

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 737
 Appropriations

(Delegate Anderton, *et al.*)

Budget and Taxation

Local Governments - Income Tax Disparity Grants - Amounts

This bill alters the enhanced State funding provided under the disparity grant program to jurisdictions with a local income tax rate of 3.2% by (1) increasing the minimum grant amount from 67.5% to 75% and (2) repealing the termination date for the enhanced funding. As a result, eligible jurisdictions will receive at least 75% of their formula allocation under the disparity grant program beginning in fiscal 2022. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$15.6 million in FY 2022 and by \$17.0 million in FY 2025. Revenues are not affected. **The bill increases a mandated appropriation beginning in FY 2022.**

| (\$ in millions) | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|------------------|---------|----------|----------|----------|----------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 15.6 | 16.0 | 16.5 | 17.0 |
| Net Effect | \$0.0 | (\$15.6) | (\$16.0) | (\$16.5) | (\$17.0) |

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

Local Effect: State aid to local governments increase by \$15.6 million in FY 2022 and by \$17.0 million in FY 2025. Local expenditures are not affected. Six jurisdictions (Caroline, Dorchester, Prince George’s, Somerset, Washington, and Wicomico counties) are projected to qualify for the enhanced disparity grant funding.

Small Business Effect: None.

Analysis

Current Law: The disparity grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. 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. County governments with per capita local income tax revenues less than 75% of the statewide average receive grants unless a county has an income tax rate below 2.6%.

Under current law, the amount of funding received by county governments equals the lesser of the dollar amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average or the amount received under the cap provision. The original cap provision did not allow county governments to receive an amount higher than what the county received from the State in fiscal 2010. This provision was established by Chapter 487 of 2009. However, Chapter 425 of 2013 changed the disparity grant formula cap provision in order to take into account a local jurisdiction's income tax effort. Beginning in fiscal 2014, the fiscal 2010 cap amount continues to apply, but an eligible jurisdiction may receive a minimum grant amount that can exceed the fiscal 2010 cap based on local tax effort. The minimum grant amounts are based on the following:

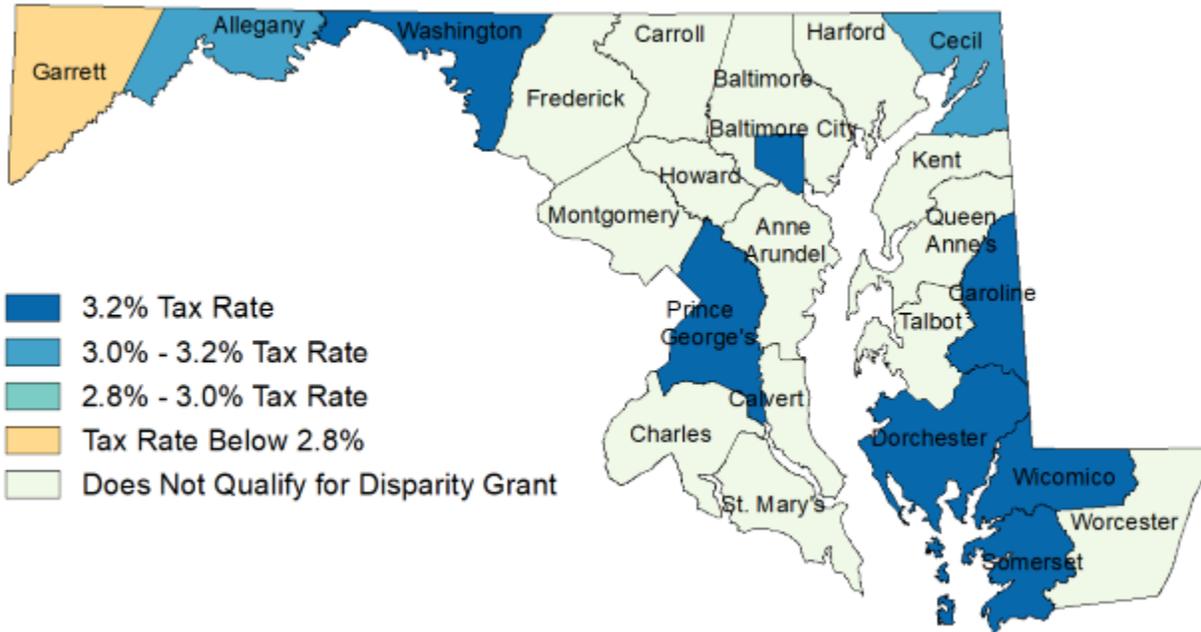
- 20% of the uncapped grant amount (2.8% to 3.0% local income tax rate).
- 40% of the uncapped grant amount (3.0% to 3.2% local income tax rate).
- 60% of the uncapped grant amount (3.2% local income tax rate).

