

A00
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>	% Change <u>Prior Year</u>
General Fund	\$128,246	\$132,036	\$145,034	\$12,998	9.8%
Total Funds	\$128,246	\$132,036	\$145,034	\$12,998	9.8%

- Payments to Civil Divisions account for 2.5% of total State aid to local governments and 14.6% of total State aid to counties and municipalities.
- The broadening of income disparities across Maryland results in the disparity grant program increasing by 13.3% in fiscal 2007. One jurisdiction (Wicomico County) became ineligible for disparity grants in fiscal 2007.
- Electric utility generating equipment property tax grants (electric utility grants) are fully funded in fiscal 2007.
- State paid retirement costs to certain locally paid officials and employees increase by 8.9%.
- Baltimore City's share of security interest filing fees is estimated to decline slightly.

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

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Analysis in Brief

Major Trends

Local Governments Receive Record Increases in State Aid: State aid to local governments is projected to increase by 12.4% in fiscal 2007, the largest annual increase in recent years. For comparison purposes, State aid increased by 11.5% in fiscal 2005 and 9.3% in fiscal 2006. Since fiscal 2002, State aid has increased at an average annual rate of 8.4%. State aid continues to be one of the largest and fastest growing components of the State budget. In fiscal 2007, State aid will account for 37.5% of general fund expenditures and 26.6% of State funded expenditures. The increase in State aid for fiscal 2007 is projected to exceed the rate of growth for most State programs. While total State aid to local governments is projected to increase by 12.4% and State education aid is projected to increase by 11.5%, the annual growth for entitlement programs and State agencies is projected to increase by 7.7% and 9.3%, respectively. Overall in the last five years, the State has provided local governments with almost \$2 billion in additional State aid, with public schools receiving an additional \$1.6 billion.

Issues

Governor’s Proposed Budget Exceeds Spending Target: For purposes of spending affordability, budgetary growth exceeds 10%, which is \$100.5 million above the 9.6% limit recommended by the Spending Affordability Committee. To comply with the spending limit recommended by the Spending Affordability Committee, the General Assembly will have to make reductions to the Governor’s fiscal 2007 budget allowance. Due to the record growth in State aid and the fact that State aid to local governments represents approximately 27% of State expenditures, local governments may be one area in which State expenditures could be reduced. **Accordingly, the Department of Legislative Services recommends that the State retain \$3.1 million of the electric utility grants in fiscal 2007, which reflects a 10% reduction. This one-time reduction to the electric utility grant will not require legislation and would be fully restored in fiscal 2008.**

Recommended Actions

	<u>Funds</u>
1. Add language allocating the proposed reduction to the electric utility generating equipment property tax grant among the grant recipients.	
2. Reduce funds for the electric utility generating equipment property tax grants.	\$ 3,061,520
Total Reductions	\$ 3,061,520

A00
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: disparity grants; grants to partially offset the cost of the property tax exemption for personal property used to generate electricity for sale; and a grant to Baltimore City equal to \$5 of each security interest-filing fee collected by the Motor Vehicle Administration (MVA). The State pays the employer retirement cost for certain local officials and employees; these costs are also budgeted under Payments to Civil Divisions.

Governor's Proposed Budget

Payments to Civil Divisions will total \$145.0 million in fiscal 2007, representing a \$13.0 million or 9.8% increase over the prior year. These payments account for approximately 2.5% of total State assistance to local governments and 14.6% of total State aid to counties and municipalities. Disparity grants account for the largest share of these payments, followed by the electric utility grants. Disparity grant funding will total \$109.5 million in fiscal 2007, a \$12.9 million, or 13.3% increase over the prior year. The electric utility grants are fully funded in fiscal 2007 at \$30.6 million. Baltimore City's share of security interest-filing fees is estimated at \$3.1 million in fiscal 2007, a \$25,000, or 0.8% decrease from the prior year. State paid retirement costs for locally paid officials and employees will total \$1.8 million in fiscal 2007, a \$151,000, or 8.9% increase. **Exhibit 1** shows the funding amounts for these programs in fiscal 2006 and 2007. **Exhibit 2** shows the funding amounts on a county by county basis.

