

A00
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 10</u> <u>Actual</u>	<u>FY 11</u> <u>Working</u>	<u>FY 12</u> <u>Allowance</u>	<u>FY 11-12</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$124,011	\$121,436	\$110,927	-\$10,509	-8.7%
Contingent & Back of Bill Reductions	0	0	0	0	
Adjusted General Fund	\$124,011	\$121,436	\$110,927	-\$10,509	-8.7%
Adjusted Grand Total	\$124,011	\$121,436	\$110,927	-\$10,509	-8.7%

- The fiscal 2012 allowance decreases by \$10.5 million for disparity grants. This only affects Prince George's County, which lost less income wealth per capita than the statewide income wealth per capita. As a result, its wealth per capita increased from 70.1% of the State average to 72.1% of the State average.
- A mandated \$3.1 million grant to Baltimore City is not funded in fiscal 2012. The grant was cut from the budget in fiscal 2011 during legislative consideration, and a provision in budget reconciliation legislation permits the Governor to level fund certain mandated programs in fiscal 2012.

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

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Analysis in Brief

Recommended Actions

1. Concur with Governor's allowance.

Updates

Disparity Grant Calculation Modified: Budget reconciliation legislation passed at the 2010 session modified the wealth component of the disparity grant to include net taxable income data from November 1 instead of August 15. This updates the formula to conform with Internal Revenue Service regulations that were adopted in 2006 to give filers a six-month extension to submit their federal tax returns. Previously, the extension had been for four months.

A00
Payments to Civil Divisions of the State

Operating Budget Analysis

Program Description

State grant programs which provide funds to Maryland's counties are budgeted under Payments to Civil Divisions of the State. This includes disparity grants to low-wealth jurisdictions and a special grant to Baltimore City.

Proposed Budget

The Governor's allowance for Payments to Civil Divisions of the State will total \$110.9 million in fiscal 2012, which is a \$10.5 million decrease (-8.7%) below the fiscal 2011 working appropriation. The allowance is comprised only of disparity grants. A mandated special grant to Baltimore City is not funded in the allowance, per mandate relief adopted at the 2010 session. **Exhibit 1** illustrates the year-over-year change in funding between fiscal 2011 and 2012 for this budget.

Impact of Cost Containment

Section 32 of Chapter 484 of 2010 (the Budget Reconciliation and Financing Act (BRFA) of 2010) authorized the Governor to fund certain fiscal 2012 mandated appropriations at the fiscal 2011 level. At the 2010 session, the mandated grant to Baltimore City was cut from the budget during legislative consideration. The Governor has chosen to exercise the option under Section 32 to level-fund the program in fiscal 2012 as a cost containment measure.

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

How Much It Grows:	General Fund	Total
2011 Working Appropriation	\$121,436	\$121,436
2012 Allowance	<u>110,927</u>	<u>110,927</u>
Amount Change	-\$10,509	-\$10,509
Percent Change	-8.7%	-8.7%
 Contingent Reductions	 \$0	 \$0
Adjusted Change	-\$10,509	-\$10,509
Adjusted Percent Change	-8.7%	-8.7%

Where It Goes:

Grants

 Decrease in Disparity Grants -\$10,509

Total **-\$10,509**

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

Disparity Grants

The disparity grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. The program reflects the State's policy to improve fiscal equity among jurisdictions by making less affluent jurisdictions less dependent on their own tax base to fund public services. 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 2.4% or did not receive grant funding in fiscal 2010 making it subject to the cap restriction adopted at the 2009 session. Aid received by a county 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 from the State in fiscal 2010. In fiscal 2012, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) qualify for grants.

Funding History

State funding targeted to the disparity in local income tax capacity is found in Article 25, Section 9-1101. It was authorized and modified by the following legislation since its inception in 1991:

