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Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Grants	123,853	150,262	136,683	\$12,830	128,490	-8,192
FY 2004 Deficiencies	0	0	138	138	0	-138
Contingent & Back of Bill Reductions	0	0	0	0	-30,615	-30,615
Adjusted Grand Total	\$123,853	\$150,262	\$136,821	\$12,968	\$97,875	-\$38,946
General Funds	123,853	150,262	136,683	\$12,830	128,490	-8,192
FY 2004 Deficiencies	0	0	138	138	0	-138
Contingent & Back of Bill Reductions	0	0	0	0	-30,615	-30,615
Adjusted General Funds	\$123,853	\$150,262	\$136,821	\$12,968	\$97,875	-\$38,946
Adjusted Grand Total	\$123,853	\$150,262	\$136,821	\$12,968	\$97,875	-\$38,946
Annual % Change		21.3%	-8.9%		-28.5%	

- The proposed fiscal 2005 budget includes a \$30.6 million reduction to the electric utility generating equipment property tax grants contingent upon the enactment of legislation.
- A fiscal 2004 general fund deficiency appropriation of \$138,016 is provided for Baltimore City's share of security interest-filing fees.
- State funding for Payments to Civil Divisions of the State decreases by 28.5% in fiscal 2005. The largest decreases are in the disparity grant program and the electric utility generating equipment property tax grants.

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

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Analysis in Brief

Major Trends

Disparity Grant Funding Continues to Decline: State funding for the disparity grant program continues to decline in fiscal 2005. State funding reached \$115.2 million in fiscal 2003 but has declined to \$105.8 million in fiscal 2004 and \$93.1 million in fiscal 2005. The decrease in the statutorily required funding amount is due to the narrowing of the disparity in per capita income tax revenues between less affluent counties and other counties in Maryland. The decrease in disparity grant funding was partially offset in fiscal 2004 by the inclusion of \$9.2 million in discretionary grants. The proposed fiscal 2005 budget includes a \$0.5 million discretionary grant for Garrett County.

Issues

Elimination of Electric Utility Generating Equipment Property Tax Grants: The proposed fiscal 2005 budget eliminates funding for electric utility generating equipment property tax grants contingent upon the enactment of legislation. These grants are provided to 11 jurisdictions to partially offset the revenue loss due to legislation enacted in 1999 that provided for a 50% property tax exemption for personal property used in generating electricity. Due to the reliance on these grants in certain jurisdictions and overall reductions in State aid in fiscal 2005, the Department of Legislative Services does not recommend that the grants be eliminated completely this year. Instead, the department recommends that the utility grants be phased out over four years beginning in fiscal 2005.

Disparity Grant Funding Exceeds Statutory Amount: Funding for the disparity grant program in fiscal 2005 exceeds the statutory amount by \$500,000. The additional funding is to prevent Garrett County from receiving less State aid in fiscal 2005 than the county received in the prior year. While on a statewide basis, State aid will increase by 7.7% in fiscal 2005, Garrett County will realize a \$59,000, or 0.2% increase. Absent the additional disparity grant funding, Garrett County would be the only jurisdiction with a net decrease in State aid in fiscal 2005. Due to its low wealth base, Garrett County already qualifies for disparity grant funding.

Recommended Actions

	<u>Funds</u>
1. Reduce funds for the electric utility generating equipment property tax grant.	\$ 9,653,927
Total Reductions	\$ 9,653,927

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Payments to Civil Divisions of the State

Operating Budget Analysis

Program Description

Several State grant programs providing funds to Maryland's counties and municipalities are budgeted under payments to civil divisions of the State. These programs include disparity grants, a grant to Baltimore City equal to \$5 of each security interest-filing fee collected by the Motor Vehicle Administration (MVA), and grants to partially offset the cost of the property tax exemption for personal property used to generate electricity for sale. The State pays the employer retirement cost for certain local officials and employees. Beginning in fiscal 2000, these costs are also budgeted under payments to civil divisions.

Fiscal 2004 Actions

Proposed Deficiency

There is a fiscal 2004 general fund deficiency appropriation of \$138,016 for Baltimore City's share of security interest-filing fees collected by MVA. This results from fiscal 2003 actual revenue attainments exceeding the estimates (\$48,016) and an increase in the projections for fiscal 2004 (\$90,000).