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

How Much It Grows:	General Fund	Total
2006 Working Appropriation	\$132,036	\$132,036
2007 Governor's Allowance	<u>145,034</u>	<u>145,034</u>
Amount Change	\$12,998	\$12,998
Percent Change	9.8%	9.8%

Where It Goes:

Grants

Increase in Disparity Grants.....	\$12,872
Increase in retirement contributions for certain local officials	151
Decrease in estimated Baltimore City share of security interest-filing fees	-25
No change in Electric Utility Grants.....	0

Total **\$12,998**

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

Exhibit 2
State Funding for Payments to Civil Divisions in Fiscal 2007

<u>County</u>	<u>Disparity Grants</u>	<u>Electric Utility Grants</u>	<u>Retirement Payments</u>	<u>Security Interest Filing Fees</u>	<u>Total Aid FY 2007</u>	<u>Total Aid FY 2006</u>	<u>Difference</u>	<u>Percent Difference</u>
Allegany	\$7,345,436	\$0	\$10,854	\$0	\$7,356,290	\$6,108,928	\$1,247,362	20.4%
Anne Arundel	0	7,820,202	31,429	0	7,851,631	7,857,497	-5,866	-0.1%
Baltimore City	76,002,034	453,421	1,584,403	3,125,000	81,164,858	74,743,399	6,421,459	8.6%
Baltimore	0	1,794,835	17,055	0	1,811,890	1,808,801	3,089	0.2%
Calvert	0	6,096,574	0	0	6,096,574	6,096,574	0	0.0%
Caroline	1,838,418	0	9,667	0	1,848,085	1,897,293	-49,208	-2.6%
Carroll	0	0	36,765	0	36,765	43,260	-6,495	-15.0%
Cecil	0	0	11,951	0	11,951	9,786	2,165	22.1%
Charles	0	2,522,612	0	0	2,522,612	2,522,612	0	0.0%
Dorchester	1,493,893	187,442	12,357	0	1,693,692	2,230,347	-536,654	-24.1%
Frederick	0	0	0	0	0	0	0	n/a
Garrett	2,307,278	11,907	5,916	0	2,325,101	2,056,429	268,672	13.1%
Harford	0	860,767	0	0	860,767	860,767	0	0.0%
Howard	0	0	16,009	0	16,009	13,109	2,900	22.1%
Kent	0	0	3,801	0	3,801	3,112	689	22.1%
Montgomery	0	2,765,553	7,728	0	2,773,281	2,771,881	1,400	0.1%
Prince George's	15,962,593	7,744,806	47,465	0	23,754,864	17,557,562	6,197,302	35.3%
Queen Anne's	0	0	7,923	0	7,923	6,488	1,435	22.1%
St. Mary's	0	0	7,197	0	7,197	5,893	1,304	22.1%
Somerset	4,500,748	0	0	0	4,500,748	3,732,513	768,235	20.6%
Talbot	0	0	10,874	0	10,874	8,904	1,970	22.1%
Washington	0	357,082	0	0	357,082	357,082	0	0.0%
Wicomico	0	0	12,934	0	12,934	1,336,522	-1,323,588	-99.0%
Worcester	0	0	8,695	0	8,695	7,120	1,575	22.1%
Total	\$109,450,400	\$30,615,201	\$1,843,023	\$3,125,000	\$145,033,624	\$132,035,877	\$12,997,747	9.8%

Source: Department of Legislative Services

Disparity Grants

Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which is the third largest revenue source for counties after State aid and property taxes. 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. In fiscal 2007, Baltimore City and six counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, and Somerset) qualify for disparity grants.