- **Chapter 525 of 1991:** This bill repealed the sales and use tax exemption for cigarettes and dedicated the revenue to the six jurisdictions whose local income tax was below 67% of the statewide average. Baltimore City and five counties (Allegany, Caroline, Dorchester, Garrett, and Somerset) qualified for the grants, which totaled \$8.5 million in fiscal 1992.
- **Chapter 2 of the First Special Session of 1992:** The program was repealed and reenacted, establishing a mandated annual grant to counties where per capita local income tax revenues were less than 70% of the statewide average.
- **Chapter 173 of 1996:** This Act enhanced the program to provide disparity grants to jurisdictions where per capita local income tax revenues were less than 75% of the statewide average, rather than 70%. It became effective in fiscal 1998, and the result of this change was that Washington and Wicomico counties became eligible to receive disparity grants. In fiscal 2001, Prince George's County became eligible for the program.
- **Chapter 487 of 2009:** The BRFA of 2009 capped the amount that any jurisdiction may receive under the grant program to the amount received in fiscal 2010. While this approach maintains the functionality of the formulas, it does serve to constrain growth for counties that otherwise would have seen an increase in grant amounts as well as prohibiting grants to any new jurisdiction that qualifies for funding in fiscal 2011 or beyond.

- **Chapter 484 of 2010:** The BRFA of 2010 modified the date by which reported tax revenue is used, from August 15 to November 1. This conforms to a 2006 change by the Internal Revenue Service (IRS) which allows filers requesting exemptions to receive a single six-month extension to October 15. Under the former formula based on August 15 net taxable income (NTI), the uncapped disparity grant program would have totaled \$94.3 million. This is \$32.2 million lower than the uncapped grant using November NTI. The capped grant would have been \$89.2 million; \$21.7 million lower than the allowance.

Funding in Fiscal 2012

Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George’s, Somerset, and Wicomico) qualified for disparity grant funding in fiscal 2010 and continue to qualify in fiscal 2012. State funding under current law totals \$121.4 million in fiscal 2011 and \$110.9 million in fiscal 2012. This represents a \$10.5 million decrease below the current year. The fiscal 2012 grant under statute is based on population estimates for July 2009 and calendar 2009 local income tax revenues raised from a 2.54% local income tax rate. A county may not receive this grant if the tax rate in that county is less than 2.4%. A jurisdiction may not receive funding above the level that it received in fiscal 2010, nor may any new jurisdiction qualify for funding if it did not receive a grant in fiscal 2010.

The following discussion focuses on the effect of the cap on eligible jurisdictions that did not previously receive grant funding in fiscal 2010, as well as the effect of the recession and population changes for existing grant recipient jurisdictions.

- **Effect of the Cap on Eligible Jurisdictions:** The restriction on funding for jurisdictions that did not receive any grants in fiscal 2010 affects three counties that would have been eligible for a grant in fiscal 2012. This includes Cecil, Kent, and Washington counties. **Exhibit 2** shows the grant amounts that each county would have been eligible to receive in fiscal 2012 if the cap were not in effect.

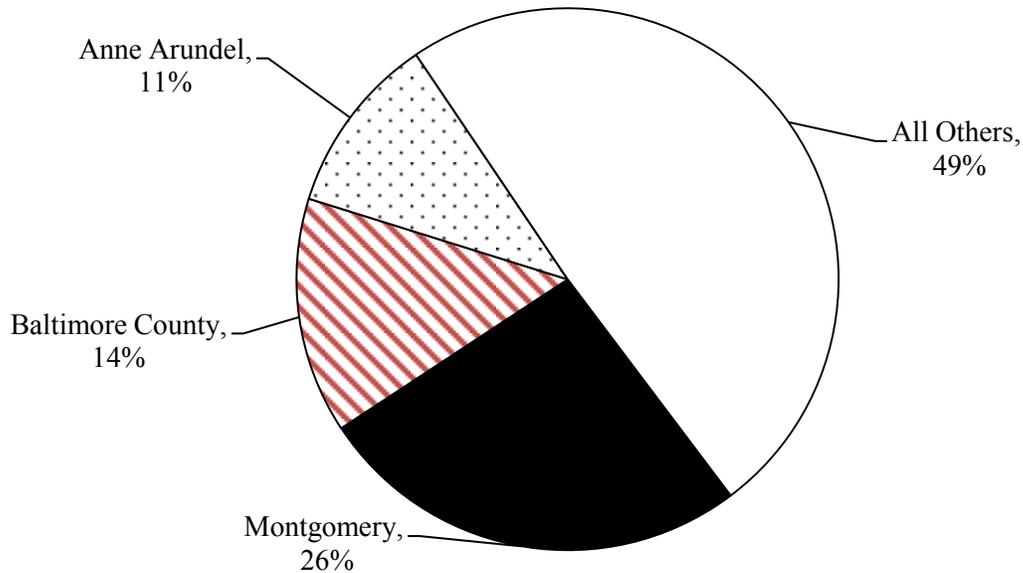
Exhibit 2 Fiscal 2012 Disparity Grant Eligible Counties Subject to the Cap