Chapter 738 of 2016 increased the minimum grant amount (from 60% to 67.5%) in fiscal 2018 and 2019 for jurisdictions with a 3.2% local income tax rate. However, Chapter 23 of 2017 modified the formula by lowering the minimum grant amount (from 67.5% to 63.75%) for fiscal 2018. Chapter 472 of 2018 extended the 67.5% minimum grant amount until fiscal 2021. Six jurisdictions (Caroline, Dorchester, Prince George's, Somerset, Washington, and Wicomico counties) are currently subject to the 67.5% minimum grant amount provision.

Background: Baltimore City and nine counties (Allegany, Caroline, Cecil, Dorchester, Garrett, Prince George's, Somerset, Washington, and Wicomico) qualify for disparity grants. Of these jurisdictions, seven currently impose the maximum 3.2% local income tax rate (**Exhibit 1**). Two of the jurisdictions (Dorchester and Washington) increased their local income tax rate this year as a way to receive additional State funding, with Caroline County increasing its income tax rate in the previous year. As shown in **Exhibit 2**, the cap provision has constrained the annual growth in the disparity grant program, with the formula amount being reduced by \$46.7 million in fiscal 2021. Over the past five years, the cap provision has reduced State funding under the disparity grant program by approximately

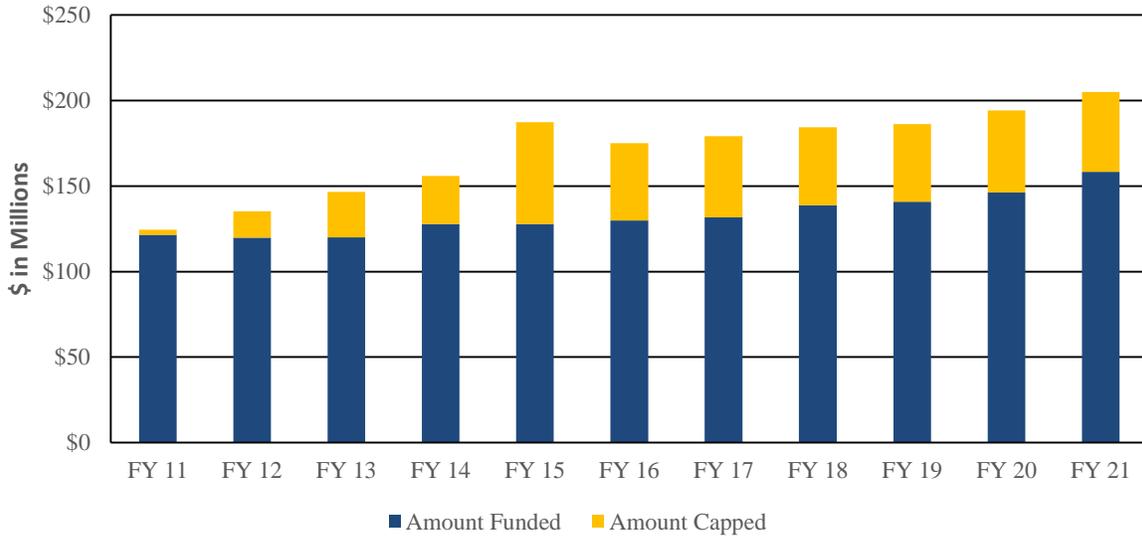
\$233.1 million. Additional information on the disparity grant program can be found in the [Overview of State Aid to Local Governments](#) report. A copy of the report is available on the Department of Legislative Services website.

Exhibit 1
Local Income Tax Rates Imposed in Jurisdictions Receiving Disparity Grants



Source: Department of Legislative Services

Exhibit 2
Disparity Grant Program – Amount of State Funding
Fiscal 2011-2021



Source: Department of Legislative Services

State and Local Fiscal Effect: State funding for the disparity grant program will total \$158.3 million in fiscal 2021. Of this amount, \$7.6 million is due to the enhanced minimum grant amount for jurisdictions with a 3.2% local income tax rate. Expanding the enhanced minimum grant amount to reflect 75% of the formula amount would cost approximately \$15.1 million based on the fiscal 2021 formula calculation. **Exhibit 3** shows the additional amount of funding that each jurisdiction will receive based on the fiscal 2021 formula calculation.

Pursuant to the bill, the enhanced minimum grant amount will take effect beginning in fiscal 2022. As a result, general fund expenditures increase by \$15.6 million in fiscal 2022 and by \$17.0 million in fiscal 2025. This estimate is based on the average annual increase in the disparity grant formula amount over the previous five years adjusted for the current economic climate.

Exhibit 3
Enhanced Minimum Grant Amount at 75% of the Disparity Grant Formula
Based on Fiscal 2021 Formula Calculation

| <u>County</u> | <u>Funding Amount</u> |
|-----------------|-----------------------|
| Caroline | \$758,846 |
| Dorchester | 803,391 |
| Prince George's | 7,987,337 |
| Somerset | 1,322,174 |
| Washington | 1,729,194 |
| Wicomico | 2,508,928 |
| Total | \$15,109,870 |

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Budget and Management;
Department of Legislative Services

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