The proposed fiscal 2007 budget includes \$109.5 million for disparity grants, a \$12.9 million increase from the prior year. The fiscal 2007 grant under the statute is based on population estimates for July 2004 and calendar 2004 local income tax revenues raised from a 2.54% local income tax rate. **Exhibit 3** shows the calculation of the fiscal 2007 disparity grant. The increase in disparity grant funding in fiscal 2007 is due to the broadening of the disparity in per capita income tax revenues between less affluent counties and other counties in Maryland. As shown in **Exhibit 4**, per capita income tax revenues increased by 7.5% in calendar 2004. Four disparity grant counties (Allegany, Garrett, Prince George's, and Somerset) had growth below the statewide average, while two disparity grant counties (Caroline and Dorchester) realized growth significantly above the statewide average. The increase in Baltimore City was slightly below the statewide average.

The broadening of income disparities can also be illustrated by comparing growth in net taxable income. Net taxable income increased by 8.4% statewide in tax year 2004, ranging from a 0.2% decrease in Somerset County to a 17.4% increase in Talbot County. Four of the seven disparity grant jurisdictions (Allegany, Garrett, Prince George's, and Somerset counties) had the lowest net taxable income growth for tax year 2004. Caroline and Dorchester counties realized above average growth in net taxable income and saw a decrease in disparity grant funding for fiscal 2007. Wicomico County, which qualified for disparity grants in fiscal 2006, had the third highest net taxable income growth in tax year 2004 and, thereby, became ineligible for funding in fiscal 2007. Net taxable income growth for Baltimore City was at the statewide average, thus the city realized moderate growth in its disparity grant funding in fiscal 2007.

Exhibit 3
Calculating the Fiscal 2007 Disparity Grant

<u>County</u>	<u>Population July 2004</u>	<u>Adjusted Income Tax Revenues TY 2004</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>FY 2007 Grant</u>	<u>FY 2006 Grant</u>	<u>Difference</u>	<u>Percent Difference</u>
Allegany	73,871	\$18,070,294	\$244.62	\$99.44	\$7,345,436	\$6,100,040	\$1,245,396	20.4%
Anne Arundel	508,572	270,434,530	531.75	0.00	0	0	0	
Baltimore City	636,251	142,903,677	224.60	119.45	76,002,034	69,695,420	6,306,614	9.0%
Baltimore	780,821	378,188,684	484.35	0.00	0	0	0	
Calvert	86,474	42,141,600	487.33	0.00	0	0	0	
Caroline	31,058	8,847,260	284.86	59.19	1,838,418	1,889,377	-50,959	-2.7%
Carroll	166,159	78,763,718	474.03	0.00	0	0	0	
Cecil	95,526	34,770,557	363.99	0.00	0	0	0	
Charles	135,807	58,109,381	427.88	0.00	0	0	0	
Dorchester	30,912	9,141,553	295.73	48.33	1,493,893	2,032,786	-538,892	-26.5%
Frederick	217,653	109,551,413	503.33	0.00	0	0	0	
Garrett	30,124	8,057,053	267.46	76.59	2,307,278	2,039,677	267,601	13.1%
Harford	235,594	108,853,837	462.04	0.00	0	0	0	
Howard	266,738	182,691,075	684.91	0.00	0	0	0	
Kent	19,582	7,487,586	382.37	0.00	0	0	0	
Montgomery	921,690	627,947,407	681.30	0.00	0	0	0	
Prince George's	842,967	274,064,913	325.12	18.94	15,962,593	9,762,389	6,200,204	63.5%
Queen Anne's	45,078	22,502,992	499.20	0.00	0	0	0	
St. Mary's	94,921	39,877,614	420.11	0.00	0	0	0	
Somerset	25,863	4,397,562	170.03	174.02	4,500,748	3,732,513	768,235	20.6%
Talbot	35,017	20,430,402	583.44	0.00	0	0	0	
Washington	139,624	49,301,356	353.10	0.00	0	0	0	
Wicomico	88,782	30,924,687	348.32	0.00	0	1,325,931	-1,325,931	-100.0%
Worcester	48,974	22,248,724	454.30	0.00	0	0	0	
Total	5,558,058	\$2,549,707,872	\$458.74	\$0.00	\$109,450,400	\$96,578,131	\$12,872,269	13.3%
		<i>Target (75%)</i>	<i>\$344.06</i>					