<u>County</u>	<u>Foregone Grant Amount</u>
Cecil	\$183,880
Kent	264,661
Washington	5,172,730
Total	\$5,621,271

Source: Department of Legislative Services

- **Effect of Population and Wealth Changes:** The effects of the recession on the income tax base, as well as population changes, affects one jurisdiction that receives disparity grants. Average per capita income taxes fell from \$563 to \$528, a reduction of 6.1%. As seen in **Exhibit 3**, Anne Arundel, Baltimore, and Montgomery counties represent 51.0% of the entire local income tax base, with Montgomery County accounting for 26.0% of the base.

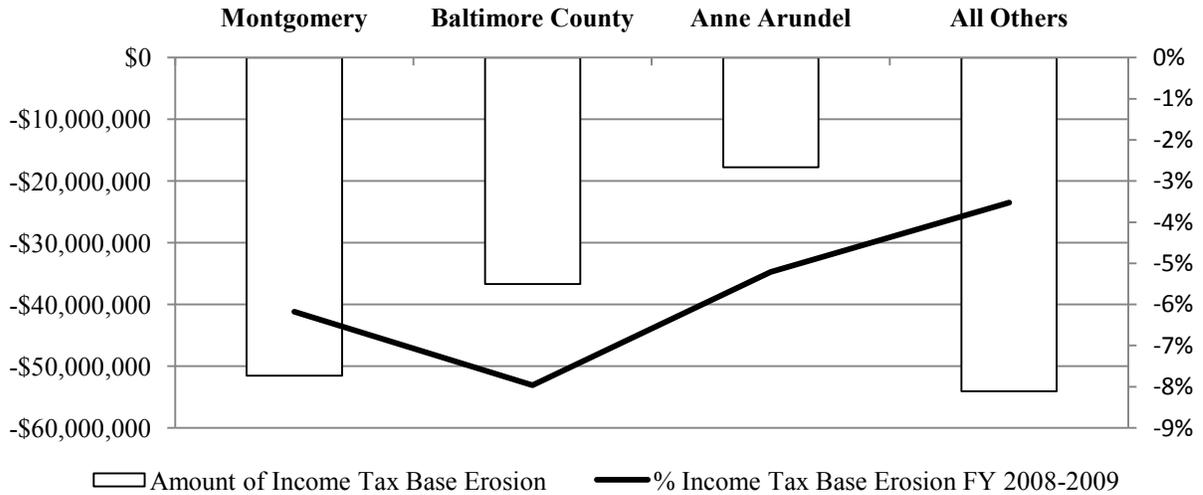
Exhibit 3
Distribution of the Local Income Tax Base
Tax Year 2009



Source: Department of Legislative Services

In total, the adjusted income tax revenues decreased by \$160.1 million between tax year 2008 and 2009. Of this amount, Anne Arundel, Baltimore, and Montgomery counties account for \$106.0 million of the total decrease, or about two-thirds of the loss. The remaining 21 jurisdictions experienced the remaining \$54.0 million decline in adjusted income tax revenues. **Exhibit 4** illustrates the tax base lost by the three jurisdictions relative to the rest of the State. When the tax base for the wealthier counties shrinks, it would be expected that the statewide wealth disparity would shrink. However, as **Exhibit 5** shows, in most instances, the wealth base for disparity grant recipient jurisdictions eroded more than the statewide average. The only exceptions include Allegany County which saw a 5% decrease in adjusted income tax per capita, and Prince George’s County which experienced a 3% decrease.

Exhibit 4
Effect of Tax Base Erosion in Selected Jurisdictions
Tax Year 2009 Relative to Tax Year 2008



Source: Department of Legislative Services

Exhibit 5
Disparity Grant
Change in Adjusted Tax Yield by Grant Recipient

<u>County</u>	<u>Per Capita Tax Yield Tax Year 2008</u>	<u>Per Capita Tax Yield Tax Year 2009</u>	<u>\$ Change 2008-2009</u>	<u>% Change 2008-2009</u>
Allegany	\$304	\$288	-\$17	-5%
Baltimore City	294	270	-24	-8%
Caroline	314	290	-23	-7%
Dorchester	319	288	-31	-10%
Garrett	339	308	-31	-9%
Prince George's	394	383	-11	-3%
Somerset	204	185	-19	-9%
Wicomico	359	329	-30	-8%
State Average	\$563	\$528	-\$35	-6%

Source: Department of Legislative Services

Exhibit 6 demonstrates that as a result of the changes in income wealth and population, six of the eight grant recipient jurisdictions experienced an erosion of per capita income wealth relative to the statewide average. Allegany County remained at 54% of the average, and Prince George’s County improved its wealth position by two percentage points. This explains why the Prince George’s County share of the disparity grant falls by \$10.5 million in fiscal 2012.

