

Department of Legislative Services  
Maryland General Assembly  
2024 Session

FISCAL AND POLICY NOTE  
Enrolled - Revised

House Bill 165

(Delegate J. Lewis)

Environment and Transportation

Budget and Taxation

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Local Government – Annual Audit Reporting Requirements – Alterations

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This bill imposes a financial penalty through the reduction of 20% of State funding for local highway user revenues and disparity grants if a local government fails to submit required audited financial reports within two calendar years after the deadline. The bill applies prospectively beginning with the fiscal year 2024 audits. **The bill takes effect July 1, 2025.**

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Fiscal Summary

**State Effect:** To the extent that State funding for local highway user revenues is withheld and reverted back to the State, Transportation Trust Fund (TTF) expenditures decrease. TTF revenues are not affected under the bill. To the extent that State funding for disparity grants is withheld and reverted back to the State, general fund expenditures decrease. Due to the delay in the bill’s penalty provision, any impact on State aid to local governments will not occur until FY 2027.

**Local Effect:** State aid to local governments may be reduced by a significant amount to the extent local governments fail to submit required local government audited financial reports. Any potential impact will not occur until FY 2027.

**Small Business Effect:** None.

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Analysis

**Current Law:** Counties, municipalities, and special taxing districts must file a financial report covering the full period of the previous fiscal year by October 31 to the Department of Legislative Services (DLS). Local jurisdictions with a population greater

than 400,000 may take until December 31 to file their financial report. This deadline extension applies to Baltimore City and Anne Arundel, Baltimore, Montgomery, and Prince George's counties. Due to legislation passed by the General Assembly, the reporting deadlines have been extended for several other jurisdictions. The annual financial report for Howard County is due by November 30; whereas, the annual financial reports for 11 counties (Allegany, Calvert, Caroline, Charles, Frederick, Garrett, Queen Anne's, St. Mary's, Somerset, Talbot, and Wicomico) are due by December 31. The annual financial report due to DLS is commonly known as the Uniform Financial Report (UFR). It has been common practice for DLS to grant an extension of the annual financial report upon receipt of a reasonable request from a local jurisdiction.

Local jurisdictions must also submit an annual audit report covering the full period of the previous fiscal year to the State Legislative Auditor. Chapter 493 of 2008 tied the due date for the annual audit report to the due date for the annual financial report.

If a local jurisdiction does not submit its annual UFR on time, the Comptroller, on notice from the Executive Director of DLS may order the discontinuance of all money, grants or State aid the local jurisdiction is entitled to receive under State law, including (1) the income tax; (2) the tax on racing; (3) the recordation tax; (4) the admissions and amusement tax; and (5) the license tax.

If a local jurisdiction does not submit its annual audit report on time, as specified, the Comptroller, on notice from the Executive Director of DLS may order the discontinuance of all money, grants or State aid that the local jurisdiction is entitled to receive under State law that are distributed by the Comptroller, the clerks of the court, or any other unit of State government.

**State Fiscal Effect:** To the extent that State funding for local highway user revenues is withheld and reverted back to the State, TTF expenditures decrease under the bill. To the extent that State funding for disparity grants is withheld and reverted back to the State, general fund expenditures decrease. Due to the delay in the bill's penalty provision, any impact on State aid to local governments will not occur until fiscal 2027. As shown in **Exhibit 1**, there is one county (Dorchester) and nine municipalities that are at least one year late in submitting the required audited financial reports as of January 31, 2024.

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**Exhibit 1**  
**Local Jurisdictions Late in Filing Required Audited Financial Reports**  
**Fiscal 2025 State Aid Amounts**

<u>Local Government</u>	<u>Highway User Revenues</u>	<u>Disparity Grant</u>	<u>Total</u>	<u>20% of Total</u>
Dorchester County <sup>1</sup>	\$1,501,444	\$4,442,984	\$5,944,428	\$1,188,886
Town of Barclay <sup>2</sup>	12,831	n/a	12,831	2,566
Town of Berwyn Heights <sup>1</sup>	212,215	n/a	212,215	42,443
Town of Deer Park <sup>1</sup>	42,469	n/a	42,469	8,494
Town of Forest Heights <sup>2</sup>	154,268	n/a	154,268	30,854
City of Hyattsville <sup>2</sup>	767,685	n/a	767,685	153,537
Town of Lonaconing <sup>1</sup>	85,451	n/a	85,451	17,090
Town of Rock Hall <sup>1</sup>	145,836	n/a	145,836	29,167
City of Seat Pleasant <sup>2</sup>	186,112	n/a	186,112	37,222
Town of Sudlersville <sup>2</sup>	27,398	n/a	27,398	5,480

<sup>1</sup> As of January 31, 2024, the local jurisdiction had not submitted required reports for FY 2022.

<sup>2</sup> As of January 31, 2024, the local jurisdiction had not submitted required reports for FY 2021 and FY 2022.

Source: Department of Legislative Services

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**Local Fiscal Effect:** The bill specifies that if local jurisdictions are more than two years late in filing specified audited financial reports with DLS, the department must notify the Comptroller, who must then discontinue 20% of all State aid payments for the current fiscal year for local highway user revenues and disparity grants that the jurisdiction is otherwise entitled to receive. The discontinuance of funds will remain in effect until the jurisdiction submits the required reports. Payments may resume if the required audited financial reports are submitted in the same year that the payments were discontinued. Additionally, the discontinued funds for any fiscal year in which the local jurisdiction failed to file the audited financial report as specified, will revert to the State’s general fund for discontinued disparity grants and to the TTF for discontinued highway user revenues. Due to the delay in the bill’s penalty provision, any impact on State aid to local governments will not occur until fiscal 2027.

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## **Additional Information**

**Recent Prior Introductions:** Similar legislation has been introduced within the last three years. See SB 116 of 2023.

**Designated Cross File:** SB 747 (Senators Guzzone and Benson) - Budget and Taxation.

**Information Source(s):** Baltimore, Harford, Queen Anne's, and St. Mary's counties; Department of Budget and Management; Maryland Association of Counties; cities of Baltimore and Salisbury; Maryland Municipal League; towns of Bel Air and Leonardtown; Comptroller's Office; Department of Legislative Services

**Fiscal Note History:** First Reader - February 5, 2024  
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