Source: Department Legislative Services

Exhibit 4
Disparity Grant Factors – Fiscal 2007 Calculation

<u>County</u>	<u>Adjusted Local Tax Revenues</u>			<u>Population</u>			<u>Per Capita Tax Revenues</u>		
	<u>TY 2003</u>	<u>TY 2004</u>	<u>% Chg.</u>	<u>July 2003</u>	<u>July 2004</u>	<u>% Chg.</u>	<u>TY 2003</u>	<u>TY 2004</u>	<u>% Chg.</u>
Allegany	\$17,475,682	\$18,070,294	3.4%	73,668	73,871	0.3%	\$237.22	\$244.62	3.1%
Anne Arundel	251,849,794	270,434,530	7.4%	506,620	508,572	0.4%	497.12	531.75	7.0%
Baltimore City	131,495,722	142,903,677	8.7%	628,670	636,251	1.2%	209.16	224.60	7.4%
Baltimore	350,646,670	378,188,684	7.9%	777,184	780,821	0.5%	451.18	484.35	7.4%
Calvert	38,728,722	42,141,600	8.8%	84,110	86,474	2.8%	460.45	487.33	5.8%
Caroline	7,986,965	8,847,260	10.8%	30,861	31,058	0.6%	258.80	284.86	10.1%
Carroll	72,261,896	78,763,718	9.0%	163,207	166,159	1.8%	442.76	474.03	7.1%
Cecil	31,815,626	34,770,557	9.3%	92,746	95,526	3.0%	343.04	363.99	6.1%
Charles	53,652,510	58,109,381	8.3%	133,049	135,807	2.1%	403.25	427.88	6.1%
Dorchester	7,763,870	9,141,553	17.7%	30,612	30,912	1.0%	253.62	295.73	16.6%
Frederick	100,402,441	109,551,413	9.1%	213,662	217,653	1.9%	469.91	503.33	7.1%
Garrett	7,576,804	8,057,053	6.3%	30,049	30,124	0.2%	252.15	267.46	6.1%
Harford	100,636,457	108,853,837	8.2%	232,175	235,594	1.5%	433.45	462.04	6.6%
Howard	165,637,491	182,691,075	10.3%	264,265	266,738	0.9%	626.79	684.91	9.3%
Kent	6,685,584	7,487,586	12.0%	19,680	19,582	-0.5%	339.71	382.37	12.6%
Montgomery	577,810,503	627,947,407	8.7%	918,881	921,690	0.3%	628.82	681.30	8.3%
Prince George's	258,649,067	274,064,913	6.0%	838,716	842,967	0.5%	308.39	325.12	5.4%
Queen Anne's	20,271,456	22,502,992	11.0%	44,108	45,078	2.2%	459.59	499.20	8.6%
St. Mary's	36,912,904	39,877,614	8.0%	92,754	94,921	2.3%	397.97	420.11	5.6%
Somerset	4,411,205	4,397,562	-0.3%	25,447	25,863	1.6%	173.35	170.03	-1.9%
Talbot	17,365,458	20,430,402	17.6%	34,670	35,017	1.0%	500.88	583.44	16.5%
Washington	44,560,371	49,301,356	10.6%	136,796	139,624	2.1%	325.74	353.10	8.4%
Wicomico	26,636,396	30,924,687	16.1%	87,375	88,782	1.6%	304.85	348.32	14.3%
Worcester	19,429,854	22,248,724	14.5%	49,604	48,974	-1.3%	391.70	454.30	16.0%
Total	\$2,350,663,448	\$2,549,707,872	8.5%	5,508,909	5,558,058	0.9%	\$426.70	\$458.74	7.5%

Source: Department Legislative Services

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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. Wicomico County became ineligible for the program in fiscal 2007.