Exhibit 6
Disparity Grant Recipient
Change in Adjusted Tax Per Capita Relative to the Statewide Average
Percent of Average

<u>County</u>	<u>Tax Year</u> <u>2008</u>	<u>Tax Year</u> <u>2009</u>	<u>Change</u>
Allegany	54%	54%	0.4%
Baltimore City	52%	51%	-1.1%
Caroline	56%	55%	-0.7%
Dorchester	57%	54%	-2.2%
Garrett	60%	58%	-1.9%
Prince George’s	70%	72%	2.5%
Somerset	36%	35%	-1.3%
Wicomico	64%	62%	-1.6%

Source: Department of Legislative Services

Exhibit 7 shows the calculation of the fiscal 2012 disparity grant, including the effect of the cap and the change in the grant amount due to the economic downturn’s erosion of the local income tax base. The year-over-year changes in each of the individual components that affect the disparity grant formula can be found in the appendices. **Appendix 2** contains population data, **Appendix 3** contains adjusted income tax wealth data, and **Appendix 4** provides income tax wealth per capita.

Exhibit 7
Disparity Grant Calculation – Fiscal 2012

County	Population July 2009	Tax Year 2009		Per Capita Grant	Fiscal 2010 Grant (Cap)	Total Grant	Grant with Cap	Difference	Effect of Cap
		Adjusted Income Tax Revenues	Per Capita Tax Yield						
Allegany	72,532	\$20,875,330	\$287.81	\$108.50	\$7,298,505	\$7,869,912	\$7,298,505	\$0	-\$571,407
Anne Arundel	521,209	323,554,849	620.78	0.00	0	0	0	0	0
Baltimore City	637,418	172,305,192	270.32	125.99	79,051,790	80,310,680	79,051,790	0	-1,258,890
Baltimore	789,814	423,948,390	536.77	0.00	0	0	0	0	0
Calvert	89,212	50,496,344	566.03	0.00	0	0	0	0	0
Caroline	33,367	9,693,034	290.50	105.81	2,131,782	3,530,681	2,131,782	0	-1,398,899
Carroll	170,089	89,793,425	527.92	0.00	0	0	0	0	0
Cecil	100,796	39,762,700	394.49	1.82	0	183,880	0	0	-183,880
Charles	142,226	70,125,219	493.05	0.00	0	0	0	0	0
Dorchester	32,043	9,219,503	287.72	108.59	2,022,690	3,479,495	2,022,690	0	-1,456,805
Frederick	227,980	127,132,187	557.65	0.00	0	0	0	0	0
Garrett	29,555	9,101,463	307.95	88.36	2,131,271	2,611,514	2,131,271	0	-480,243
Harford	242,514	125,189,147	516.21	0.00	0	0	0	0	0
Howard	281,884	220,864,467	783.53	0.00	0	0	0	0	0
Kent	20,247	7,759,451	383.24	13.07	0	264,661	0	0	-264,661
Montgomery	971,600	783,509,396	806.41	0.00	0	0	0	0	0
Prince George's	834,560	319,559,534	382.91	13.40	21,694,767	11,185,914	11,185,914	-10,508,853	0
Queen Anne's	47,958	25,204,435	525.55	0.00	0	0	0	0	0
St. Mary's	102,999	52,160,783	506.42	0.00	0	0	0	0	0
Somerset	25,959	4,798,053	184.83	211.48	4,908,167	5,489,788	4,908,167	0	-581,621
Talbot	36,262	22,367,258	616.82	0.00	0	0	0	0	0
Washington	145,910	52,653,032	360.86	35.45	0	5,172,730	0	0	-5,172,730
Wicomico	94,222	30,981,605	328.81	67.50	2,197,041	6,359,626	2,197,041	0	-4,162,585
Worcester	49,122	20,634,249	420.06	0.00	0	0	0	0	0
Total	5,699,478	\$3,011,689,045	\$528.41	\$0.00	\$121,436,013	\$126,458,882	\$110,927,160	-\$10,508,853	-\$15,531,722
		<i>Target (75%)</i>	<i>\$396.31</i>						

