

**A15000**  
**Payments to Civil Divisions of the State**

***Operating Budget Data***

(\$ in Thousands)

|                              | <u>FY 14</u><br><u>Actual</u> | <u>FY 15</u><br><u>Working</u> | <u>FY 16</u><br><u>Allowance</u> | <u>FY 15-16</u><br><u>Change</u> | <u>% Change</u><br><u>Prior Year</u> |
|------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| General Fund                 | \$155,467                     | \$163,456                      | \$157,479                        | -\$5,977                         | -3.7%                                |
| Deficiencies and Reductions  | 0                             | -7,989                         | -2,111                           | 5,878                            |                                      |
| <b>Adjusted General Fund</b> | <b>\$155,467</b>              | <b>\$155,467</b>               | <b>\$155,367</b>                 | <b>-\$100</b>                    | <b>-0.1%</b>                         |
| <br>                         |                               |                                |                                  |                                  |                                      |
| <b>Adjusted Grand Total</b>  | <b>\$155,467</b>              | <b>\$155,467</b>               | <b>\$155,367</b>                 | <b>-\$100</b>                    | <b>-0.1%</b>                         |

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 allowance totals \$155.4 million in general funds after contingent reductions. This includes \$127.7 million for the Disparity Grant program and \$27.7 million for Teacher Retirement Supplemental Grants.
- The decrease of \$99,538 is due to an unallocated amount included in the fiscal 2015 working appropriation that will be reverted as well as falling tax yields per capita resulting in a lower grant amount for Washington County.

Note: Numbers may not sum to total due to rounding.

For further information contact: Jordan D. More

Phone: (410) 946-5530

## ***Analysis in Brief***

---

### **Issues**

***Time for a New Disparity Grant Formula:*** Various provisions added onto the disparity grant formula for the purpose of capping the grants have distorted the formula and created inequities amongst the eligible jurisdictions. **The Department of Legislative Services (DLS) recommends striking the contingent language in the budget bill, as well as striking the new provisions relating directly to the disparity grant formula in the Budget Reconciliation and Financing Act of 2015. DLS also recommends that a workgroup be convened over the interim to further study and make recommendations concerning the Disparity Grant program and how the formulas and allocations shall be determined in the future.**

### **Recommended Actions**

1. Strike the contingent language for the Disparity Grants.

**A15000**  
**Payments to Civil Divisions of the State**

***Operating Budget Analysis***

---

**Program Description**

State grant programs which provide funds to Maryland's local jurisdictions are budgeted under Payments to Civil Divisions of the State. These include disparity grants to low-wealth jurisdictions and grants to mitigate the impact of the local assumption of a portion of teacher retirement costs.

**Fiscal 2015 Actions**

**Cost Containment**

On January 7, 2015, the Governor proposed, and the Board of Public Works (BPW) adopted, \$205.3 million in reductions to the fiscal 2015 appropriation. This reduction included \$7,989,089 in general funds for the disparity grants in order to bring payments back to the fiscal 2014 level. **Exhibit 1** displays both the prior and current allocations for each county for fiscal 2015. It should be noted that once the amount for each county is totaled together, there is a difference between the total and the current working appropriation of \$69,789. This is the amount that went to Kent County in fiscal 2014. However, since Kent County is no longer an eligible county under the disparity grant formula, this amount is currently unallocated and will be reverted at the end of the fiscal year.

---

**Exhibit 1**  
**Effect of Cost Containment Actions by Jurisdiction**  
**Fiscal 2015**

| <u>County</u>   | <u>Legislative Appropriation</u> | <u>Working Appropriation</u> | <u>Difference</u>   |
|-----------------|----------------------------------|------------------------------|---------------------|
| Allegany        | \$7,298,505                      | \$7,298,505                  | \$0                 |
| Baltimore City  | 79,051,790                       | 79,051,790                   | 0                   |
| Caroline        | 2,131,782                        | 2,131,782                    | 0                   |
| Cecil           | 530,320                          | 299,498                      | -230,822            |
| Dorchester      | 2,022,690                        | 2,022,690                    | 0                   |
| Garrett         | 2,131,271                        | 2,131,271                    | 0                   |
| Prince George's | 27,503,452                       | 21,694,767                   | -5,808,685          |
| Somerset        | 4,908,167                        | 4,908,167                    | 0                   |
| Washington      | 1,978,223                        | 1,545,973                    | -432,250            |
| Wicomico        | 8,240,964                        | 6,653,843                    | -1,587,121          |
| Unallocated     |                                  | 69,789                       | 69,789              |
| <b>Total</b>    | <b>\$135,797,164</b>             | <b>\$127,808,075</b>         | <b>-\$7,989,089</b> |

Source: Department of Legislative Services

---

**Proposed Budget**

The Governor’s allowance for Payments to Civil Divisions of the State totals \$155.4 million after contingent reductions to the disparity grant program. This is a \$99,538 decrease from the current working appropriation, and, as seen in **Exhibit 2**, is attributable to the disparity grant formula. This \$99,538 difference is explained by the difference in the Kent County assumed reversion described above, as well as a \$29,749 decrease for Washington County since the amount for Washington County under current law in fiscal 2016 is less than the amount received in fiscal 2014. **Exhibit 3** provides a summary of funding by jurisdiction for disparity grants and the Teacher Retirement Supplemental Grants in fiscal 2016.