Electric Utility Grants

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 eliminated funding for the grant contingent upon the enactment of legislation; however, the General Assembly rejected the Governor's proposal and fully funded the grants for that year. The fiscal 2006 proposed budget as introduced by the Governor included a \$30.6 million reduction to the grants contingent upon the enactment of legislation. Once again, the General Assembly rejected the Governor's proposal and fully funded the grants in fiscal 2006. The Governor's proposed State budget fully funds the grants in fiscal 2007. **Exhibit 5** shows the allocation of the grants for fiscal 2004 through 2007. The Town of Williamsport will receive 35% of Washington County's allocation.

**Exhibit 5
Electric Utility Generating Equipment Property Tax Grants**

<u>County</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Anne Arundel	\$6,752,694	\$7,820,202	\$7,820,202	\$7,820,202
Baltimore City	340,066	453,421	453,421	453,421
Baltimore	1,346,126	1,794,835	1,794,835	1,794,835
Calvert	5,425,079	6,096,574	6,096,574	6,096,574
Charles	1,891,959	2,522,612	2,522,612	2,522,612
Dorchester	140,582	187,442	187,442	187,442
Garrett	8,930	11,907	11,907	11,907
Harford	645,575	860,767	860,767	860,767
Montgomery	2,074,165	2,765,553	2,765,553	2,765,553
Prince George's	7,308,604	7,744,806	7,744,806	7,744,806
Washington	267,812	357,082	357,082	357,082
Total	\$26,201,592	\$30,615,201	\$30,615,201	\$30,615,201

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 2007 budget includes \$3.1 million for Baltimore City, a \$25,000 decrease from the working appropriation for fiscal 2006.

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 Baltimore City Sheriff's Office 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 2007 budget includes \$1.8 million for employer retirement costs associated with these locally paid officials and employees. The amount is based on the June 30, 2005, salary base for these employees increased by 5%. No growth factor is applied to the salary base for judges. **Exhibit 6** 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 7** shows the employer contributions allocated on a county-by-county basis in fiscal 2007. Baltimore City accounts for 76% of the individuals eligible to receive State paid retirements benefits under this program.

Exhibit 6
Computations of Retirement Costs in Fiscal 2007

<u>Retirement System</u>	<u>Salary Base June 30, 2005</u>	<u>Increased by 5%</u>	<u>Contribution Rate</u>	<u>Total Cost</u>
Employees Retirement/Pension	\$5,697,396	\$5,982,266	6.83%	\$408,589
Law Enforcement Officers Retirement/Pension	3,025,382	3,176,651	40.6%	1,289,720
Orphans' Court Judges ¹	341,065	341,065	42.43%	144,714
Total				\$1,843,023

¹ Fiscal 2005 amount for Orphans' Court Judges is not increased by 5%.

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

Source: State Retirement Agency

Exhibit 7
State Paid Retirement Costs for Locally Paid Officials and Employees
Fiscal 2007

<u>County</u>	<u>Number of Individuals</u>	<u>Percent of Total</u>	<u>Allocation of State Aid</u>	<u>Type of Position</u>
Allegany	2	0.9%	\$10,854	Sheriff, State's Attorney
Anne Arundel	2	0.9%	31,429	Sheriff, Master Judge
Baltimore City	172	76.4%	1,584,403	Sheriff Deputies (164), Master Judges (8)
Baltimore	3	1.3%	17,055	Sheriff, State's Attorney, Master Judge
Calvert	0	0.0%	0	None
Caroline	2	0.9%	9,667	State's Attorney, County Treasurer
Carroll	5	2.2%	36,765	State's Attorney, Orphan's Ct. Judges (3), Master Judge
Cecil	2	0.9%	11,951	State's Attorney, County Treasurer
Charles	0	0.0%	0	None
Dorchester	3	1.3%	12,357	Sheriff, State's Attorney, County Treasurer
Frederick	0	0.0%	0	None
Garrett	4	1.8%	5,916	State's Attorney, License & Liquor Board (2), County Commissioner
Harford	0	0.0%	0	None
Howard	3	1.3%	16,009	State's Attorney, Orphan's Ct. Judge, Master Judge
Kent	1	0.4%	3,801	County Treasurer
Montgomery	1	0.4%	7,728	Sheriff
Prince George's	5	2.2%	47,465	State's Attorney, Master Judges (4)
Queen Anne's	4	1.8%	7,923	State's Attorney, Orphan's Ct. Judges (3)
St. Mary's	1	0.4%	7,197	State's Attorney
Somerset	0	0.0%	0	None
Talbot	2	0.9%	10,874	Sheriff, State's Attorney
Washington	0	0.0%	0	None
Wicomico	2	0.9%	12,934	Sheriff, State's Attorney
Worcester	11	4.9%	8,695	State's Attorney, Orphan's Ct. Judges (2), Misc. Boards (8)
Total	225	100.0%	\$1,843,023	

Source: Department of Budget and Management

Issues

1. Governor’s Proposed Budget Exceeds Spending Target

The Spending Affordability Committee (SAC) met on February 1, 2006, and revised its recommended spending limit applicable in the 2006 session. In recognition of the upward adjustments in the official revenue estimates for fiscal 2006 and 2007, which in combination are \$292 million higher than previously forecasted, SAC increased the spending limit from 8.9 to 9.6%. Even with this adjustment, the Governor’s proposed budget exceeds the SAC limit by \$100.5 million. For purposes of spending affordability, growth in the Governor’s fiscal 2007 budget totals 10.2%. To comply with the SAC limit, the budget committees will have to identify potential savings throughout the Governor’s proposed budget.

Local Government Revenues Remain Strong

State aid to local governments continues to be one of the largest and fastest growing components of the State budget. Local governments have benefited from continual increases in State funding, with State aid increasing at an average annual rate of 8.4% since fiscal 2002. In fiscal 2007, State aid is projected to increase by 12.4%, the largest increase in recent times. These increases have provided local governments with almost \$2 billion in new funding over the last five years (fiscal 2003 to 2007), with public schools receiving an additional \$1.6 billion.

During this same time period, the growth in the county assessable base has soared. The average annual growth statewide has increased from 5.4% in fiscal 2003 to 13.1% in fiscal 2006. According to projections by the State Department of Assessments and Taxation, growth in the county assessable base should remain strong in the near future. The average annual growth statewide is projected to reach 15.4% in fiscal 2007 and 13.5% in fiscal 2008. Local governments have also benefited from the recent rise in net taxable income. After two years of declining income levels (2001 and 2002), net taxable income began to increase; 4.1% in tax year 2003 and 8.4% in tax year 2004. The simultaneous rise in county assessable base and net taxable income will generate considerable new revenues for local governments, with receipts from both property and local income taxes increasing.

Reduce Funding for Electric Utility Grants

Due to the anticipated strong growth in local revenues, the Department of Legislative Services (DLS) recommends that the electric utility grants be reduced by 10% in fiscal 2007 only. This reduction will decrease State expenditures by almost \$3.1 million and will assist the budget committees in reaching the spending affordability limit. Since this reduction is for one year only, no changes to the statute governing the grants are needed. DLS recommends that the reduction be allocated based on each county’s share of the total grant amount adjusted for growth in each county’s assessable base since fiscal 2001. **Exhibit 8** shows the reduction allocation on a county-by-county basis.