Note: Numbers may not sum to total due to rounding.
Source: Department of Legislative Services

Baltimore City Grant

Article 24 Section 9-1104 mandates that the Governor include in the allowance an annual general fund grant of \$3,075,000 for Baltimore City. Chapter 6 of the 2007 special session established this grant to replace a program that provided a share of motor vehicle security interest filing fee revenue and allocated all of the security interest filing fee revenue to the Transportation Trust Fund as part of a larger plan to boost transportation revenues. Previously, Baltimore City had received a grant equal to \$5 of each security interest filing fee collected by the Motor Vehicle Administration pursuant to Chapter 163 of 1996, which revised the allocation of highway user revenues between Baltimore City and the other 23 subdivisions.

In the fiscal 2011 legislative appropriation, no funding was provided for the grant. The Governor did not include any funding in the allowance based on provisions in the BRFA of 2010 which allowed mandated programs to be level-funded in fiscal 2012.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Disparity Grant Calculation Modified

Chapter 484 of 2010 (the BFRA of 2010) modified the calculation of the disparity grant to use NTI data from November 1 instead of using data from August 15. Prior to 2006, federal taxpayers could file for a four-month extension from the April 15 due date. Many state formulas which have a wealth component, included NTI as of August 15 in order to capture the most accurate income tax information. However, with the change in regulations by the IRS, taxpayers may now receive a six-month extension until October 15 of each year.

As previously shown in Exhibit 7, absent the cap which limits the disparity grant to the amounts provided by jurisdiction in fiscal 2010, the overall program would have distributed \$126.5 million in fiscal 2012. Instead, a total of \$110.9 is provided in the allowance.

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 2010					
Legislative Appropriation	\$124,011	\$0	\$0	\$0	\$124,011
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$124,011	\$0	\$0	\$0	\$124,011
Fiscal 2011					
Legislative Appropriation	\$121,436	\$0	\$0	\$0	\$121,436
Budget Amendments	0	0	0	0	0
Working Appropriation	\$121,436	\$0	\$0	\$0	\$121,436

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

**Disparity Grant Calculation
Change in Population by Jurisdiction**

<u>County</u>	<u>Population July 2008</u>	<u>Population July 2009</u>	<u>Change 2008-2009</u>	<u>% Change 2008-2009</u>
Allegany	72,238	72,532	294	0.4%
Anne Arundel	512,790	521,209	8,419	1.6%
Baltimore City	636,919	637,418	499	0.1%
Baltimore	785,618	789,814	4,196	0.5%
Calvert	88,698	89,212	514	0.6%
Caroline	33,138	33,367	229	0.7%
Carroll	169,353	170,089	736	0.4%
Cecil	99,926	100,796	870	0.9%
Charles	140,764	142,226	1,462	1.0%
Dorchester	31,998	32,043	45	0.1%
Frederick	225,721	227,980	2,259	1.0%
Garrett	29,698	29,555	-143	-0.5%
Harford	240,351	242,514	2,163	0.9%
Howard	274,995	281,884	6,889	2.5%
Kent	20,151	20,247	96	0.5%
Montgomery	950,680	971,600	20,920	2.2%
Prince George's	820,852	834,560	13,708	1.7%
Queen Anne's	47,091	47,958	867	1.8%
St. Mary's	101,578	102,999	1,421	1.4%
Somerset	26,119	25,959	-160	-0.6%
Talbot	36,215	36,262	47	0.1%
Washington	145,384	145,910	526	0.4%
Wicomico	94,046	94,222	176	0.2%
Worcester	49,274	49,122	-152	-0.3%
Total	5,633,597	5,699,478	65,881	1.2%

Note: Shading indicates disparity grant recipients.