**Exhibit 2**  
**Proposed Budget**  
**Payments to Civil Divisions of the State**  
**(\$ in Thousands)**

| <b>How Much It Grows:</b>         | <b>General<br/>Fund</b> | <b>Total</b>   |
|-----------------------------------|-------------------------|----------------|
| Fiscal 2014 Actual                | \$155,467               | \$155,467      |
| Fiscal 2015 Working Appropriation | 155,467                 | 155,467        |
| Fiscal 2016 Allowance             | <u>155,367</u>          | <u>155,367</u> |
| Fiscal 2015-2016 Amt. Change      | -\$100                  | -\$100         |
| Fiscal 2015-2016 Percent Change   | -0.1%                   | -0.1%          |

**Where It Goes:**

**Disparity Grants**

|                                    |               |
|------------------------------------|---------------|
| Unallocated adjustment.....        | -\$70         |
| Washington County adjustment ..... | -30           |
| <b>Total</b>                       | <b>-\$100</b> |

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

**Exhibit 3**  
**State Funding for Payments to Civil Divisions**  
**Net of Contingent Reduction**  
**Fiscal 2016**  
**(\$ in Thousands)**

| <u>County</u>   | <u>Disparity Grant</u> | <u>Teacher Retirement Supplemental Grant</u> | <u>Total</u>     |
|-----------------|------------------------|--|------------------|
| Allegany        | \$7,299                | \$1,632                                      | \$8,931          |
| Anne Arundel    |                        |  |                  |
| Baltimore City  | 79,052                 | 10,048                                       | 89,099           |
| Baltimore       |                        | 3,000  | 3,000            |
| Calvert         |                        |  |                  |
| Caroline        | 2,132                  | 685  | 2,817            |
| Carroll         |                        |  |                  |
| Cecil           | 299                    |  | 299              |
| Charles         |                        |  |                  |
| Dorchester      | 2,023                  | 309  | 2,332            |
| Frederick       |                        |  |                  |
| Garrett         | 2,131                  | 406  | 2,538            |
| Harford         |                        |  |                  |
| Howard          |                        |  |                  |
| Kent            |                        |  |                  |
| Montgomery      |                        |  |                  |
| Prince George's | 21,695                 | 9,629  | 31,323           |
| Queen Anne's    |                        |  |                  |
| St. Mary's      |                        |  |                  |
| Somerset        | 4,908                  | 382  | 5,290            |
| Talbot          |                        |  |                  |
| Washington      | 1,516                  |  | 1,516            |
| Wicomico        | 6,654                  | 1,568  | 8,222            |
| Worcester       |                        |  |                  |
| <b>Total</b>    | <b>\$127,709</b>       | <b>\$27,659</b>                              | <b>\$155,367</b> |

Source: Department of Legislative Services

---

## **Disparity Grants**

State funding targeted to the disparity in local income tax capacity is found in Local Government Article, § 16-501. The Disparity Grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which for most counties is one of their larger revenue sources.

Counties with per capita income tax revenues less than 75.0% of the statewide average receive grants unless a county has an income tax rate below 2.6%. Under current law, aid received by counties equals the lesser of the dollar amount necessary to raise the county's per capita income tax revenues to 75.0% of the statewide average or the amount received under the cap provisions. The original cap provision did not allow counties to receive an amount higher than what that particular county received from the State in fiscal 2010. However, Chapter 425 changed the disparity grant formula cap provisions in order to take into account a local jurisdiction's income tax rate.

Eligible counties, where the amount necessary to raise that county's per capita income tax rate to 75.0% of the statewide average is more than that county received from the State in fiscal 2010, are set to receive the greater of the dollar amount received from the State in fiscal 2010 or a proportion of the amount necessary to raise the county's per capita income tax revenues to 75.0% of the statewide average. The proportional amount is based on that particular county's income tax rate, as follows:

- from a tax rate of 2.8% to 2.99%, 20.0% of the uncapped grant amount;
- from a tax rate of 3.0% to 3.19%, 40.0% of the uncapped grant amount; and
- at a tax rate of 3.2% (the maximum), 60.0% of the uncapped grant amount.

The calculation under current law for fiscal 2016 is presented in **Exhibit 4**. Under current law, Cecil, Prince George's, Washington, and Wicomico counties are receiving decreases from the original fiscal 2015 amount before the BPW cut. This is because the disparity in the per capita tax yield among all counties shrank significantly, which subsequently shrank the uncapped amount that each jurisdiction would receive, as shown in **Exhibit 5**. Uncapped grant amounts saw declines for each jurisdiction, with the largest decline occurring for Prince George's County. However, the current cap provisions continue to have a significant effect upon reducing spending in the allowance. As further noted in Exhibit 5, the current cap provisions combined to reduce spending in the allowance, before cost containment, by \$45.3 million since every eligible county in fiscal 2016 has an uncapped grant amount higher than the cap provisions.

A comparison of the year-over-year changes in each of the individual components that affect the grant's formula can be found in the appendices. **Appendix 2** contains the population data, **Appendix 3** contains adjusted income tax wealth data, and **Appendix 4** provides income tax wealth per capita data.

**Exhibit 4**  
**Disparity Grant Calculation**  
**Prior to Cost Containment Reductions**  
**Fiscal 2016**

| <u>County</u>   | <u>Population<br/>July 2013</u> | <u>Adjusted<br/>Income<br/>Tax Revenues<br/>Tax Year 2013</u> | <u>Per<br/>Capita<br/>Tax<br/>Yield</u> | <u>Per<br/>Capita<br/>Grant</u> | <u>Uncapped<br/>Grant</u> | <u>Cap<br/>Fiscal 2010</u> | <u>Grant<br/>Amount<br/>Fiscal 2016</u> | <u>Difference<br/>to<br/>Fiscal<br/>2015*</u> | <u>Piggyback<br/>Calendar<br/>2014</u> |
|-----------------|---------------------------------|---|---|---------------------------------|---------------------------|----------------------------|---|---|--|
| Allegany        | 73,521                          | \$21,731,667  | \$295.58                                | \$165.07                        | \$12,135,763              | \$7,298,505                | \$7,298,505                             | \$0   | 3.05%                                  |
| Anne Arundel    | 555,743                         | 393,400,785   | 707.88                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 2.56%                                  |
| Baltimore City  | 622,104                         | 202,089,668   | 324.85                                  | 135.80                          | 84,482,383                | 79,051,790                 | 79,051,790                              | 0   | 3.20%                                  |
| Baltimore       | 823,015                         | 532,615,813   | 647.15                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 2.83%                                  |
| Calvert         | 90,484                          | 57,792,624  | 638.71                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 2.80%                                  |
| Caroline        | 32,693                          | 10,868,820  | 332.45                                  | 128.20                          | 4,191,202                 | 2,131,782                  | 2,131,782                               | 0   | 2.73%                                  |
| Carroll         | 167,564                         | 107,626,469   | 642.30                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.04%                                  |
| Cecil           | 101,913                         | 45,411,386  | 445.59                                  | 15.06                           | 1,534,811                 | 0                          | 306,962                                 | -223,357                                      | 2.80%                                  |
| Charles         | 152,864                         | 81,352,695  | 532.19                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.03%                                  |
| Dorchester      | 32,660                          | 10,877,164  | 333.04                                  | 127.61                          | 4,167,657                 | 2,022,690                  | 2,022,690                               | 0   | 2.62%                                  |
| Frederick       | 241,409                         | 154,593,834   | 640.38                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 2.96%                                  |
| Garrett         | 29,889                          | 10,604,554  | 354.80                                  | 105.85                          | 3,163,807                 | 2,131,271                  | 2,131,271                               | 0   | 2.65%                                  |
| Harford         | 249,215                         | 148,774,313   | 596.97                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.06%                                  |
| Howard          | 304,580                         | 277,086,860   | 909.73                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.20%                                  |
| Kent            | 19,944                          | 10,479,252  | 525.43                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 2.85%                                  |
| Montgomery      | 1,016,677                       | 958,735,571   | 943.01                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.20%                                  |
| Prince George's | 890,081                         | 371,535,104   | 417.42                                  | 43.23                           | 38,480,484                | 21,694,767                 | 23,088,290                              | -4,415,162                                    | 3.20%                                  |
| Queen Anne's    | 48,517                          | 30,634,800  | 631.42                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.20%                                  |
| St. Mary's      | 109,633                         | 62,212,777  | 567.46                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 3.00%                                  |
| Somerset        | 26,273                          | 4,984,134   | 189.71                                  | 270.94                          | 7,118,517                 | 4,908,167                  | 4,908,167                               | 0   | 3.15%                                  |

| <u>County</u> | <u>Population<br/>July 2013</u> | <u>Adjusted<br/>Income<br/>Tax Revenues<br/>Tax Year 2013</u> | <u>Per<br/>Capita<br/>Tax<br/>Yield</u> | <u>Per<br/>Capita<br/>Grant</u> | <u>Uncapped<br/>Grant</u> | <u>Cap<br/>Fiscal 2010</u> | <u>Grant<br/>Amount<br/>Fiscal 2016</u> | <u>Difference<br/>to<br/>Fiscal<br/>2015*</u> | <u>Piggyback<br/>Calendar<br/>2014</u> |
|---------------|---------------------------------|---|---|---------------------------------|---------------------------|----------------------------|---|---|--|
| Talbot        | 37,931                          | 27,891,030  | 735.31                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 2.40%                                  |
| Washington    | 149,588                         | 61,326,555  | 409.97                                  | 50.68                           | 7,581,120                 | 0                          | 1,516,224                               | -461,999                                      | 2.80%                                  |
| Wicomico      | 100,896                         | 34,204,065  | 339.00                                  | 121.65                          | 12,273,651                | 2,197,041                  | 7,364,191                               | -876,773                                      | 3.20%                                  |
| Worcester     | 51,620                          | 24,645,620  | 477.44                                  | 0.00                            | 0                         | 0                          | 0                                       | 0   | 1.25%                                  |
| <b>Total</b>  | <b>5,928,814</b>                | <b>\$3,641,475,558</b>  | <b>\$614.20</b>                         | <b>\$0.00</b>                   | <b>\$175,129,394</b>      | <b>\$121,436,013</b>       | <b>\$129,819,872</b>                    | <b>-\$5,977,292</b>                           |  |
|               |                                 | <i>Target (0.75%)</i>   | <i>\$460.65</i>                         |                                 |                           |                            |   |   |  |

\*Fiscal 2015 difference also prior to cost containment action.

