

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 1395
 Appropriations

(Delegate Anderton, *et al.*)

Budget and Taxation

Local Government - Disparity Grants - Amounts

This bill alters the calculation of the disparity grant program for counties with a local income tax rate of 3.2% by increasing the minimum grant amount (funding floor) to 67.5% of the formula calculation in fiscal 2018 and fiscal 2019. Under current law, these counties must receive at least 60% of the specified formula calculation.

The bill takes effect July 1, 2016 and terminates June 30, 2019.

Fiscal Summary

State Effect: General fund expenditures increase by \$4.8 million in FY 2018 and FY 2019. Revenues are not affected. **This bill increases a mandated appropriation in FY 2018 and FY 2019.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	4.8	4.8	0	0
Net Effect	\$0.0	(\$4.8)	(\$4.8)	\$0.0	\$0.0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government revenues increase in two counties (Prince George’s and Wicomico) by \$4.8 million in FY 2018 and FY 2019. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: The disparity grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. The program reflects the State's policy to improve fiscal equity among jurisdictions by making less affluent jurisdictions less dependent on their own tax base to fund public services. Specifically, disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which for most counties is one of the larger revenue sources. Through fiscal 2010, counties with income tax rates of 2.4% or higher with per capita local income tax revenues less than 75.0% of the State's average (assuming a 2.54% statewide county income tax rate) received a grant equal to the dollar amount necessary to raise the county's per capita income tax revenues to 75.0% of the State average. Chapter 487 of 2009 included a provision, beginning in fiscal 2011, that capped each county's funding under the program at the fiscal 2010 level.

Chapter 425 of 2013 modified the formula to add a minimum grant amount based on local tax effort of eligible counties and raised from 2.4% to 2.6% the local income tax rate required to be eligible to receive a grant. Beginning in fiscal 2014, the fiscal 2010 cap amount continues to apply, but an eligible county or Baltimore City may receive a minimum amount (that can exceed the fiscal 2010 cap) based on local tax effort. The minimum amounts are (1) 20.0% of the uncapped grant amount if the local income tax rate is at least 2.8% but less than 3.0%; (2) 40.0% of the uncapped grant if the rate is at least 3.0% but less than 3.2%; or (3) 60.0% of the uncapped grant if the rate is at 3.2%.

Background: For fiscal 2017, Baltimore City and nine counties (Allegany, Caroline, Cecil, Dorchester, Garrett, Prince George's, Somerset, Washington, and Wicomico) qualify for disparity grants. The fiscal 2017 State budget includes \$136.7 million for disparity grants. **Exhibit 1** shows the calculation for the disparity grant program for fiscal 2017. **Exhibit 2** shows the fiscal effect of the program's cap provision for fiscal 2011 through 2017. Additional information on the disparity grant program can be found beginning on page 28 of the [Overview of State Aid to Local Governments](#) report.

State Fiscal Effect: General fund expenditures increase by \$4.8 million in fiscal 2018 and fiscal 2019 as a result of altering the disparity grant program's minimum grant amount (funding floor) for counties with a local income tax rate of 3.2%. Two jurisdictions benefit from this formula change. Prince George's County will receive an additional \$3.8 million in fiscal 2018 and fiscal 2019. Wicomico County will receive an additional \$1.0 million in fiscal 2018 and fiscal 2019.

Local Fiscal Effect: Local government revenues increase in two counties (Prince George's and Wicomico) by \$4.8 million in fiscal 2018 and fiscal 2019. State aid to Prince

George's County increases by \$3.8 million in fiscal 2018 and fiscal 2019. State aid to Wicomico County increases by \$1.0 million in fiscal 2018 and fiscal 2019.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2016
md/hlb Revised - Enrolled Bill - May 4, 2016
Revised - Clarification - June 28, 2016

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Exhibit 1
Disparity Grant Formula Calculation under Current Law
Fiscal 2017

