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April 29, 2020

The Hon. Lawrence J. Hogan, Jr.
Governor of Maryland
100 State Circle
Annapolis, MD 21401

Dear Governor Hogan:

I know you are extraordinarily busy coordinating the State's COVID-19 response. I am writing on behalf of Senators Brian Feldman, Katie Fry Hester, Jim Rosapepe, and Mary Washington. It has come to our attention that the nonprofit sector and local governments are experiencing equity issues regarding Unemployment Insurance (UI). Organizations classified as "reimbursers" do not pay a tax on their employees, and therefore they are responsible for 100% of the UI for those they have to let go. Those that pay the UI tax (primarily <u>for-profit</u> businesses) are assessed a rate that is adjusted yearly based on the stability and size of its workforce. Payment of any rate changes increased by COVID-19 related layoffs will not be due until April 30, 2021. We urge you to relieve reimbursers from the burden of unemployment reimbursements to the State's Trust Fund-- otherwise reducing their capacity to provide critical services during this pandemic.

<u>Background</u>
Under federal and state laws, nonprofit organizations (those exempt under section 501(c)(3) of the tax code) have the option to self-insure rather than paying the employer tax rate to the State Unemployment Trust Fund. Like our local governments, nonprofits are typically considered "reimbursing employers" as opposed to "rate-payers." Many elect to reimburse Maryland's Trust Fund quarterly for the benefits their terminated or laid-off employees claim. This choice is made because their employees tend to be long-standing. Normally, this allows them to save money, increasing funds available for their community-oriented work.

Local governments in Maryland will be adversely affected by impending UI payments for lost employees as well. The pandemic is leading to increased expenditures as well as decreased revenues, causing a fiscal strain on county and municipal budgets. Assistance in the form of deferred liability or State subsidies would ease a portion of their budget crunch.

COVID-19

The disastrous economic and social conditions resulting from the Coronavirus have been unprecedented. Nonprofit organizations and local governments are on the front line of providing health care, mental health support, disability assistance, food distribution, senior care, and other services critical to the health and safety of Marylanders. Annual nonprofit fundraising events that bring in significant financial resources have been canceled. <u>To make matters worse, greater demand for social services creates the impossible challenge of trying to provide more help with less money.</u>

As the pandemic continues, despite the various economic relief programs, these entities may need to consider staff furloughs and possibly layoffs. As "reimbursers," reducing staff will be another serious threat to service levels because of the immediate additional costs of unemployment liability charges. Unlike other employers, for whom all of this will be delayed until next year (April 2021), when tax rates will be incrementally adjusted to reflect the cost of COVID-19 unemployment liabilities, these fees would be charged **now**.

Seeking Relief

Five states (Montana, Louisiana, New Hampshire, Utah, and Georgia) have already included nonprofits in the assistance to private employers from all pandemic-driven charges for unemployment benefits. My colleagues and I ask that you provide equity for our nonprofit sector and local governments by either eliminating this crushing financial burden or allowing the same one-year delay that has been authorized for other Maryland employers.

Best,

Cheryl

Cheryl C. Kagan
Maryland State Senator
District 17

cc: Secretary Tiffany Robinson, Department of Labor
Secretary Kelly Schulz, Department of Commerce
Hon. Keiffer Mitchell, Governor's Chief Legislative Officer
Henry Bogdan, Maryland Nonprofits
Scott Hancock, MD Municipal League (MML)
Michael Sanderson, MD Association of Counties (MACo)