**Exhibit 8
Proposal to Reduce Electric Utility Grants**

<u>County</u>	<u>Assessable Base Growth FY 2001 – 2006</u>	<u>Current Law FY 2007</u>	<u>Proposal FY 2007</u>	<u>State Aid Reduction</u>	<u>Percent Decrease</u>
Anne Arundel	55.3%	\$7,820,202	\$6,851,419	-\$968,783	-12.4%
Baltimore City	24.5%	453,421	428,524	-24,897	-5.5%
Baltimore	28.5%	1,794,835	1,680,471	-114,364	-6.4%
Calvert	43.4%	6,096,574	5,503,974	-592,600	-9.7%
Charles	49.2%	2,522,612	2,244,412	-278,200	-11.0%
Dorchester	41.9%	187,442	169,846	-17,596	-9.4%
Garrett	51.7%	11,907	10,529	-1,378	-11.6%
Harford	41.7%	860,767	780,305	-80,462	-9.3%
Montgomery	57.9%	2,765,553	2,406,856	-358,697	-13.0%
Prince George's	34.3%	7,744,806	7,149,757	-595,049	-7.7%
Washington	36.9%	357,082	327,588	-29,494	-8.3%
Total	44.1%	\$30,615,201	\$27,553,681	-\$3,061,520	-10.0%

Source: Department of Legislative Services

For the 11 jurisdictions receiving the electric utility grants, the total county assessable base growth over the last five years (fiscal 2001 to 2006) has averaged 44.1%, ranging from 24.5% in Baltimore City to 57.9% in Montgomery County. Incorporating assessable base growth into the distribution formula recognizes the disparities in local fiscal capacities. If the reduction was based proportionally, each jurisdiction would realize a 10% decrease. By incorporating assessable base growth, the percent decrease in grant funding ranges from 5.5% in Baltimore City to 13.0% in Montgomery County.

Recommended Actions

1. Add the following language:

, provided that the \$3,061,250 reduction shall be allocated to the following jurisdictions in the following amounts:

<u>Jurisdiction</u>	<u>Reduction Amount</u>
<u>Anne Arundel County</u>	<u>\$968,783</u>
<u>Baltimore City</u>	<u>\$24,897</u>
<u>Baltimore County</u>	<u>\$114,364</u>
<u>Calvert County</u>	<u>\$592,600</u>
<u>Charles County</u>	<u>\$278,200</u>
<u>Dorchester County</u>	<u>\$17,596</u>
<u>Garrett County</u>	<u>\$1,378</u>
<u>Harford County</u>	<u>\$80,462</u>
<u>Montgomery County</u>	<u>\$358,697</u>
<u>Prince George’s County</u>	<u>\$595,049</u>
<u>Washington County</u>	<u>\$29,494</u>

Explanation: The language allocates the reduction to the counties based partially on assessable base growth over the last five years, with counties experiencing higher growth incurring a larger reduction.

	<u>Amount</u>	
	<u>Reduction</u>	
2. Reduce funds for the electric utility generating equipment property tax grants by 10 percent in fiscal 2007 only. The reduction would be partially based on assessable base growth over the last five years, with counties experiencing higher growth incurring a larger reduction. The one-time reduction will not require changes to the statute governing the grant.	\$ 3,061,520	GF
Total General Fund Reductions	\$ 3,061,520	

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 2005					
Legislative Appropriation	\$128,490	\$0	\$0	\$0	\$128,490
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	-244	0	0	0	-244
Actual Expenditures	\$128,246	\$0	\$0	\$0	\$128,246
Fiscal 2006					
Legislative Appropriation	\$132,036	\$0	\$0	\$0	\$132,036
Budget Amendments	0	0	0	0	0
Working Appropriation	\$132,036	\$0	\$0	\$0	\$132,036

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>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%
Total Objects	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%
Funds					
01 General Fund	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%
Total Funds	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%

Fiscal Summary
Payments to Civil Divisions of the State

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
5O Disparity Grants	\$93,102,399	\$96,578,133	\$109,450,400	\$12,872,267	13.3%
8R Security Interest Filing Fees	2,951,793	3,150,000	3,125,000	-25,000	-0.8%
9S State Paid Retirement Costs	1,576,711	1,692,545	1,843,023	150,478	8.9%
0T Electric Utility Property Tax Grants	30,615,201	30,615,201	30,615,201	0	0%
Total Expenditures	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%
General Fund	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%
Total Appropriations	\$128,246,104	\$132,035,879	\$145,033,624	\$12,997,745	9.8%