Impact of Cost Containment

The fiscal 2004 appropriation for the electric utility generating equipment property tax grant was reduced by \$4.4 million, or 14.4% by the Board of Public Works on July 30, 2003. The adjusted appropriation for fiscal 2004 totals \$26.2 million.

Governor's Proposed Budget

The proposed fiscal 2005 budget for payments to civil divisions is \$97.9 million. This is a 28.5% decrease over the fiscal 2004 working appropriation of \$136.8 million. Disparity grant funding decreases by \$12.7 million, or 12.0% in fiscal 2005. Baltimore City's share of security interest-filing fees increases by \$33,000, or 1.0%, while funding for the retirement costs of certain local officials decreases by \$48,000, or 3.0%. Funding for the electric utility generating equipment property tax grants is eliminated contingent upon the enactment of legislation. **Exhibit 1** shows the funding amounts for these programs in fiscal 2003 through 2005.

Exhibit 1
Governor's Proposed Budget
Payments to Civil Divisions of the State
(\$ in Thousands)

	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 04-05</u>	<u>FY 04-05</u>
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$150,262	\$136,683	\$128,490	-\$8,192	-6.0%
FY 2004 Deficiencies	0	138	0	-138	
Contingent & Back of Bill Reductions	0	0	-30,615	-30,615	
Adjusted General Funds	\$150,262	\$136,821	\$97,875	-\$38,946	-28.5%
Adjusted Grand Total	\$150,262	\$136,821	\$97,875	-\$38,946	-28.5%

Where It Goes:

Grants

Elimination of Electric Generating Equipment Property Tax Grant	-\$26,202
Decrease in disparity grant per statutory formula	-4,053
Decrease in discretionary disparity grant.....	-8,676
Increase in estimated Baltimore City share of security interest-filing fees	33
Decrease in retirement contributions for certain officials and county employees	-48

Total **-\$38,946**

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

Impact of Cost Containment

The proposed fiscal 2005 budget includes a \$30,615,201 general fund reduction to the electricity generating equipment property tax grant contingent upon the enactment of legislation eliminating the grant.

Disparity Grant

The disparity grant addresses the differences in the capacities or abilities of the counties to raise revenues from the local income tax. Counties with per capita local income tax revenues less than 75% of the State's average receive grants, assuming all counties impose a 2.54% local income tax rate. Aid received by a county equals the dollar amount necessary to raise the county's per capita income tax revenues to 75% of the State average.

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The proposed fiscal 2005 budget includes \$93.1 million for disparity grants, which includes \$92.6 million in statutory grants and a \$0.5 million discretionary grant for Garrett County. The discretionary grant is to ensure that Garrett County does not realize a net decrease in State aid in fiscal 2005. Based on the statutory formula, eight jurisdictions (Baltimore City and Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico counties) receive grants in fiscal 2005. Due to local income growth, Washington County, which received funds in fiscal 2004, does not qualify for a disparity grant in fiscal 2005.

The fiscal 2005 grant under the statute is based on population estimates for July 2002 and calendar 2002 local income tax revenues raised from a 2.54% local income tax rate. **Exhibit 2** shows the calculation of the fiscal 2005 disparity grant. The decrease in the statutorily required funding amount is due to the narrowing of the disparity in per capita income tax revenues between less affluent counties and other counties in Maryland. As shown in **Exhibit 3**, per capita income tax revenues decreased by 2.6% in calendar 2002. Baltimore City was the only disparity grant jurisdiction to realize a decrease greater than the statewide average. The largest decreases in per capita income tax revenues in calendar 2002 occurred in the more affluent jurisdictions, such as Kent, Montgomery, and Talbot counties.

The State began providing disparity grants in fiscal 1992 to counties whose per capita local income tax revenues were less than 70% of the statewide average. Baltimore City and five counties (Allegany, Caroline, Dorchester, Garrett, and Somerset) qualified for the grants. Funding for disparity grants totaled \$8.6 million in fiscal 1992. Legislation enacted in 1992 placed the disparity grant formula in statute for fiscal 1993 and subsequent years. Legislation enacted in 1996 guaranteed that, beginning in fiscal 1998, each county's per capita local income tax yield would be 75% of the statewide average, rather than 70%. This change made two counties, Washington and Wicomico, eligible for disparity grants. In fiscal 2001, Prince George's County became eligible for disparity grants, and Washington County became ineligible due to increases in its per capita local income tax yields. Washington County, however, became eligible for the program again in fiscal 2002 but again became ineligible in fiscal 2005.

