne P. Green  
Joseph Beach  
Montgomery County Delegation  
Montgomery Chapter of the Maryland Municipal League

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Maryland Politics

## Md. comptroller acknowledges mistaken funds for Montgomery towns

By Bill Turque December 8, 2015

Maryland Comptroller Peter Franchot is investigating evidence that the state shortchanged Montgomery County of millions of dollars in local income tax revenue when it mistakenly sent the money to county municipalities instead.

Andrew Friedson, a spokesman for Franchot (D), declined Tuesday to specify an amount or how the county might receive payments that are due. County officials estimate a loss of \$12 million to \$15 million as a result of the misdirected money.

Friedson said the office will hire an outside consultant to determine exactly how much money was involved and how the mistake happened.

“Essentially we made a mistake and we’re admitting and recognizing the mistake,” Friedson said. He added that although the office is aware of issues only in Montgomery, the outside review will look at all jurisdictions “as a matter of fairness.”

Under state law, Montgomery’s 19 municipalities receive 17 percent of local income tax revenue collected by the state. The rest goes to the county. From 2010 through 2014, the comptroller’s office coded households located outside municipalities as if they were inside, meaning that an additional 17 percent of their tax payments went to a town and not to the county.

Friedson declined to say which municipalities received the extra money. County officials said Chevy Chase, Rockville and Gaithersburg appear to have received most of it.

County Council members said Tuesday that the issue needed to be resolved quickly, given budget challenges in the coming fiscal year.

“The county needs to be made whole and the municipalities have to be dealt with equitably and fairly,” council member Roger Berliner (D-Potomac-Bethesda) said.

Friedson said the problem came to light through a routine reconciliation of accounts. But Chevy Chase Mayor Al Lang said Tuesday that the state was prodded to action by a working group he formed this year to improve the town’s

revenue forecasting. Income tax revenue seemed unusually volatile year to year, he said.

“I was always concerned we didn’t understand the dollars coming in,” Lang said.

He said the group noticed that in 2010, the number of town households in the comptroller’s records jumped from 1,500 to 2,700. When the town asked the office to help verify the addresses, officials said they could not, Lang said.

The town eventually enlisted State Sen. Richard S. Madaleno Jr. (D-Montgomery) to intervene with the comptroller’s office, Lang said. Officials informed the town that it had received \$4.9 million too much and would have to pay it back. He said Madaleno also played a key role in bringing to light excess revenue payments to Rockville and Gaithersburg.

Madaleno did not return a call seeking comment Tuesday.

Friedson declined to discuss specific dealings with town officials, or who may have brought information to light.

Should Chevy Chase have to pay money back to the county, it is in a good position to do so. The town, which has a median household income of \$250,000, has a budget surplus of about \$8 million.

“I do understand that if it’s not our money,” Lang said, “it has to be resolved somewhere along the way.”

Bill Turque, who covers Montgomery County government and politics, has spent more than thirty years as a reporter and editor for The Washington Post, Newsweek, the Dallas Times Herald and The Kansas City Star.