Source: Department of Budget and Management

Disparity Grant Calculation
Change in Adjusted Income Tax Revenues¹

<u>County</u>	<u>Adjusted Income Tax Revenues Tax Year 2008</u>	<u>Adjusted Income Tax Revenues Tax Year 2009</u>	<u>\$ Change 2008-2009</u>	<u>% Change 2008-2009</u>
Allegany	\$21,993,246	\$20,875,330	-\$1,117,916	-5.1%
Anne Arundel	341,351,629	323,554,849	-17,796,780	-5.2%
Baltimore City	187,496,383	172,305,192	-15,191,191	-8.1%
Baltimore	460,637,508	423,948,390	-36,689,118	-8.0%
Calvert	50,354,522	50,496,344	141,821	0.3%
Caroline	10,393,850	9,693,034	-700,816	-6.7%
Carroll	91,917,810	89,793,425	-2,124,386	-2.3%
Cecil	42,929,423	39,762,700	-3,166,723	-7.4%
Charles	70,612,219	70,125,219	-487,000	-0.7%
Dorchester	10,202,083	9,219,503	-982,580	-9.6%
Frederick	131,743,208	127,132,187	-4,611,021	-3.5%
Garrett	10,066,506	9,101,463	-965,043	-9.6%
Harford	129,599,484	125,189,147	-4,410,338	-3.4%
Howard	223,852,857	220,864,467	-2,988,391	-1.3%
Kent	8,772,601	7,759,451	-1,013,150	-11.5%
Montgomery	835,062,324	783,509,396	-51,552,928	-6.2%
Prince George's	323,191,374	319,559,534	-3,631,840	-1.1%
Queen Anne's	27,194,204	25,204,435	-1,989,769	-7.3%
St. Mary's	49,739,624	52,160,783	2,421,159	4.9%
Somerset	5,331,095	4,798,053	-533,042	-10.0%
Talbot	25,344,161	22,367,258	-2,976,903	-11.7%
Washington	57,087,837	52,653,032	-4,434,805	-7.8%
Wicomico	33,780,746	30,981,605	-2,799,142	-8.3%
Worcester	23,119,087	20,634,249	-2,484,838	-10.7%
Total	\$3,171,773,784	\$3,011,689,045	-\$160,084,738	-5.0%

¹ Per the Disparity Grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Shading indicates disparity grant recipients.

Source: Department of Budget and Management

Disparity Grant Calculation
Change in Adjusted Income Tax Revenue Per Capita¹

<u>County</u>	<u>Per Capita Tax Yield Tax Year 2008</u>	<u>Per Capita Tax Yield Tax Year 2009</u>	<u>\$ Change 2008-2009</u>	<u>% Change 2008-2009</u>
Allegany	\$304.46	\$287.81	-\$17	-5.5%
Anne Arundel	665.68	620.78	-45	-6.7%
Baltimore City	294.38	270.32	-24	-8.2%
Baltimore	586.34	536.77	-50	-8.5%
Calvert	567.71	566.03	-2	-0.3%
Caroline	313.65	290.50	-23	-7.4%
Carroll	542.76	527.92	-15	-2.7%
Cecil	429.61	394.49	-35	-8.2%
Charles	501.64	493.05	-9	-1.7%
Dorchester	318.84	287.72	-31	-9.8%
Frederick	583.66	557.65	-26	-4.5%
Garrett	338.96	307.95	-31	-9.1%
Harford	539.21	516.21	-23	-4.3%
Howard	814.03	783.53	-30	-3.7%
Kent	435.34	383.24	-52	-12.0%
Montgomery	878.38	806.41	-72	-8.2%
Prince George's	393.73	382.91	-11	-2.7%
Queen Anne's	577.48	525.55	-52	-9.0%
St. Mary's	489.67	506.42	17	3.4%
Somerset	204.11	184.83	-19	-9.4%
Talbot	699.82	616.82	-83	-11.9%
Washington	392.67	360.86	-32	-8.1%
Wicomico	359.19	328.81	-30	-8.5%
Worcester	469.19	420.06	-49	-10.5%
Total	\$563.01	\$528.41	-\$35	-6.1%

¹Per the Disparity Grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Shading 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 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
01 Miscellaneous Grants	\$ 2,575,000	\$ 0	\$ 0	\$ 0	0%
01 Disparity Grants	121,436,013	121,436,013	110,927,160	-10,508,853	-8.7%
Total Expenditures	\$ 124,011,013	\$ 121,436,013	\$ 110,927,160	-\$ 10,508,853	-8.7%
General Fund	\$ 124,011,013	\$ 121,436,013	\$ 110,927,160	-\$ 10,508,853	-8.7%
Total Appropriations	\$ 124,011,013	\$ 121,436,013	\$ 110,927,160	-\$ 10,508,853	-8.7%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.