Electric Utility Generating Equipment Property Tax Grant

Legislation restructuring Maryland's electric utility tax system was enacted in 1999 (Chapters 5 and 6, Acts of 1999). Beginning with fiscal 2001, the legislation phases in over two years a 50% personal property tax exemption for machinery and equipment used to generate electricity for sale. To partially offset the revenue losses, the legislation provides grants to the counties impacted by the exemption. The dollar amounts of the grants when the exemption is fully phased in are written into the statute (Article 24, Section 9-1102). In fiscal 2001, the counties received half the amounts for a total of \$15.3 million. In fiscal 2002 and 2003, the grants total \$30.6 million. The fiscal 2004 appropriation was reduced by \$4.4 million, or 14.4% by the Board of Public Works on July 30, 2003. The adjusted appropriation for fiscal 2004 totals \$26.2 million. The proposed fiscal 2005 budget eliminates funding for the grant contingent upon the enactment of legislation. **Exhibit 4** shows the allocation of the grants for fiscal 2003 through 2005. The Town of Williamsport will receive 35% of Washington County's allocation.

Exhibit 2
Calculating the Fiscal 2005 Disparity Grant

<u>County</u>	<u>Population</u> <u>July 2002</u>	<u>Adjusted Income</u>		<u>Per Capita</u> <u>Grant</u>	<u>Statutory</u> <u>Grant</u>	<u>Discretionary</u> <u>Grant</u>	<u>FY 2005</u> <u>Grant*</u>	<u>Prior Year's</u> <u>Grant</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
		<u>Tax Revenues</u> <u>TY 2002</u>	<u>Per Capita</u> <u>Tax Yield</u>							
Allegany	74,203	\$17,127,627	\$230.82	\$79.53	\$5,901,718	\$0	\$5,901,718	\$7,505,173	-\$1,603,455	-21.4%
Anne Arundel	503,388	242,606,771	481.95	0.00	0	0	0	0	0	
Baltimore City	638,614	128,638,390	201.43	108.92	69,559,286	0	69,559,286	75,060,702	-5,501,416	-7.3%
Baltimore	770,298	336,143,431	436.38	0.00	0	0	0	0	0	
Calvert	80,906	36,776,365	454.56	0.00	0	0	0	0	0	
Caroline	30,300	7,589,474	250.48	59.88	1,814,313	0	1,814,313	2,149,120	-334,807	-15.6%
Carroll	159,025	68,127,783	428.41	0.00	0	0	0	0	0	
Cecil	90,335	30,009,166	332.20	0.00	0	0	0	0	0	
Charles	129,040	50,608,349	392.19	0.00	0	0	0	0	0	
Dorchester	30,451	7,560,088	248.27	62.09	1,890,562	0	1,890,562	2,344,457	-453,895	-19.4%
Frederick	209,125	95,704,214	457.64	0.00	0	0	0	0	0	
Garrett	29,878	7,056,062	236.16	74.19	2,216,755	500,000	2,716,755	4,589,226	-1,872,471	-40.8%
Harford	227,713	95,896,748	421.13	0.00	0	0	0	0	0	
Howard	260,117	157,249,537	604.53	0.00	0	0	0	0	0	
Kent	19,613	6,389,968	325.80	0.00	0	0	0	0	0	
Montgomery	910,156	560,716,540	616.07	0.00	0	0	0	0	0	
Prince George's	833,084	253,042,801	303.74	6.61	5,509,803	0	5,509,803	6,792,727	-1,282,924	-18.9%
Queen Anne's	42,835	18,672,722	435.92	0.00	0	0	0	0	0	
St. Mary's	90,044	33,355,686	370.44	0.00	0	0	0	0	0	
Somerset	25,555	4,178,494	163.51	146.85	3,752,653	0	3,752,653	4,347,556	-594,903	-13.7%
Talbot	34,263	16,177,121	472.15	0.00	0	0	0	0	0	
Washington	134,246	42,300,144	315.09	0.00	0	0	0	213,559	-213,559	-100.0%
Wicomico	86,318	24,831,999	287.68	22.68	1,957,309	0	1,957,309	2,828,900	-871,591	-30.8%
Worcester	48,630	17,861,154	367.29	0.00	0	0	0	0	0	
Total	5,458,137	\$2,258,620,633	\$413.81	\$0.00	\$92,602,398	\$500,000	\$93,102,398	\$105,831,420	-\$12,729,022	-12.0%
		<i>Target (75%)</i>	<i>\$310.36</i>							

Note: Includes \$500,000 discretionary grant for Garrett County.