Source: Department of Legislative Services



**Exhibit 5**  
**Effect of the Cap Provisions**  
**Fiscal 2015-2016**

| <u>County</u>   | <u>Uncapped Grant 2015</u> | <u>Uncapped Grant 2016</u> | <u>Uncapped Grant Difference 2015-2016</u> | <u>Foregone Amount 2016</u> |
|-----------------|----------------------------|----------------------------|--|-----------------------------|
| Allegany        | \$13,156,738               | \$12,135,763               | -\$1,020,975                               | \$4,837,258                 |
| Baltimore City  | 89,494,646                 | 84,482,383                 | -5,012,263                                 | 5,430,593                   |
| Caroline        | 4,593,110                  | 4,191,202                  | -401,908                                   | 2,059,420                   |
| Cecil           | 2,651,599                  | 1,534,811                  | -1,116,788                                 | 1,227,849                   |
| Dorchester      | 4,767,975                  | 4,167,657                  | -600,318                                   | 2,144,967                   |
| Garrett         | 3,816,336                  | 3,163,807                  | -652,529                                   | 1,032,536                   |
| Prince George's | 45,839,087                 | 38,480,484                 | -7,358,603                                 | 15,392,194                  |
| Somerset        | 7,400,238                  | 7,118,517                  | -281,721                                   | 2,210,350                   |
| Washington      | 9,891,116                  | 7,581,120                  | -2,309,996                                 | 6,064,896                   |
| Wicomico        | 13,734,939                 | 12,273,651                 | -1,461,288                                 | 4,909,461                   |
| <b>Total</b>    | <b>\$195,345,784</b>       | <b>\$175,129,394</b>       | <b>-\$20,216,390</b>                       | <b>\$45,309,521</b>         |

Source: Department of Legislative Services

### Cost Containment

The fiscal 2016 allowance contains a contingent reduction that would lower the payments to each county to the lesser amount of what they received in fiscal 2014 or what they would receive under the current law formula. This language is contingent upon the enactment of the Budget Reconciliation and Financing Act (BRFA) of 2015, which contains language that would cap the Disparity Grant program at \$127,708,537. The difference between what each jurisdiction would receive under current law and under the contingent reduction is shown in **Exhibit 6**.

The BRFA of 2015 also contains a provision, Section 13, which would cap all mandated formula increases at 1% below the general fund growth from the prior year. If the current BRFA provision directly relating to the disparity grant formula is enacted, the grant would be capped into perpetuity, and thus Section 13 would have no effect. However, if the BRFA provision directly relating to the disparity grant formula is rejected, this could further impact how the formula is calculated. At this time, given the difficulties of projecting the disparities in per capita tax wealth among jurisdictions, it is difficult to estimate what effect Section 13 would have upon the disparity grant formula.

**Exhibit 6**  
**Effect of Cost Containment Actions by Jurisdiction**  
**Fiscal 2016**

| <u>County</u>   | <u>Current Law</u>   | <u>Proposed Cost Containment</u> | <u>Difference</u>   |
|-----------------|----------------------|----------------------------------|---------------------|
| Allegany        | \$7,298,505          | \$7,298,505                      | \$0                 |
| Baltimore City  | 79,051,790           | 79,051,790                       | 0                   |
| Caroline        | 2,131,782            | 2,131,782                        | 0                   |
| Cecil           | 306,962              | 299,498                          | -7,464              |
| Dorchester      | 2,022,690            | 2,022,690                        | 0                   |
| Garrett         | 2,131,271            | 2,131,271                        | 0                   |
| Prince George's | 23,088,290           | 21,694,767                       | -1,393,523          |
| Somerset        | 4,908,167            | 4,908,167                        | 0                   |
| Washington      | 1,516,224            | 1,516,224                        | 0                   |
| Wicomico        | 7,364,191            | 6,653,843                        | -710,348            |
| <b>Total</b>    | <b>\$129,819,872</b> | <b>\$127,708,537</b>             | <b>-\$2,111,335</b> |

Source: Department of Legislative Services

---

## ***Issues***

---

### **1. Time for a New Disparity Grant Formula**

As previously mentioned, the BRFA of 2015 seeks to once again change the disparity grant formula but only by changing the capping provisions. Over the last five years, there have been three different capping provisions placed onto the disparity grant formula, from the cap to fiscal 2010 amounts, to the tax effort floors, to the currently proposed cap at the fiscal 2014 level. These caps have had the effect of perverting the proportion of the average statewide per capita tax yield to each jurisdiction under the disparity grant formula, as shown in **Exhibit 7**.

Whether the formula is changed to the provision in the BRFA or is kept at current law, there would still be drastic disparities in the proportion of the average statewide per capita tax yield which each county is returned to under the formula. Further, the BRFA also contains a new provision that would affect fiscal 2017 and beyond. While the BRFA caps the total dollar amount of the grant for future fiscal years, it also changes the allocation of funding. Essentially, the Governor's proposal would repeal the 2010 cap, as well as the floor provision that was later added to allow newly eligible jurisdictions to receive a portion of funding based on tax effort. The formula would start with the calculation of the uncapped grant amount in each fiscal year. However, each county would only receive a proportion of \$127.8 million based on the proportion of its grant under an uncapped formula. **Exhibit 8** demonstrates what this change would mean if it were in effect for fiscal 2016. Each county in the program would receive more funding than under current law, with the exception of Baltimore City.

This cap would also not solve the problem of each county being restored to a different proportion of the average statewide per capita tax yield. Further, it would remove the tax effort provisions that were put in place by Chapter 425, thus removing the incentive for counties to increase their tax effort in order to receive more money under the disparity grant formula. Even without this particular capping provision, Section 13 of the BRFA would have unknown consequences upon the disparity grant formula under current law that would further distort the inequities within the formula as currently constructed.

Given all of the inequities in both the current law and in the proposed BRFA, it would be prudent for the General Assembly to take an in-depth look at the Disparity Grant program over the 2015 interim and make some decisions regarding the overall level and distribution of funding. Until then, the grants should continue to be funded under the provisions provided for under current law. **The Department of Legislative Services (DLS) recommends striking the contingent reduction in the budget bill, as well as striking the new provisions relating directly to the disparity grant formula in the BRFA. DLS also recommends that a workgroup be convened over the 2015 interim to further study and make recommendations concerning the Disparity Grant program and how the formulas and allocations shall be determined in the future.**

**Exhibit 7**  
**Per Capita Tax Yield as Proportion of Statewide Average**  
**For Various Grant Scenarios**  
**Fiscal 2016**

| <u>County</u>   | <u>Total Grant</u>   | <u>Current Law</u>      |  | <u>BRFA Proposed</u> |                         |  | <u>Proportional Allocation</u> |                         |  |
|-----------------|----------------------|-------------------------|--|----------------------|-------------------------|--|--------------------------------|-------------------------|--|
|                 |                      | <u>Per Capita Grant</u> | <u>Proportion of Statewide Average</u> | <u>Total Grant</u>   | <u>Per Capita Grant</u> | <u>Proportion of Statewide Average</u> | <u>Total Grant</u>             | <u>Per Capita Grant</u> | <u>Proportion of Statewide Average</u> |
| Allegany        | \$7,298,505          | \$99.27                 | 64.3%                                  | \$7,298,505          | \$99.27                 | 64.3%                                  | \$8,849,688                    | \$120.37                | 67.7%                                  |
| Baltimore City  | 79,051,790           | 127.07                  | 73.6%                                  | 79,051,790           | 127.07                  | 73.6%                                  | 61,606,571                     | 99.03                   | 69.0%                                  |
| Caroline        | 2,131,782            | 65.21                   | 64.7%                                  | 2,131,782            | 65.21                   | 64.7%                                  | 3,056,325                      | 93.49                   | 69.3%                                  |
| Cecil           | 306,962              | 3.01                    | 73.0%                                  | 299,498              | 2.94                    | 73.0%                                  | 1,119,221                      | 10.98                   | 74.3%                                  |
| Dorchester      | 2,022,690            | 61.93                   | 64.3%                                  | 2,022,690            | 61.93                   | 64.3%                                  | 3,039,155                      | 93.05                   | 69.4%                                  |
| Garrett         | 2,131,271            | 71.31                   | 69.4%                                  | 2,131,271            | 71.31                   | 69.4%                                  | 2,307,123                      | 77.19                   | 70.3%                                  |
| Prince George's | 23,088,290           | 25.94                   | 72.2%                                  | 21,694,767           | 24.37                   | 71.9%                                  | 28,060,888                     | 31.53                   | 73.1%                                  |
| Somerset        | 4,908,167            | 186.81                  | 61.3%                                  | 4,908,167            | 186.81                  | 61.3%                                  | 5,190,993                      | 197.58                  | 63.1%                                  |
| Washington      | 1,516,224            | 10.14                   | 68.4%                                  | 1,516,224            | 10.14                   | 68.4%                                  | 5,528,334                      | 36.96                   | 72.8%                                  |
| Wicomico        | 7,364,191            | 72.99                   | 67.1%                                  | 6,653,843            | 65.95                   | 65.9%                                  | 8,950,240                      | 88.71                   | 69.6%                                  |
| <b>Total</b>    | <b>\$129,819,872</b> |                         |  | <b>\$127,708,537</b> |                         |  | <b>\$127,708,537</b>           |                         |  |