County	Population July 2014	Adjusted Income Tax Revenues	Per Capita Tax Yield	Per Capita Grant	Total Formula Amount	Fiscal 2010 Grant (Cap Amount)	Income Tax Effort (Floor Amount)	Grant Amount Under Cap/Floor	Net Effect of Cap/Floor Provisions	Percent Capped
Allegany	72,952	\$22,651,543	\$310.50	\$171.54	\$12,514,179	\$7,298,505	\$5,005,672	\$7,298,505	-\$5,215,674	41.7%
Anne Arundel	560,133	411,790,590	735.17	0.00	0	0	0	0	0	
Baltimore City	622,793	222,105,276	356.63	125.41	78,105,345	79,051,790	46,863,207	78,105,345	0	0.0%
Baltimore	826,925	552,995,406	668.74	0.00	0	0	0	0	0	
Calvert	90,613	60,234,484	664.74	0.00	0	0	0	0	0	
Caroline	32,538	11,193,359	344.01	138.03	4,491,232	2,131,782	0	2,131,782	-2,359,450	52.5%
Carroll	167,830	113,559,457	676.63	0.00	0	0	0	0	0	
Cecil	102,383	47,741,010	466.30	15.74	1,611,607	0	322,321	322,321	-1,289,285	80.0%
Charles	154,747	89,465,255	578.14	0.00	0	0	0	0	0	
Dorchester	32,578	10,845,509	332.91	149.13	4,858,363	2,022,690	0	2,022,690	-2,835,673	58.4%
Frederick	243,675	161,838,273	664.16	0.00	0	0	0	0	0	
Garrett	29,679	10,988,968	370.26	111.78	3,317,473	2,131,271	0	2,131,271	-1,186,202	35.8%
Harford	250,105	155,592,743	622.11	0.00	0	0	0	0	0	
Howard	309,284	297,963,212	963.40	0.00	0	0	0	0	0	
Kent	19,820	10,897,573	549.83	0.00	0	0	0	0	0	
Montgomery	1,030,447	1,018,922,310	988.82	0.00	0	0	0	0	0	
Prince George's	904,430	385,678,621	426.43	55.61	50,292,066	21,694,767	30,175,240	30,175,240	-20,116,827	40.0%
Queen Anne's	48,804	32,650,394	669.01	0.00	0	0	0	0	0	
St. Mary's	110,382	64,771,477	586.79	0.00	0	0	0	0	0	
Somerset	25,859	5,220,833	201.90	280.14	7,244,218	4,908,167	2,897,687	4,908,167	-2,336,051	32.2%
Talbot	37,643	28,128,147	747.23	0.00	0	0	0	0	0	
Washington	149,573	63,609,554	425.27	56.76	8,490,491	0	1,698,098	1,698,098	-6,792,393	80.0%
Wicomico	101,539	35,736,566	351.95	130.09	13,209,210	2,197,041	7,925,526	7,925,526	-5,283,684	40.0%
Worcester	51,675	26,569,142	514.16	0.00	0	0	0	0	0	
Total	5,976,407	3,841,149,703	\$642.72		\$184,134,184	\$121,436,013	\$94,887,751	\$136,718,945	-\$47,415,238	25.8%
		<i>75% Target:</i>	<i>\$482.04</i>							

Exhibit 2
Disparity Grant Formula – Fiscal Effect of Cap Provision
Fiscal 2011-2017

County	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Allegany	\$0	-\$571,407	-\$2,882,491	-\$4,039,672	-\$5,858,233	-\$4,837,258	-\$5,215,674
Anne Arundel	0	0	0	0	0	0	0
Baltimore City	0	-1,258,890	0	-437,847	-10,442,856	-5,430,593	0
Baltimore	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0
Caroline	-478,024	-1,398,899	-1,661,823	-1,921,107	-2,461,328	-2,059,420	-2,359,450
Carroll	0	0	0	0	0	0	0
Cecil	0	-183,880	-897,551	-1,497,491	-2,121,279	-1,227,849	-1,289,285
Charles	0	0	0	0	0	0	0
Dorchester	-436,122	-1,456,805	-1,899,138	-2,361,933	-2,745,285	-2,144,967	-2,835,673
Frederick	0	0	0	0	0	0	0
Garrett	0	-480,243	-899,097	-798,672	-1,685,065	-1,032,536	-1,186,202
Harford	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0
Kent	0	-264,661	-22,881	-348,944	0	0	0
Montgomery	0	0	0	0	0	0	0
Prince George's	0	0	-3,181,700	-4,619,916	-18,335,635	-15,392,194	-20,116,827
Queen Anne's	0	0	0	0	0	0	0
St. Mary's	0	0	0	0	0	0	0
Somerset	0	-581,621	-1,310,476	-1,758,965	-2,492,071	-2,210,350	-2,336,051
Talbot	0	0	0	0	0	0	0
Washington	-435,975	-5,172,730	-6,736,499	-7,729,866	-7,912,893	-6,064,896	-6,792,393
Wicomico	-1,615,958	-4,162,585	-7,165,223	-8,892,698	-5,493,976	-4,909,461	-5,283,684
Worcester	0	0	0	0	0	0	0
Total	-\$2,966,079	-\$15,531,721	-\$26,656,879	-\$34,407,111	-\$59,548,621	-\$45,309,521	-\$47,415,238