Exhibit 3
Disparity Grant Factors – Fiscal 2005 Calculation

<i>County</i>	<i>Adjusted Local Tax Revenues</i>			<i>Population</i>			<i>Per Capita Tax Revenues</i>		
	<i>TY 2001</i>	<i>TY 2002</i>	<i>% Change</i>	<i>July 2001</i>	<i>July 2002</i>	<i>% Change</i>	<i>TY 2001</i>	<i>TY 2002</i>	<i>% Change</i>
Allegany	17,005,812	\$17,127,627	0.7%	75,200	74,203	-1.3%	\$226	\$231	2.1%
Anne Arundel	242,244,674	242,606,771	0.1%	497,200	503,388	1.2%	487	482	-1.1%
Baltimore City	134,756,960	128,638,390	-4.5%	644,300	638,614	-0.9%	209	201	-3.7%
Baltimore	344,027,001	336,143,431	-2.3%	764,600	770,298	0.7%	450	436	-3.0%
Calvert	33,820,990	36,776,365	8.7%	77,300	80,906	4.7%	438	455	3.9%
Caroline	7,586,402	7,589,474	0.0%	30,100	30,300	0.7%	252	250	-0.6%
Carroll	66,776,188	68,127,783	2.0%	153,800	159,025	3.4%	434	428	-1.3%
Cecil	29,663,576	30,009,166	1.2%	88,000	90,335	2.7%	337	332	-1.4%
Charles	48,508,557	50,608,349	4.3%	123,000	129,040	4.9%	394	392	-0.6%
Dorchester	7,609,288	7,560,088	-0.6%	30,900	30,451	-1.5%	246	248	0.8%
Frederick	94,492,675	95,704,214	1.3%	200,500	209,125	4.3%	471	458	-2.9%
Garrett	6,998,125	7,056,062	0.8%	30,000	29,878	-0.4%	233	236	1.2%
Harford	93,727,648	95,896,748	2.3%	222,200	227,713	2.5%	422	421	-0.2%
Howard	157,526,600	157,249,537	-0.2%	255,300	260,117	1.9%	617	605	-2.0%
Kent	6,764,918	6,389,968	-5.5%	19,300	19,613	1.6%	351	326	-7.0%
Montgomery	578,982,257	560,716,540	-3.2%	888,400	910,156	2.4%	652	616	-5.5%
Prince George's	252,963,763	253,042,801	0.0%	812,800	833,084	2.5%	311	304	-2.4%
Queen Anne's	18,267,652	18,672,722	2.2%	41,500	42,835	3.2%	440	436	-1.0%
St. Mary's	31,916,055	33,355,686	4.5%	87,500	90,044	2.9%	365	370	1.6%
Somerset	4,100,090	4,178,494	1.9%	25,000	25,555	2.2%	164	164	-0.3%
Talbot	16,979,198	16,177,121	-4.7%	34,200	34,263	0.2%	496	472	-4.9%
Washington	42,360,479	42,300,144	-0.1%	133,300	134,246	0.7%	318	315	-0.8%
Wicomico	24,818,704	24,831,999	0.1%	86,200	86,318	0.1%	288	288	-0.1%
Worcester	17,902,747	17,861,154	-0.2%	48,200	48,630	0.9%	371	367	-1.1%
Total	\$2,279,800,359	\$2,258,620,633	-0.9%	5,368,800	5,458,137	1.7%	\$425	\$414	-2.6%

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Analysis of the FY 2005 Maryland Executive Budget, 2004

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Exhibit 4
Electric Utility Generating Equipment Property Tax Grants

<u>County</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Anne Arundel	\$7,820,202	\$6,752,694	\$0
Baltimore City	453,421	340,066	0
Baltimore	1,794,835	1,346,126	0
Calvert	6,096,574	5,425,079	0
Charles	2,522,612	1,891,959	0
Dorchester	187,442	140,582	0
Garrett	11,907	8,930	0
Harford	860,767	645,575	0
Montgomery	2,765,553	2,074,165	0
Prince George's	7,744,806	7,308,604	0
Washington	357,082	267,812	0
Total	\$30,615,201	\$26,201,592	\$0

Source: Department of Legislative Services

Baltimore City Share of Security Interest-Filing Fee

Beginning with fiscal 1998, Baltimore City receives a grant equal to \$5 of each security interest-filing fee collected by MVA. This grant is pursuant to Chapter 163, Acts of 1996. The legislation also revised the allocation of highway user revenues between Baltimore City and the other subdivisions. In addition, the legislation was contingent on the enactment of other legislation increasing aid under the disparity grant formula (Chapter 173, Acts of 1996). The proposed fiscal 2005 budget includes \$3.2 million for Baltimore City. The budget also includes a fiscal 2004 deficiency appropriation of \$138,016 to cover fiscal 2003 actual attainment and a projected increase in fiscal 2004 costs.

Retirement Costs for Certain Officials and County Employees

Under State law (Sections 22-205 and 23-201 of the State Personnel and Pensions Article) appointed or elected officials of the State are eligible to be members of the State employees' retirement systems. The statute specifies that this provision applies to State's Attorneys and sheriffs. Over the years, judicial decisions and Attorney General's opinions have interpreted these provisions to include the following officials: county treasurers, county commissioners, orphans court judges, bingo board members, and license and liquor commissioners. The statute also provides that certain employees of the Sheriff's Office of Baltimore City are to be included in the State employees'

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retirement systems. Another provision (Section 26-201 of the State Personnel and Pensions Article) makes Baltimore City deputy sheriffs eligible for the Law Enforcement Officers' Pension System. The State pays the retirement benefits for these officials and employees, but prior to fiscal 2000, the State did not appropriate funds for the employer contributions. Language in the fiscal 1999 budget bill (Chapter 109, Section 32, Acts of 1998) required that the funding be provided in the budget beginning with fiscal 2000.

The proposed fiscal 2005 budget includes \$1.6 million for employer retirement costs associated with these locally paid officials and employees. The amount is based on the June 30, 2003, salary base for these employees increased by 5%. No growth factor is applied to the salary base for judges. **Exhibit 5** shows the calculation. This is similar to the approach used to determine the State retirement payments for local teachers, community college faculty, and librarians. **Exhibit 6** shows the employer contributions allocated on a county-by-county basis in fiscal 2005.

Exhibit 5
Computations of Retirement Costs

<u>Retirement System</u>	<u>Salary Base June 30, 2003</u>	<u>Increased By 5%</u>	<u>Contribution Rate</u>	<u>Cost</u>
Employees Retirement/Pension	\$4,910,682	\$5,156,216	4.73%	\$243,889
Law Enforcement Officers Retirement/Pension	\$2,945,116	\$3,092,372	37.73%	\$1,166,752
Orphans' Court Judges*	\$452,259	\$452,259	36.72%	\$166,070
Total				\$1,576,710

*Fiscal 2003 salary amount is not increased by 5%.

Note: Numbers may not sum to total due to rounding

Source: Department of Budget and Management

Exhibit 6
State Paid Retirement Costs for Locally Paid Officials and Employees

<u>County</u>	<u>Allocation of Appropriation</u>
Allegany	\$7,318
Anne Arundel	25,834
Baltimore City	1,349,700
Baltimore	7,560
Calvert	24,419
Caroline	6,392
Carroll	5,920
Cecil	8,241
Dorchester	8,527
Garrett	372
Howard	36,561
Kent	2,334
Montgomery	5,066
Prince George's	59,832
Queen Anne's	8,085
Washington	4,984
Wicomico	8,957
Worcester	5,609
Unallocated	1,000
Total	\$1,576,711

Source: Department of Budget and Management

Issues

1. Elimination of the Electric Utility Generating Equipment Property Tax Grants

The proposed fiscal 2005 budget eliminates funding for these grants contingent upon the enactment of legislation. These grants are provided to 11 jurisdictions to partially offset the revenue loss due to legislation enacted in 1999 that provided for a 50% property tax exemption for personal property used in generating electricity. Although there was an immediate loss in local personal property tax revenues as a result of the 50% exemption, the restructuring of the electric utility industry has impacted overall property tax revenues from electric utilities and non-utility generating facilities. As a result of the legislation, eight jurisdictions realized a \$36.4 million decrease in local property tax revenues from electric utilities and non-utility generating facilities in fiscal 2003 while three jurisdictions actually realized an increase in revenue. **Exhibit 7** shows the effect on local property tax revenues in fiscal 2003 resulting from the enactment of the utility restructuring legislation and the State utility grant.

The restructuring of the electric utility industry has facilitated the sale of generation plants which led to the revaluation of plants in certain counties. This has reduced the projected assessable base losses in Montgomery and Prince George's counties, while increasing assessments in Charles, Dorchester, and Garrett counties. For example, property tax revenues in Prince George's County were expected to decrease by \$8 million in fiscal 2003 due to the electric utility restructuring legislation. Instead, county revenues decreased by \$1.9 million which was more than offset by the \$7.7 million State utility grant. In Charles County, property tax revenues from electric utilities and non-utility generating facilities were expected to decrease by \$3.7 million in fiscal 2003; however, property tax revenues from these facilities actually increased by \$6.3 million.

On the other hand, in the counties where the electric generation plants remain part of the operating unit of the Baltimore Gas and Electric Company (BGE) for property tax purposes, the overall assessable base attributable to electric utilities and generating facilities has declined by more than was projected when the legislation was enacted. This has affected property tax revenues in Baltimore City and Anne Arundel, Baltimore, Calvert, and Harford counties. This decline is attributable to an overall decline in the value of BGE operating unit for property tax purposes. For example, property tax revenues in Anne Arundel County were expected to decrease by \$10.9 million in fiscal 2003 due to the electric utility restructuring legislation. Instead, county revenues decreased by \$12.4 million.

The reliance on the utility grant varies by jurisdiction. For example, the \$6.1 million grant in Calvert County is equivalent to the amount of revenue raised from a \$0.10 property tax rate; however, the \$2.8 million grant in Montgomery County is equivalent to the amount of revenue raised from a \$0.003 property tax rate. Eliminating the utility grant would have a larger impact on Anne Arundel, Calvert, Charles, and Prince George's counties than the other counties. Due to the reliance on the utility grants in certain jurisdictions and the overall reduction in State aid in fiscal 2005, the Department of Legislative Services does not recommend that the utility grants be eliminated completely this year. Instead, the department recommends that the utility grants be phased out over

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four years beginning in fiscal 2005. Eliminating the utility grant over several years would facilitate the reduction of the State's structural budget deficit, which is expected to total \$1.1 billion in fiscal 2006. As shown in **Exhibit 8**, local jurisdictions would receive 80% of their fiscal 2004 appropriation in fiscal 2005, 60% in fiscal 2006, 40% in fiscal 2007, and 20% in fiscal 2008. The grants would be eliminated in fiscal 2009.

Exhibit 7
Impact on Local Property Tax Revenues Resulting from
Electric Utility Restructuring Legislation

<u>County</u>	<u>Actual FY 03 Revenue Impact</u>	<u>Utility Grant</u>	<u>Property Tax Rate Equivalence</u>
Anne Arundel	-\$12,410,000	\$7,820,202	\$0.020
Baltimore City	-4,640,000	453,421	0.002
Baltimore	-3,690,000	1,794,835	0.004
Calvert	-10,330,000	6,096,574	0.099
Charles	6,270,000	2,522,612	0.030
Dorchester	100,000	187,442	0.011
Garrett	60,000	11,907	0.001
Harford	-1,880,000	860,767	0.006
Montgomery	-910,000	2,765,553	0.003
Prince George's	-1,880,000	7,744,806	0.018
Washington	-610,000	357,082	0.005
Total	-\$29,920,000	\$30,615,201	

Note: Revenue impact associated with change in real and personal property tax assessments in for electric utilities and non-utility generating facilities.

Source: Department of Legislative Services

Exhibit 8
Phase-out of the Electric Utility Generating Equipment Property Tax Grant

<u>County</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Anne Arundel	\$7,820,202	\$6,752,694	\$5,402,155	\$4,051,616	\$2,701,078	\$1,350,539	\$0
Baltimore City	453,421	340,066	272,053	204,040	136,026	68,013	0
Baltimore	1,794,835	1,346,126	1,076,901	807,676	538,450	269,225	0
Calvert	6,096,574	5,425,079	4,340,063	3,255,047	2,170,032	1,085,016	0
Charles	2,522,612	1,891,959	1,513,567	1,135,175	756,784	378,392	0
Dorchester	187,442	140,582	112,466	84,349	56,233	28,116	0
Garrett	11,907	8,930	7,144	5,358	3,572	1,786	0
Harford	860,767	645,575	516,460	387,345	258,230	129,115	0
Montgomery	2,765,553	2,074,165	1,659,332	1,244,499	829,666	414,833	0
Prince George's	7,744,806	7,308,604	5,846,883	4,385,162	2,923,442	1,461,721	0
Washington	357,082	267,812	214,250	160,687	107,125	53,562	0
Total	\$30,615,201	\$26,201,592	\$20,961,274	\$15,720,954	\$10,480,638	\$5,240,318	\$0
			80%	60%	40%	20%	0%
			Percent of FY 2004 Appropriation:				

2. Disparity Grant Funding Exceeds Statutory Amount

The proposed fiscal 2005 budget includes \$93.1 million for the disparity grant program, \$0.5 million above the statutorily required funding amount. The discretionary grant is to prevent Garrett County from receiving less State aid in fiscal 2005 than they received in the prior year. While on a statewide basis, State aid will increase by 7.7% in fiscal 2005, Garrett County will realize a \$59,000, or 0.2% increase. Absent the additional disparity grant funding, Garrett County would be the only jurisdiction with a net decrease in State aid in fiscal 2005. Due to its low wealth base, Garrett County already qualifies for disparity grant funding.

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce funds for the electric utility generating equipment property tax grant. This would represent the first year of the four-year proposal to phase out the grants by fiscal 2009. Counties would receive 80% of their prior year's appropriation in fiscal 2005. Phasing out the grant will require change to the statute governing the grant.	\$ 9,653,927 GF
Total General Fund Reductions	\$ 9,653,927

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$149,901	\$0	\$0	\$0	\$149,901
Deficiency Appropriation	415	0	0	0	415
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	-53	0	0	0	-53
Actual Expenditures	\$150,262	\$0	\$0	\$0	\$150,262
Fiscal 2004					
Legislative Appropriation	\$141,096	\$0	\$0	\$0	\$141,096
Cost Containment	-4,414	0	0	0	-4,414
Budget Amendments	0	0	0	0	0
Working Appropriation	\$136,683	\$0	\$0	\$0	\$136,683

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

**Object/Fund Difference Report
Payments to Civil Divisions of the State**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants,Subsidies,Contr	\$ 150,262,166	\$ 136,682,755	\$ 128,490,311	-\$ 8,192,444	-6.0%
Total Objects	\$ 150,262,166	\$ 136,682,755	\$ 128,490,311	-\$ 8,192,444	-6.0%
Funds					
01 General Fund	\$ 150,262,166	\$ 136,682,755	\$ 128,490,311	-\$ 8,192,444	-6.0%
Total Funds	\$ 150,262,166	\$ 136,682,755	\$ 128,490,311	-\$ 8,192,444	-6.0%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

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

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Disparity Grants	\$ 115,179,884	\$ 105,831,420	\$ 105,831,420	-8.1%	\$ 93,102,399	-12.0%
01 Security Interest Filing Fees	3,164,769	3,025,000	3,025,000	-4.4%	3,196,000	5.7%
01 Retirement Contribution - Certain Local Employees	1,302,312	1,624,743	1,624,743	24.8%	1,576,711	-3.0%
01 Electricity Generating Equipment Property Tax Gran	30,615,201	30,615,201	26,201,592	-14.4%	30,615,201	16.8%
Total Expenditures	\$ 150,262,166	\$ 141,096,364	\$ 136,682,755	-9.0%	\$ 128,490,311	-6.0%
General Fund	\$ 150,262,166	\$ 141,096,364	\$ 136,682,755	-9.0%	\$ 128,490,311	-6.0%
Total Appropriations	\$ 150,262,166	\$ 141,096,364	\$ 136,682,755	-9.0%	\$ 128,490,311	-6.0%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.