BRFA: Budget Reconciliation and Financing Act

Source: Department of Legislative Services

**Exhibit 8**  
**Effect of Proportional Allocation**  
**Fiscal 2016**

| <u>County</u>   | <u>Uncapped Grant</u> | <u>Proportional Grant</u> | <u>Current Law Grant</u> | <u>Proportional vs. Current law</u> | <u>2016 Allowance</u> | <u>Proportional vs. Allowance</u> |
|-----------------|-----------------------|---------------------------|--------------------------|-------------------------------------|-----------------------|-----------------------------------|
| Allegany        | \$12,135,763          | \$8,849,688               | \$7,298,505              | \$1,551,183                         | \$7,298,505           | \$1,551,183                       |
| Baltimore City  | 84,482,383            | 61,606,571                | 79,051,790               | -17,445,219                         | 79,051,790            | -17,445,219                       |
| Caroline        | 4,191,202             | 3,056,325                 | 2,131,782                | 924,543                             | 2,131,782             | 924,543                           |
| Cecil           | 1,534,811             | 1,119,221                 | 306,962                  | 812,259                             | 299,498               | 819,723                           |
| Dorchester      | 4,167,657             | 3,039,155                 | 2,022,690                | 1,016,465                           | 2,022,690             | 1,016,465                         |
| Garrett         | 3,163,807             | 2,307,123                 | 2,131,271                | 175,852                             | 2,131,271             | 175,852                           |
| Prince George's | 38,480,484            | 28,060,888                | 23,088,290               | 4,972,598                           | 21,694,767            | 6,366,121                         |
| Somerset        | 7,118,517             | 5,190,993                 | 4,908,167                | 282,826                             | 4,908,167             | 282,826                           |
| Washington      | 7,581,120             | 5,528,334                 | 1,516,224                | 4,012,110                           | 1,516,224             | 4,012,110                         |
| Wicomico        | 12,273,651            | 8,950,240                 | 7,364,191                | 1,586,049                           | 6,653,843             | 2,296,397                         |
| <b>Total</b>    | <b>\$175,129,394</b>  | <b>\$127,708,537</b>      | <b>\$129,819,872</b>     | <b>-\$2,111,335</b>                 | <b>\$127,708,537</b>  | <b>\$0</b>                        |

Source: Department of Legislative Services

## ***Recommended Actions***

---

1. Strike the following language from the general fund appropriation:

~~; provided that this appropriation shall be reduced by \$2,111,335 contingent upon the enactment of the Budget Reconciliation Financing Act~~

**Explanation:** This action strikes the contingent language in the budget bill and restores the appropriation for the Disparity Grants to the currently mandated level.

## ***Current and Prior Year Budgets***

---

### **Current and Prior Year Budgets Payments to Civil Divisions of the State (\$ in Thousands)**

|                                  | <b><u>General<br/>Fund</u></b> | <b><u>Special<br/>Fund</u></b> | <b><u>Federal<br/>Fund</u></b> | <b><u>Reimb.<br/>Fund</u></b> | <b><u>Total</u></b> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| <b>Fiscal 2014</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$155,467                      | \$0                            | \$0                            | \$0                           | \$155,467           |
| Deficiency<br>Appropriation      | 0                              | 0                              | 0                              | 0                             | 0                   |
| Budget<br>Amendments             | 0                              | 0                              | 0                              | 0                             | 0                   |
| Reversions and<br>Cancellations  | 0                              | 0                              | 0                              | 0                             | 0                   |
| <b>Actual<br/>Expenditures</b>   | <b>\$155,467</b>               | <b>\$0</b>                     | <b>\$0</b>                     | <b>\$0</b>                    | <b>\$155,467</b>    |
| <b>Fiscal 2015</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$163,456                      | \$0                            | \$0                            | \$0                           | \$163,456           |
| Cost<br>Containment              | -7,989                         | 0                              | 0                              | 0                             | -7,989              |
| Budget<br>Amendments             | 0                              | 0                              | 0                              | 0                             | 0                   |
| <b>Working<br/>Appropriation</b> | <b>\$155,467</b>               | <b>\$0</b>                     | <b>\$0</b>                     | <b>\$0</b>                    | <b>\$155,467</b>    |

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

---

**Fiscal 2015**

On January 7, 2015, the Governor proposed, and BPW adopted, \$205.3 million in reductions to the fiscal 2015 appropriation. This reduction included \$7,989,089 in general funds for the disparity grants in order to bring payments back to the fiscal 2014 level.



### Disparity Grant Calculation Change in Population by Jurisdiction

| <u>County</u>          | <u>Population<br/>July 2012</u> | <u>Population<br/>July 2013</u> | <u>Change<br/>2012-2013</u> | <u>% Change<br/>2012-2013</u> |
|------------------------|---------------------------------|---------------------------------|-----------------------------|-------------------------------|
| <b>Allegany</b>        | <b>74,012</b>                   | <b>73,521</b>                   | <b>-491</b>                 | <b>-0.7%</b>                  |
| Anne Arundel           | 550,488                         | 555,743                         | 5,255                       | 1.0%                          |
| <b>Baltimore City</b>  | <b>621,342</b>                  | <b>622,104</b>                  | <b>762</b>                  | <b>0.1%</b>                   |
| Baltimore              | 817,455                         | 823,015                         | 5,560                       | 0.7%                          |
| Calvert                | 89,628                          | 90,484                          | 856                         | 1.0%                          |
| <b>Caroline</b>        | <b>32,718</b>                   | <b>32,693</b>                   | <b>-25</b>                  | <b>-0.1%</b>                  |
| Carroll                | 167,217                         | 167,564                         | 347                         | 0.2%                          |
| <b>Cecil</b>           | <b>101,696</b>                  | <b>101,913</b>                  | <b>217</b>                  | <b>0.2%</b>                   |
| Charles                | 150,592                         | 152,864                         | 2,272                       | 1.5%                          |
| <b>Dorchester</b>      | <b>32,551</b>                   | <b>32,660</b>                   | <b>109</b>                  | <b>0.3%</b>                   |
| Frederick              | 239,582                         | 241,409                         | 1,827                       | 0.8%                          |
| <b>Garrett</b>         | <b>29,854</b>                   | <b>29,889</b>                   | <b>35</b>                   | <b>0.1%</b>                   |
| Harford                | 248,622                         | 249,215                         | 593                         | 0.2%                          |
| Howard                 | 299,430                         | 304,580                         | 5,150                       | 1.7%                          |
| Kent                   | 20,191                          | 19,944                          | -247                        | -1.2%                         |
| Montgomery             | 1,004,709                       | 1,016,677                       | 11,968                      | 1.2%                          |
| <b>Prince George's</b> | <b>881,138</b>                  | <b>890,081</b>                  | <b>8,943</b>                | <b>1.0%</b>                   |
| Queen Anne's           | 48,595                          | 48,517                          | -78                         | -0.2%                         |
| St. Mary's             | 108,987                         | 109,633                         | 646                         | 0.6%                          |
| <b>Somerset</b>        | <b>26,253</b>                   | <b>26,273</b>                   | <b>20</b>                   | <b>0.1%</b>                   |
| Talbot                 | 38,098                          | 37,931                          | -167                        | -0.4%                         |
| <b>Washington</b>      | <b>149,180</b>                  | <b>149,588</b>                  | <b>408</b>                  | <b>0.3%</b>                   |
| <b>Wicomico</b>        | <b>100,647</b>                  | <b>100,896</b>                  | <b>249</b>                  | <b>0.2%</b>                   |
| Worcester              | 51,578                          | 51,620                          | 42                          | 0.1%                          |
| <b>Total</b>           | <b>5,884,563</b>                | <b>5,928,814</b>                | <b>44,251</b>               | <b>0.8%</b>                   |

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

**Disparity Grant Calculation**  
**Change in Adjusted Income Tax Revenues\***  
**Tax Year 2012-2013**

| <u>County</u>          | <u>Adjusted Income<br/>Tax Revenues<br/>2012</u> | <u>Adjusted Income<br/>Tax Revenues<br/>2013</u> | <u>\$ Change<br/>2012-2013</u> | <u>% Change<br/>2012-2013</u> |
|------------------------|--|--|--------------------------------|-------------------------------|
| <b>Allegany</b>        | <b>\$21,367,884</b>                              | <b>\$21,731,667</b>                              | <b>\$363,783</b>               | <b>1.7%</b>                   |
| Anne Arundel           | 394,879,322                                      | 393,400,785                                      | -1,478,537                     | -0.4%                         |
| <b>Baltimore City</b>  | <b>200,344,808</b>                               | <b>202,089,668</b>                               | <b>1,744,859</b>               | <b>0.9%</b>                   |
| Baltimore              | 526,859,790                                      | 532,615,813                                      | 5,756,023                      | 1.1%                          |
| Calvert                | 57,322,013                                       | 57,792,624                                       | 470,611                        | 0.8%                          |
| <b>Caroline</b>        | <b>10,668,963</b>                                | <b>10,868,820</b>                                | <b>199,857</b>                 | <b>1.9%</b>                   |
| Carroll                | 106,273,492                                      | 107,626,469                                      | 1,352,977                      | 1.3%                          |
| <b>Cecil</b>           | <b>44,786,870</b>                                | <b>45,411,386</b>                                | <b>624,516</b>                 | <b>1.4%</b>                   |
| Charles                | 80,047,873                                       | 81,352,695                                       | 1,304,822                      | 1.6%                          |
| <b>Dorchester</b>      | <b>10,416,197</b>                                | <b>10,877,164</b>                                | <b>460,967</b>                 | <b>4.4%</b>                   |
| Frederick              | 149,575,736                                      | 154,593,834                                      | 5,018,099                      | 3.4%                          |
| <b>Garrett</b>         | <b>10,109,757</b>                                | <b>10,604,554</b>                                | <b>494,796</b>                 | <b>4.9%</b>                   |
| Harford                | 148,398,111                                      | 148,774,313                                      | 376,202                        | 0.3%                          |
| Howard                 | 280,540,373                                      | 277,086,860                                      | -3,453,513                     | -1.2%                         |
| Kent                   | 10,916,650                                       | 10,479,252                                       | -437,397                       | -4.0%                         |
| Montgomery             | 999,832,877                                      | 958,735,571                                      | -41,097,307                    | -4.1%                         |
| <b>Prince George's</b> | <b>365,188,264</b>                               | <b>371,535,104</b>                               | <b>6,346,839</b>               | <b>1.7%</b>                   |
| Queen Anne's           | 30,240,004                                       | 30,634,800                                       | 394,795                        | 1.3%                          |
| St. Mary's             | 61,485,909                                       | 62,212,777                                       | 726,868                        | 1.2%                          |
| <b>Somerset</b>        | <b>4,846,086</b>                                 | <b>4,984,134</b>                                 | <b>138,048</b>                 | <b>2.8%</b>                   |
| Talbot                 | 28,236,980                                       | 27,891,030                                       | -345,950                       | -1.2%                         |
| <b>Washington</b>      | <b>59,697,371</b>                                | <b>61,326,555</b>                                | <b>1,629,184</b>               | <b>2.7%</b>                   |
| <b>Wicomico</b>        | <b>33,214,199</b>                                | <b>34,204,065</b>                                | <b>989,866</b>                 | <b>3.0%</b>                   |
| Worcester              | 24,739,175                                       | 24,645,620                                       | -93,555                        | -0.4%                         |
| <b>Total</b>           | <b>\$3,659,988,706</b>                           | <b>\$3,641,475,558</b>                           | <b>-\$18,513,147</b>           | <b>-0.5%</b>                  |

\* Per the Disparity Grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

**Disparity Grant Calculation**  
**Change in Adjusted Income Tax Revenue Per Capita\***  
**Tax Year 2012-2013**

| <u>County</u>          | <u>Per Capita<br/>Tax Yield<br/>2012</u> | <u>Per Capita<br/>Tax Yield<br/>2013</u> | <u>\$ Change<br/>2012-2013</u> | <u>% Change<br/>2012-2013</u> |
|------------------------|--|--|--------------------------------|-------------------------------|
| <b>Allegany</b>        | <b>\$288.71</b>                          | <b>\$295.58</b>                          | <b>\$6.88</b>                  | <b>2.4%</b>                   |
| Anne Arundel           | 717.33                                   | 707.88                                   | -9.44                          | -1.3%                         |
| <b>Baltimore City</b>  | <b>322.44</b>                            | <b>324.85</b>                            | <b>2.41</b>                    | <b>0.7%</b>                   |
| Baltimore              | 644.51                                   | 647.15                                   | 2.64                           | 0.4%                          |
| Calvert                | 639.55                                   | 638.71                                   | -0.85                          | -0.1%                         |
| <b>Caroline</b>        | <b>326.09</b>                            | <b>332.45</b>                            | <b>6.36</b>                    | <b>2.0%</b>                   |
| Carroll                | 635.54                                   | 642.30                                   | 6.76                           | 1.1%                          |
| <b>Cecil</b>           | <b>440.40</b>                            | <b>445.59</b>                            | <b>5.19</b>                    | <b>1.2%</b>                   |
| Charles                | 531.55                                   | 532.19                                   | 0.64                           | 0.1%                          |
| <b>Dorchester</b>      | <b>320.00</b>                            | <b>333.04</b>                            | <b>13.05</b>                   | <b>4.1%</b>                   |
| Frederick              | 624.32                                   | 640.38                                   | 16.06                          | 2.6%                          |
| <b>Garrett</b>         | <b>338.64</b>                            | <b>354.80</b>                            | <b>16.16</b>                   | <b>4.8%</b>                   |
| Harford                | 596.88                                   | 596.97                                   | 0.09                           | 0.0%                          |
| Howard                 | 936.91                                   | 909.73                                   | -27.18                         | -2.9%                         |
| Kent                   | 540.67                                   | 525.43                                   | -15.24                         | -2.8%                         |
| Montgomery             | 995.15                                   | 943.01                                   | -52.14                         | -5.2%                         |
| <b>Prince George's</b> | <b>414.45</b>                            | <b>417.42</b>                            | <b>2.97</b>                    | <b>0.7%</b>                   |
| Queen Anne's           | 622.29                                   | 631.42                                   | 9.14                           | 1.5%                          |
| St. Mary's             | 564.16                                   | 567.46                                   | 3.31                           | 0.6%                          |
| <b>Somerset</b>        | <b>184.59</b>                            | <b>189.71</b>                            | <b>5.11</b>                    | <b>2.8%</b>                   |
| Talbot                 | 741.17                                   | 735.31                                   | -5.86                          | -0.8%                         |
| <b>Washington</b>      | <b>400.17</b>                            | <b>409.97</b>                            | <b>9.80</b>                    | <b>2.4%</b>                   |
| <b>Wicomico</b>        | <b>330.01</b>                            | <b>339.00</b>                            | <b>9.00</b>                    | <b>2.7%</b>                   |
| Worcester              | 479.65                                   | 477.44                                   | -2.20                          | -0.5%                         |
| <b>Total</b>           | <b>\$621.96</b>                          | <b>\$614.20</b>                          | <b>-\$7.76</b>                 | <b>-1.2%</b>                  |
|                        | <b>75%</b>                               | <b>\$466.47</b>                          | <b>-\$5.82</b>                 | <b>-1.2%</b>                  |

\* Per the Disparity Grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

**Fiscal Summary**  
**Payments to Civil Divisions of the State**

| <u>Program/Unit</u>                       | <u>FY 14</u><br><u>Actual</u> | <u>FY 15</u><br><u>Wrk Approp</u> | <u>FY 16</u><br><u>Allowance</u> | <u>Change</u>        | <u>FY 15 - FY 16</u><br><u>% Change</u> |
|---|-------------------------------|-----------------------------------|----------------------------------|----------------------|---|
| 01 Disparity Grants                       | \$ 127,808,075                | \$ 135,797,164                    | \$ 129,819,872                   | -\$ 5,977,292        | -4.4%                                   |
| 02 Teacher Retirement Supplemental Grants | 27,658,662                    | 27,658,662                        | 27,658,662                       | 0                    | 0%                                      |
| <b>Total Expenditures</b>                 | <b>\$ 155,466,737</b>         | <b>\$ 163,455,826</b>             | <b>\$ 157,478,534</b>            | <b>-\$ 5,977,292</b> | <b>-3.7%</b>                            |
| General Fund                              | \$ 155,466,737                | \$ 163,455,826                    | \$ 157,478,534                   | -\$ 5,977,292        | -3.7%                                   |
| <b>Total Appropriations</b>               | <b>\$ 155,466,737</b>         | <b>\$ 163,455,826</b>             | <b>\$ 157,478,534</b>            | <b>-\$ 5,977,292</b> | <b>-3.7%</b>                            |

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions