

Racial Equity and Social Justice (RESJ)

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 Expedited Bill 40-20 to slightly widen racial and social disparities among business owners and among residents. However, the bill's anticipated impact is minimal given the bill's scale and cost (less than \$1 million annually).

BACKGROUND

Expedited Bill 40-20 was introduced by the County Council on September 15, 2020 and passed on September 29.¹ Bill 40-20 enables the County to implement a uniform trader's license fee instead of using the existing tiered license fee based on retailers' inventories. State legislation enabling localities to adopt a uniform trader's license was enacted in 2019.²

Bill 40-20 treats every County retailer the same as its smallest retailers by adopting a common license fee of \$15 currently charged to retailers with inventories of \$1,000 or less. The bill reduces trader's license fees by as much as \$785 per year for vendors with the largest inventories valued at over \$750,000 (from \$800 to \$15). The bill transfers all revenue from uniform trader's fees to the State general fund. Currently, 92% of revenue collected from license trader's fees is allocated to local governments and the remaining 8% to state government.

OMB's Fiscal Impact Statement estimates that reducing the license fee will decrease County revenue by \$5.7 million over the next six years. As a result, the County would lose approximately \$955,000 in trader fee revenue annually. OLO's Economic Impact Statement estimates a minimal economic impact of the bill on the County as a whole but notes that retail stores will benefit from the reduced administrative costs of determining the value of their inventories.³

DEMOGRAPHIC DATA

Understanding the impact of Bill 40-20 on racial equity and social justice in the County requires understanding the demographics of retailers in the County. In the absence of data by race and ethnicity on retailers, this section describes available data on business owners. Both local and national data demonstrate an under-representation of entrepreneurs of color among all business owners. For example:

- Black and Latinx persons each accounted for 19 – 20% of Montgomery County residents, but only 11 – 15% of self-employed residents with incorporated businesses in 2018.⁴

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- While representing about 29 percent of all firms in Montgomery County, Black and Latinx firms combined (1.7% and 1.5% respectively) accounted for less than four percent of the revenue generated by local firms in 2018.⁵
- Among businesses across the country, the Small Business Administration estimates that Black firms accounted for 7% of all businesses, Asian firms represented 4.3%, and Latinx firms represented 10.6% of all firms in 2013.
- Yet, across the nation, African Americans accounted for less than 2 percent of firms with employees, while White Americans owned 82% of small employer firms.⁶

Gaps in wealth and access to capital are often cited as drivers of the gap in business ownership and size by race and ethnicity.⁷ Business owners often rely on personal or family savings as sources of startup capital but the typical Black household has just one-tenth of their White counterparts' wealth: \$17,600 compared to \$171,000.⁸

Latinx entrepreneurs also have low median income and family wealth compared to White, Non-Hispanic Americans and are also more likely to be low-income than their peers: although Latinx people account for 17% of all low-income persons in the U.S., they account for 24% of all low-income entrepreneurs.⁹

ANTICIPATED RESJ IMPACTS

Business Owners: Large retailers are the primary beneficiaries of Expedited Bill 40-20. The Maryland Department of Legislative Services' Fiscal and Policy Note states that all small businesses in jurisdictions enacting the uniform trader's license fee will benefit from reduced complexity associated with the tiered trader's license structure. However, it is the retailers with the most revenue and highest trader license fees under the current tiered schedule that will benefit the most.

As noted previously, local data describing the distribution of retailers by race and ethnicity are not available. An examination of Montgomery County data from the Census Bureau Survey of Business Owners, however, suggests that local entrepreneurs of color will be under-represented among the retailers that benefit most from Bill 40-20 due to the significantly smaller size of their firms. For example, an analysis of 2012 data shows that local:

- Latinx firms averaged \$96,000 in annual sales
- African American firms averaged \$110,000 in annual sales
- Asian firms averaged \$286,000 in annual sales while
- White firms averaged more than \$2 million in annual sales.¹⁰

Since White business owners are more likely to benefit from this bill than entrepreneurs of color due to the larger average size of their firms in terms of sales, OLO estimates that Bill 40-20 will widen disparities in business ownership and worth by race and ethnicity.

Residents: Cuts in County services to fund Bill 40-20 could also adversely impact communities of color who are more often reliant on means-tested programs and services.¹¹ A cursory review of Montgomery County Government's \$5.9 billion operating budget for FY21 suggests that nearly two-thirds of County expenditures are allocated to six budgets that disproportionately serve communities of color and low-income residents:¹²

- Montgomery County Public Schools at \$2.8 billion

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- Department of Health and Human Services at \$348 million
- Montgomery College at \$318 million
- Department of Transportation at \$239 million
- Department of Libraries at \$103 million
- Housing and Community Affairs at \$66 million

This analysis is not intended to suggest that all tax cuts harm low-income residents and communities of color or that all tax increases inherently reduce racial and social inequities. Instead, this analysis is offered to recommend the Council explicitly consider how tax cuts will be funded, and their consequences on racial and social equity, in the same way that it considers the benefits and burdens of recommended tax increases.

METHODOLOGIES, ASSUMPTIONS AND UNCERTAINTIES

This RESJ impact statement and OLO's analysis relies on several sources of information. They include:

- State law¹³
- State fiscal and policy note¹⁴
- OMB fiscal impact statement¹⁵
- OLO economic impact statement¹⁶

OLO also reviewed several sources to understand trends and disparities in business ownership and employment by race and ethnicity nationally and locally. These include:

- Minority-owned businesses – COVID-19 Recovery Outlook, Office of Legislative Oversight¹⁷
- Racial Equity Profile, Montgomery County, Office of Legislative Oversight
- Kauffman Compilation: Research on Race and Entrepreneurship¹⁸
- Brookings: Coronavirus economic relief cannot neglect Black-owned business¹⁹
- Bridging the Wealth Gap, Small Business Growth, The United States Conference of Mayors and the Council on Metro Economies and the New American City²⁰
- A Blueprint for Revamping the Minority Business Development Agency, Center for American Progress²¹
- Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Divide, Field at the Aspen Institute²²
- Building Entrepreneurship Ecosystems in Communities of Color, the Federal Reserve Bank of Kansas City.²³

OLO also visited the websites of Montgomery County Economic Development Corporation for information and the websites of several entrepreneurs of color groups that include the Hispanic Chamber of Commerce for Montgomery County and the Maryland Black Chamber of Commerce.²⁴

When disaggregated data by race and ethnicity are available locally, OLO relies on such data to estimate the impact of proposed legislation on subgroups by race and ethnicity. When local data are unavailable, OLO extrapolates state and national data disaggregated by race and ethnicity to estimate local impacts of proposed legislation.

RECOMMENDED AMENDMENTS

The County's Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.²⁵ If the intent of Expedited Bill 40-20 were to narrow disparities in business ownership by race and ethnicity, OLO could offer such amendments. The intent of Expedited Bill 40-20, however, is not to narrow racial and social inequities in the County. As such, this RESJ impact statement does not offer recommended amendments for Expedited Bill 40-20.

If, under a separate bill, the Council decides to propose legislation aimed at narrowing racial and social inequities among businesses, OLO encourages the Council to work in partnership with Black and Latinx business owners, the Montgomery County Economic Development Corporation, and other key stakeholders. The Council may also want to consider best practices for assisting entrepreneurs of color offered by researchers. These may include:²⁶

- Collecting and analyzing data on local business disparities by race and ethnicity, including data collected by financial institutions required under the Dodd-Frank Act.
- Improving access to properly structured credit opportunities for entrepreneurs of color.
- Helping entrepreneurs of color access credit and other services particularly among institutions with a history of supporting minority-owned business, such as Community Development Financial Institutions and credit unions.
- Improving programs aimed at enabling entrepreneurs of color to access and succeed at securing contracting opportunities.
- Expanding funding for targeted business development assistance for growth-oriented minority firms.
- Considering short-term strategies for forgiving or reducing the student debt of entrepreneurs that create new firms.

CAVEATS

Two caveats to this statement should be noted. First, predicting the impact of legislation on racial and social inequities in Montgomery County is a challenging, analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ statement is intended to inform the legislative process rather than to determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

OLO staffers Elaine Bonner-Tompkins and Theo Holt drafted this RESJ impact statement in consultation with colleague Stephen Roblin who authored OLO's Economic Impact Statement for Expedited Bill 40-20.

ENDNOTES

¹ “Council approves \$15 Uniform Trader’s License Fee to Provide Financial Relief to Hard-Hit Retail Businesses,”

Montgomery County Council Press Release, September 29, 2020

https://www2.montgomerycountymd.gov/mcgportalapps/press_List.aspx?id=01

² Montgomery County Council, Expedited Bill 40-20 Legislative Branch-Economic Impact Statement.

https://www.montgomerycountymd.gov/council/Resources/Files/agenda/col/2020/20200915/20200915_17A.pdf.

³ Ibid

⁴ Stephen Roblin, “COVID-19 Recovery Outlook: Small Businesses,” Montgomery County Council, June 12, 2020

<https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19Recovery-SmallBusinesses.pdf>.

⁵ Jupiter Independent Research Group “Racial Equity Profile Montgomery County,” Montgomery County Office of Legislative Oversight, July 2019.

<https://www.montgomerycountymd.gov/OLO/Resources/Files/2019%20Reports/RevisedOLO2019-7.pdf>.

⁶ Conner Maxwell, Darrick Hamilton, Andre Perry, and Danyelle Solomon, “A Blueprint for Revamping the Minority Business Development Agency,” Center for American Progress, July 2020.

<https://www.americanprogress.org/issues/race/reports/2020/07/31/488423/blueprint-revamping-minority-business-development-agency/>.

⁷ Nancy S. Lee, “Bridging the Wealth Gap,” Prepared for: The United States Conference of Mayors and the Council on Metro Economies and the New American City, June 2018. <http://www.usmayors.org/wp-content/uploads/2018/06/Bridging-the-Wealth-Gap-June-2018.pdf>.

⁸ Ibid.

⁹ Ibid.

¹⁰ “Racial Equity Profile Montgomery County”

¹¹ See, for example, local data disaggregated by race and ethnicity on household income, poverty rates and public transportation use cited in “Racial Equity Profile Montgomery County”

¹² Montgomery County Maryland Operating Budget,

<https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Index.aspx>.

¹³ Chapter 569 Section 11-101 Annotated Code of Maryland.

¹⁴ Section 17-1801.1 of the Business Regulation Article of the Maryland Code.

¹⁵ Fiscal and Policy Note, Business Regulation-Trader’s Licenses-License Fees, House Bill 34, Maryland General Assembly.

¹⁶ Expedited Bill 40-20 Legislative Branch-Economic Impact Statement

¹⁷ “COVID-19 Recovery Outlook: Small Businesses”

¹⁸ “The State of Race and Entrepreneurship Research”

¹⁹ Andre M. Perry and David Harshbarger, “Coronavirus economic relief cannot neglect Black-owned business,” The Brookings Institution, April 2020. <https://www.brookings.edu/blog/the-avenue/2020/04/08/coronavirus-economic-relief-cannot-neglect-black-owned-business/>.

²⁰ “Bridging the Wealth Gap”

²¹ “A Blueprint for Revamping the Minority Business Development Agency”

²² Joyce Klein, “Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap,” The Aspen Institute, January 2017. <https://www.aspeninstitute.org/publications/bridging-divide-business-ownership-can-help-close-racial-wealth-gap/>.

²³ Dell Gines, “Wealth equity defines inclusion,” Federal Reserve Bank of Kansas City, November 2018

<https://www.kansascityfed.org/publications/community/connections/articles/2019/q12019/entrepreneurship%20ecosystem>.

²⁴ MCEDC, “Montgomery County Economic Development Corporation,” <https://thinkmoco.com/>. Hispanic Chamber of Commerce, <https://hccmc.org/>. Maryland Black Chamber of Commerce, <https://www.marylandbcc.org/>.

²⁵ Montgomery County Council, Bill No. 27-29 Racial Equity and Social Justice, Effective on March 2, 2020, Montgomery County, Maryland.

<https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/RacialEquity/Bill27-19.pdf>.

²⁶ “Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap”