

A00
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$121,436	\$119,747	\$142,585	\$22,838	19.1%
Contingent & Back of Bill Reductions	0	0	-3,075	-3,075	
Adjusted General Fund	\$121,436	\$119,747	\$139,510	\$19,763	16.5%
Adjusted Grand Total	\$121,436	\$119,747	\$139,510	\$19,763	16.5%

- The fiscal 2013 allowance increases by \$19.8 million, or 16.5%. The largest change is a one-time \$19.6 million supplemental grant provided to disparity grant recipient jurisdictions. This is part of a larger package of revenues and aid to jurisdictions to mitigate a proposed cost-sharing of teacher retirement costs.
- Funding is provided for a mandated \$3.1 million grant to Baltimore City. However, the full grant amount is slated to be deleted from the budget contingent upon enactment of budget reconciliation legislation.
- The disparity grant formula increases by a net \$179,678 (0.2%).

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

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Analysis in Brief

Issues

Modifications to the Supplemental and Disparity Grants Should Be Considered: The cap on the disparity grant program adopted at the 2009 session has the unintended consequences of excluding newly eligible jurisdictions and limiting individual jurisdictions where the income tax disparity has worsened. The one-time supplemental grant provided by the Governor offers the opportunity to raise the cap, include eligible counties, and provide ongoing support for less wealthy counties in paying for a share of teacher retirement costs. **The Department of Legislative Services recommends consideration of contingent budget bill language to reallocate the supplementary grant along with statutory changes to permit newly eligible jurisdictions to receive funding, and revise the cap to the fiscal 2013 level on an ongoing basis to assist in teacher retirement costs.**

Recommended Actions

1. Modify language making a contingent reduction to Miscellaneous Grants instead contingent upon legislation to require local jurisdictions to contribute toward teacher and librarian retirement costs.
2. Add language allocating the supplemental grant by disparity grant jurisdiction
3. Concur with budget bill language making a \$19.6 million supplemental grant contingent on a shift of a portion of teacher and librarian retirement costs to local jurisdictions.

Updates

Disparity Grant Calculation Modified for Fiscal 2012: Chapter 397 of 2011 (the Budget Reconciliation and Financing Act of 2011) modified the criteria under which grants are made for one year only, increasing from 75% of the statewide tax yield per capita to 77%. In conjunction with restrictive budget bill language, this provision had the effect of restoring \$8.8 million in grant funding to Prince George's County in fiscal 2012.

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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 \$139.5 million in fiscal 2013, which is a \$19.8 million increase (16.5%) above the fiscal 2012 working appropriation. This includes a one-time \$19.6 million supplemental grant allocated to the eight jurisdictions that are currently eligible to receive disparity grants, the statutorily mandated \$3.1 million grant to Baltimore City, and an increase of \$179,678 in disparity grants. The grant to Baltimore City was not funded in fiscal 2012 due to mandate relief permitted under prior budget reconciliation legislation, and is proposed for elimination in conjunction with budget reconciliation legislation. **Exhibit 1** illustrates the year-over-year change in funding between fiscal 2012 and 2013 for this budget.

Impact of Cost Containment

The Budget Reconciliation and Financing Act of 2012 (BRFA), if enacted, would implement a reduction of the \$3.1 million grant to Baltimore City for fiscal 2013. Section 15 would implement mandated spending relief for a five-year period, through fiscal 2017.

Disparity Grants

Formula Grant

State funding targeted to the disparity in local income tax capacity is found in Article 24, Section 9-1101. 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.

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

How Much It Grows:	General Fund	Total
2012 Working Appropriation	\$119,747	\$119,747
2013 Allowance	<u>142,585</u>	<u>142,585</u>
Amount Change	\$22,838	\$22,838
Percent Change	19.1%	19.1%
 Contingent Reductions	 -\$3,075	 -\$3,075
Adjusted Change	\$19,763	\$19,763
Adjusted Percent Change	16.5%	16.5%

Where It Goes:

Grants

Disparity Grant Formula.....	\$180
Supplemental Disparity Grants.....	19,584
Miscellaneous grant to Baltimore City.....	3,075
Contingent reduction of miscellaneous grant to Baltimore City.....	-3,075
Total	\$19,763

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

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.

Baltimore City and Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico counties will receive grants in fiscal 2013. Funding totals \$119.7 million in fiscal 2012

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and \$119.9 million in fiscal 2013, a \$179,678 million (0.2%) increase over the current year. The fiscal 2013 grant under statute is based on population estimates for July 2010 and calendar 2010 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. **Exhibit 2** shows the change in disparity grants for fiscal 2013.

Exhibit 2
Disparity Grant by Recipient
Formula Funding Change
Fiscal 2012-2013

<u>County</u>	<u>2012</u>	<u>2013</u>	<u>Difference</u>	<u>Percent Difference</u>
Allegany	\$7,298,505	\$7,298,505	\$0	0.0%
Baltimore City	79,051,790	77,542,494	-1,509,296	-1.9%
Caroline	2,131,782	2,131,782	0	0.0%
Dorchester	2,022,690	2,022,690	0	0.0%
Garrett	2,131,271	2,131,271	0	0.0%
Prince George's	20,005,793	21,694,767	1,688,974	8.4%
Somerset	4,908,167	4,908,167	0	0.0%
Wicomico	2,197,041	2,197,041	0	0.0%
Total	\$119,747,039	\$119,926,717	\$179,678	0.2%

Source: Department of Legislative Services

The following discussion focuses on the effect of the cap on grant eligible jurisdictions, including those that are excluded from participation since they did not previously receive grant funding in fiscal 2010. This is followed by discussion of changes in the population and tax base that affect the fiscal 2013 allowance.

- ***Effect of the Cap on Eligible Jurisdictions:*** **Exhibit 3** shows both the foregone grant amounts for currently eligible jurisdictions, which are capped at the fiscal 2010 grant level, and each county that is ineligible to receive any funding in fiscal 2013 due to the cap. As shown, the cap has effectively reduced spending in the allowance by \$26.7 million. The seven current grant recipients receive \$18.9 million less than they would have received under an uncapped formula. Three new counties, Cecil, Kent, and Washington, would have been eligible for a grant in fiscal 2013 absent the cap.

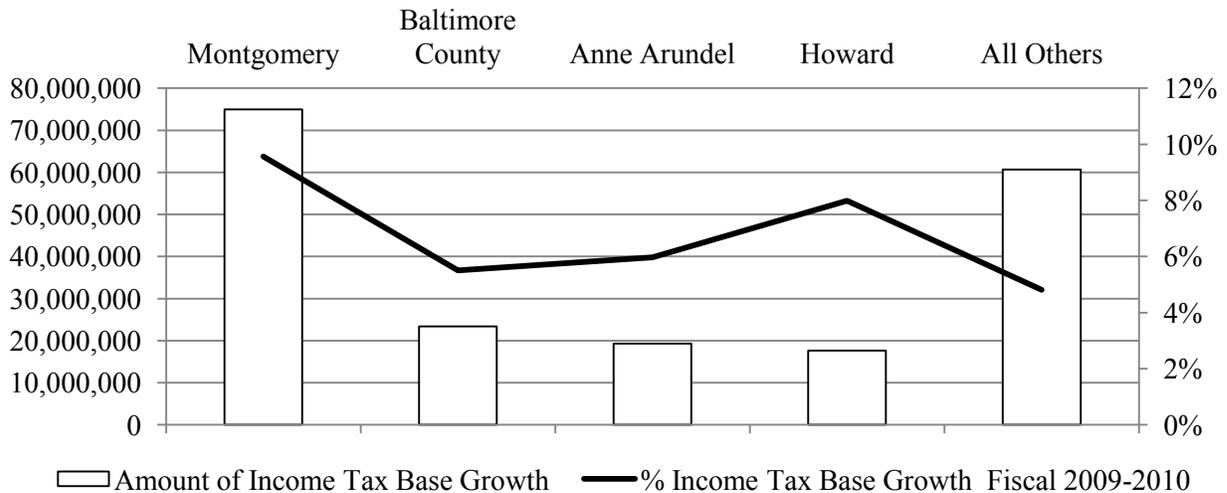
Exhibit 3
Fiscal 2013 Disparity Grant
Effect of the Fiscal 2010 Funding Cap

<u>County</u>	<u>Foregone Grant Above Cap</u>	<u>Eligible Jurisdictions Excluded by the Cap</u>	<u>Total</u>
Allegany	\$2,882,491		\$2,882,491
Caroline	1,661,823		1,661,823
Cecil		\$897,551	897,551
Dorchester	1,899,138		1,899,138
Garrett	899,097		899,097
Kent		22,881	22,881
Prince George's	3,181,700		3,181,700
Somerset	1,310,476		1,310,476
Washington		6,736,499	6,736,499
Wicomico	7,165,223		7,165,223
Total	\$18,999,949	\$7,656,931	\$26,656,880

Source: Department of Legislative Services

- Effect of Population and Wealth Changes:*** Tax year 2009 data, which was used to calculate fiscal 2012 disparity grants, fell 5.0% relative to the prior year due to the effects of the Great Recession. However, the tax year 2010 data shows a healthy 6.5% rebound in adjusted income tax receipts. This resulted in a total increase of \$196.0 million in the local income tax base. As seen in **Exhibit 4**, nearly 70.0% of that growth was concentrated in Anne Arundel, Baltimore, Howard, and Montgomery counties. Income tax growth in those four counties averaged 7.7% in tax year 2010, compared to an average growth rate of 4.8% for the remaining 20 jurisdictions. This variance has an impact for purposes of calculating the disparity grant because those four counties also account for nearly 60.0% of all local income tax revenue in the State. Thus, when growth occurs more rapidly in the wealthier jurisdictions, it increases the statewide average. In conjunction with slower income tax growth in the other jurisdictions, the disparity between those counties and the statewide average widens.

**Exhibit 4
Tax Base Rebound in Selected Jurisdictions
Tax Year 2010 vs. Tax Year 2009**



Source: Department of Legislative Services

Exhibit 5 shows the effect of tax year 2010 population and local income tax revenues on the seven jurisdictions that receive disparity grants in fiscal 2013. Allegany, Somerset, and Wicomico counties all lost ground relative to tax year 2009. This is because population growth outpaced income tax growth, which has the effect of lowering the income tax per capita. Caroline, Dorchester, Garrett, and Prince George’s counties all realized a higher income tax per capita than in tax year 2009, as income tax receipts outpaced population growth. However, as shown in **Exhibit 6** all seven of these jurisdictions lost ground relative to the statewide average. For six of these counties the grant amounts remained unchanged since they are all currently at the fiscal 2010 funding cap level. Prince George’s grant increases by \$1.7 million over the fiscal 2012 level, bringing them back up to the cap.

In Baltimore City, the fiscal 2013 grant amount is actually reduced below the fiscal 2010 cap by \$1.5 million. Although the city’s 4.7% income tax growth was below the 6.5% statewide average growth, actual 2010 census data resulted in a population decrease of nearly 17,000. This results in an 8.0% jump of income taxes per capita, as seen in Exhibit 5. It also increases the city’s relative position from 51.0 to 52.0% of the statewide average, as seen in Exhibit 6.

Exhibit 7 shows the calculation of the fiscal 2013 disparity grant, including the effect of the cap. 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 5
Disparity Grant
Change in Adjusted Tax Yield by Grant Recipient

<u>County</u>	<u>Per Capita Tax Yield Tax Year 2009</u>	<u>Per Capita Tax Yield Tax Year 2010</u>	<u>\$ Change 2009-2010</u>	<u>% Change 2009-2010</u>
Allegany	\$288	\$280	-\$8	-3%
Baltimore City	270	291	21	8%
Caroline	290	301	11	4%
Dorchester	288	296	8	3%
Garrett	308	315	7	2%
Prince George's	383	387	4	1%
Somerset	185	181	-4	-2%
Wicomico	329	321	-8	-2%
State Average	\$528	\$554	\$26	5%

Source: Department of Legislative Services

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 2009</u>	<u>Tax Year 2010</u>	<u>Change</u>
Allegany	54%	51%	-3.9%
Baltimore City	51%	52%	1.3%
Caroline	55%	54%	-0.7%
Dorchester	54%	53%	-1.1%
Garrett	58%	57%	-1.5%
Prince George's	72%	70%	-2.6%
Somerset	35%	33%	-2.3%
Wicomico	62%	58%	-4.3%

Source: Department of Legislative Services

Exhibit 7
Disparity Grant Calculation – Fiscal 2013

County	Population July 2010	Tax Year 2010 Adjusted Income Tax Revenues	Per Capita Tax Yield	Per Capita Grant	Fiscal 2010 Grant (Cap)	Total Grant	Grant with Cap	Difference	Effect of Cap
Allegany	75,021	\$21,011,905	\$280.08	\$135.71	\$7,298,505	\$10,180,996	\$7,298,505	\$0	-\$2,882,491
Anne Arundel	539,198	342,862,258	635.87	0.00	0	0	0	0	0
Baltimore City	620,583	180,489,048	290.84	124.95	79,051,790	77,542,494	77,542,494	-1,506,296	0
Baltimore	805,709	447,307,518	555.17	0.00	0	0	0	0	0
Calvert	88,936	51,783,869	582.26	0.00	0	0	0	0	0
Caroline	33,093	9,966,098	301.15	114.63	2,131,782	3,793,605	2,131,782	0	-1,661,823
Carroll	167,241	93,195,748	557.25	0.00	0	0	0	0	0
Cecil	101,199	41,179,873	406.92	8.87	0	897,551	0	0	-897,551
Charles	147,086	74,195,031	504.43	0.00	0	0	0	0	0
Dorchester	32,650	9,653,680	295.67	120.12	2,022,690	3,921,828	2,022,690	0	-1,899,138
Frederick	234,122	135,299,373	577.90	0.00	0	0	0	0	0
Garrett	20,063	9,469,495	314.99	100.80	2,131,271	3,030,368	2,131,271	0	-899,097
Harford	245,177	130,851,664	533.70	0.00	0	0	0	0	0
Howard	288,376	238,512,845	827.09	0.00	0	0	0	0	0
Kent	20,222	8,385,203	414.66	1.13	0	22,881	0	0	-22,881
Montgomery	976,203	858,470,982	879.40	0.00	0	0	0	0	0
Prince George's	865,271	334,893,637	387.04	28.75	21,694,767	24,876,467	21,694,767	0	-3,181,700
Queen Anne's	47,899	26,883,326	561.25	0.00	0	0	0	0	0
St. Mary's	105,786	55,410,816	523.80	0.00	0	0	0	0	0
Somerset	26,481	4,791,863	180.95	234.83	4,908,167	6,218,643	4,908,167	0	-1,310,476
Talbot	37,834	24,244,393	640.81	0.00	0	0	0	0	0
Washington	147,558	54,616,484	370.14	45.65	0	6,736,499	0	0	-6,736,499
Wicomico	98,843	31,735,561	321.07	94.72	2,197,041	9,362,264	2,197,041	0	-7,165,223
Worcester	51,431	22,452,359	436.55	0.00	0	0	0	0	0
Total	5,785,982	\$3,207,663,030	\$554.39	\$0.00	\$121,436,013	\$146,583,597	\$119,926,717	-\$1,509,296	-\$26,656,880
		<i>Target (75%)</i>	<i>\$415.79</i>						

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

Source: Department of Legislative Services

Supplemental Grant

The allowance also provides \$19.6 million in one-time supplemental grants to the eight disparity grant eligible jurisdictions. **Exhibit 8** shows the amounts to be allocated by jurisdiction, as well as the total grant when the statutory formula funding is included. As shown in **Exhibit 9**, these grants are part of a larger package of revenue and budgetary actions to mitigate the effects of the Administration proposal to require the counties to assume funding responsibility for 50% of the combined cost of teacher pensions and Social Security and are contingent on enactment of legislation requiring the cost sharing. Each county’s supplemental grant was calibrated to hold disparity grant jurisdictions harmless. It should be noted that eliminating the requirement that local schools reimburse the State for retirement costs associated with federally funded positions benefits the school boards and not the counties which would become responsible for a share of retirement costs. In addition, due to the cap on the disparity formula grants enacted in 2009 three counties – Cecil, Kent, and Washington – do not receive a supplemental disparity grant to offset the shifting of retirement costs. Using the Administration’s methodology to hold those counties harmless would require an additional \$4.1 million. Under current law, funding for teacher retirement is paid 100% by the State, and funding for Social Security is a local school board, community college, or library expense.

Exhibit 8
Fiscal 2013 Disparity Grant
One-time Supplemental Grant and Formula Grant

<u>County</u>	<u>One-time Supplemental Grant</u>	<u>Formula Grant</u>	<u>Grand Total</u>
Allegany	\$1,632,106	\$7,298,505	\$8,930,611
Baltimore City	6,972,596	77,542,494	84,515,090
Caroline	685,108	2,131,782	2,816,890
Dorchester	308,913	2,022,690	2,331,603
Garrett	406,400	2,131,271	2,537,671
Prince George's	7,628,702	21,694,767	29,323,469
Somerset	381,999	4,908,167	5,290,166
Wicomico	1,567,837	2,197,041	3,764,878
Total	\$19,583,662	\$119,926,717	\$139,510,379

Source: Department of Legislative Services

Exhibit 9
Governor's Proposal to Offset Teacher Retirement Shift

	FY 2013 Local Relief							Local Education Agency Impact
	Waive Repayment to Local Income Tax Reserve	Indemnity Mortgage	Revenue Proposal	Total	50/50 Retirement Split	Additional Disparity Grant Relief	Revised Local Impact	
Allegany	\$245,023	\$187,500	\$272,128	\$704,651	-\$2,890,832	\$1,632,106	-\$554,075	\$554,075
Anne Arundel	3,355,846	4,500,000	10,287,321	18,143,167	-20,349,335	0	-2,206,168	2,653,896
Baltimore City	2,104,714	2,793,300	4,013,327	8,911,341	-21,893,868	6,972,596	-6,009,932	6,009,932
Baltimore	4,839,885	3,150,000	12,933,534	20,923,419	-28,184,530	0	-7,261,111	4,397,964
Calvert	554,364	855,000	1,864,068	3,273,432	-4,870,922	0	-1,597,490	517,143
Caroline	100,213	180,000	147,340	427,553	-1,402,419	685,108	-289,758	289,758
Carroll	1,086,772	1,200,000	3,255,795	5,542,567	-7,019,652	0	-1,477,084	743,833
Cecil	440,845	630,000	906,073	1,976,918	-4,284,094	0	-2,307,176	623,340
Charles	822,650	1,489,470	2,674,821	4,986,941	-6,887,117	0	-1,900,176	726,358
Dorchester	96,702	267,208	195,716	559,626	-1,151,664	308,913	-283,124	283,124
Frederick	1,531,193	1,566,330	4,641,068	7,738,591	-10,281,577	0	-2,542,986	1,095,976
Garrett	95,943	292,500	139,186	527,629	-1,210,269	406,400	-276,240	276,240
Harford	1,530,887	1,340,250	4,217,654	7,088,791	-9,824,155	0	-2,735,364	1,461,759
Howard	2,918,127	2,325,000	10,694,124	15,937,251	-17,225,563	0	-1,288,312	996,214
Kent	91,369	149,250	263,337	503,956	-640,923	0	-136,967	145,672
Montgomery	10,503,112	11,564,027	37,233,303	59,300,442	-47,406,506	0	11,893,936	6,216,647
Prince George's	4,097,314	4,043,295	11,669,340	19,809,949	-34,062,797	7,628,702	-6,624,145	6,624,145
Queen Anne's	292,934	397,500	1,096,030	1,786,464	-1,922,077	0	-135,613	289,021
St. Mary's	635,562	735,000	1,545,934	2,916,496	-4,287,947	0	-1,371,452	601,198
Somerset	57,711	47,700	70,806	176,217	-835,266	381,999	-277,050	277,050
Talbot	208,563	480,000	655,527	1,344,090	-1,125,678	0	218,413	221,869
Washington	584,688	525,000	1,060,674	2,170,362	-5,530,495	0	-3,360,133	899,512
Wicomico	376,141	415,500	658,310	1,449,951	-3,807,207	1,567,837	-789,419	789,419
Worcester	107,304	787,500	247,186	1,141,990	-2,222,298	0	-1,080,308	405,853
Total	\$36,677,862	\$39,921,330	\$110,742,603	\$187,341,795	-\$239,317,192	\$19,583,662	-\$32,391,735	\$37,099,999

Source: Department of Legislative Services

Miscellaneous Grants

Article 24 Section 9-1104 mandates that the Governor include an annual general fund grant of \$3,075,000 for Baltimore City in the allowance. 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.

No funding was provided for the grant in fiscal 2012, based on provisions in Chapter 484 of 2010 (the BRFA of 2010) which allowed mandated programs to be level funded in fiscal 2012. Mandate relief provisions were struck from Chapter 397 of 2011, thus the Governor was required to fully fund the grant in the fiscal 2013 allowance. However, the budget bill reduces all funding for this grant in fiscal 2013 contingent on language in budget reconciliation legislation which authorizes the Governor to not provide funding over the amount provided in fiscal 2012.

Issues

1. Modifications to the Supplemental and Disparity Grants Should Be Considered

The cap on the disparity grant program adopted at the 2009 session has the unintended consequences of excluding newly eligible jurisdictions and limiting individual jurisdictions where the income tax disparity has worsened. The one-time supplemental grant provided by the Governor offers the opportunity to raise the cap, include eligible counties, and provide ongoing support for less wealthy counties in paying for a share of teacher retirement costs.

A cap on the Disparity Grant program was adopted through Chapter 487 of 2009 (the Budget Reconciliation and Financing Act of 2009), to limit the amount received by each county to the level of funding provided in fiscal 2010. The change was drafted in this manner to maintain the functionality of the formula calculation for determining each jurisdiction's per capita income tax in relation to 75% of the statewide average. However, this method of calculation has two unanticipated consequences that the legislature may wish to consider addressing.

- **Exclusion of Newly Eligible Counties:** The statute limits grant funding in fiscal 2011 and beyond to no higher than the amount received in fiscal 2010. For practical purposes, any jurisdiction that received \$0 dollars in the 2010 grant cannot receive any funding in any future year if its income tax disparity falls below 75%, making it eligible for the program. As a result three jurisdictions were excluded from receiving \$7.7 million in fiscal 2013; and
- **Limiting Grant Funding within Individual Jurisdictions:** With limited economic recovery in the wealthier jurisdictions the tax year 2010 data resulted in a widening in the disparity between disparity grant eligible counties and 75% of the statewide average. Thus, the 8 currently eligible jurisdictions receive funding at the fiscal 2010 cap level; an amount \$19.0 million lower than would be received in the absence of a cap.

The Governor's allowance includes \$19.6 million as a one-time supplemental grant to those disparity grant jurisdictions who currently qualify under the fiscal 2010 cap. Funds were calibrated based on the intent to hold those jurisdictions harmless as part of a larger proposal to shift a portion of teacher retirement costs to the counties. If the legislature modifies any of the components of the Governor's proposal, it renders the allocation of the supplemental grant moot. This offers the legislature the opportunity to allocate the supplemental grant as part of a larger action to address the concerns noted above, in conjunction with budget reconciliation legislation, and to provide the less wealthy jurisdictions with additional ongoing support to mitigate the effects of assuming a portion of teacher retirement costs. **Exhibit 10** provides an illustration of how the supplemental grant could be reallocated, in conjunction with the inclusion of Baltimore City's Miscellaneous Grant in lieu of the Governor's proposal to reduce funding in fiscal 2013. Once the grant is included, every jurisdiction is held harmless relative to the Governor's proposed budget, but \$3.1 million of the supplemental grant can be allocated to the three jurisdictions that are currently excluded from the program due to the fiscal 2010 cap. Funds are allocated based on their relative shares of the uncapped program.

Exhibit 10
Proposed Reallocation of Supplemental Grant
One-time Supplemental Grant and Formula Grant

	FY 2013 Uncapped Grant	FY 2013 Grant with Cap	1-time Supp. Grant	Misc. Grant	Total FY 2013 Allowance	New County Proportion of Uncapped Grant	Formula and Reallocated Supp. Grant	Change
Allegany	\$10,180,996	\$7,298,505	\$1,632,106		\$8,930,611		\$8,930,611	\$0
Baltimore City	77,542,494	77,542,494	3,897,596	\$3,075,000	84,515,090		84,515,090	0
Caroline	3,793,605	2,131,782	685,108		2,816,890		2,816,890	0
Cecil	897,551	0	0		0	11.7%	360,454	360,454
Dorchester	3,921,828	2,022,690	308,913		2,331,603		2,331,603	0
Garrett	3,030,368	2,131,271	406,400		2,537,671		2,537,671	0
Kent	22,881	0	0		0	0.3%	9,189	9,189
Prince George's	24,876,467	21,694,767	7,628,702		29,323,469		29,323,469	0
Somerset	6,218,643	4,908,167	381,999		5,290,166		5,290,166	0
Washington	6,736,499	0	0		0	88.0%	2,705,357	2,705,357
Wicomico	9,362,264	2,197,041	1,567,837		3,764,878		3,764,878	0
	\$146,583,597	\$119,926,717	\$16,508,662		\$139,510,379	100.0%	\$142,585,379	\$3,075,000

Source: Department of Legislative Services

A00 – Payments to Civil Divisions of the State

The Department of Legislative Services recommends consideration of contingent budget bill language to reallocate the supplementary grant along with statutory changes to permit newly eligible jurisdictions to receive funding, and revise the cap to the fiscal 2013 level on an ongoing basis to assist in teacher retirement costs. As counties' share of pension costs continue to increase, consideration should be given to completely removing the caps upon complete resolution of the State's structural budget gap.

Recommended Actions

1. Modify the following language on the general fund appropriation:

, provided that \$3,075,000 of this appropriation shall be reduced contingent upon ~~enactment failure of the Budget Reconciliation and Financing Act~~ legislation to require local jurisdictions to contribute toward teacher and librarian retirement costs

Explanation: The statutorily mandated grant of \$3,075,000 to Baltimore City would be reduced contingent upon a provision in the Budget Reconciliation and Financing Act of 2012 to provide the Governor with mandate relief for fiscal 2013 through fiscal 2017. It is recommended that the contingent language be modified so that funds are contingent upon legislation to require local jurisdictions to contribute toward teacher and librarian retirement costs. This action is part of a larger proposal to modify the ongoing funding levels of the Disparity Grant program.

2. Add the following language to the general fund appropriation:

Further provided that \$19,583,662 shall be allocated according to the following schedule:

<u>Allegany</u>	<u>\$1,632,106</u>
<u>Baltimore City</u>	<u>3,897,596</u>
<u>Caroline</u>	<u>685,108</u>
<u>Cecil</u>	<u>360,454</u>
<u>Dorchester</u>	<u>308,913</u>
<u>Garrett</u>	<u>406,400</u>
<u>Kent</u>	<u>9,189</u>
<u>Prince George's</u>	<u>7,628,702</u>
<u>Somerset</u>	<u>381,999</u>
<u>Washington</u>	<u>2,705,357</u>
<u>Wicomico</u>	<u>1,567,837</u>

Explanation: This language allocates a supplemental grant by jurisdiction, as outlined in the Governor's original budget plan but recognizes the Miscellaneous Grant to Baltimore City and reallocates an equivalent amount to the 3 jurisdictions that are eligible for the Disparity Grant program. Cecil, Kent, and Washington counties are eligible for the program but excluded due to the imposition of a cap adopted in fiscal 2010.

A00 – Payments to Civil Divisions of the State

3. Concur with the following language on the general fund appropriation:

, provided that \$19,583,662 shall be reduced contingent upon failure of legislation requiring local jurisdictions to contribute fifty percent of retirement and Social Security costs for teachers and librarians.

Explanation: The fiscal 2013 budget bill as introduced proposes a \$19.6 million one-time supplemental grant to jurisdictions that currently receive the Disparity Grant. The grant is part of a larger package of actions that offset the additional cost associated with the shift of a portion of teacher retirement costs to local jurisdictions.

Updates

1. Disparity Grant Calculation Modified for Fiscal 2012

Chapter 397 (the BRFA of 2011) modified the criteria for calculating the disparity grant amount for fiscal 2012 only, from 75% of the statewide average per capita income tax to 77% of the statewide average. This modification was adopted in conjunction with language in the fiscal 2012 budget (Chapter 395 of 2011) which restricted \$8,819,879 in the Aid to Education budget to be transferred to the Disparity Grant program. As a result of this change, the additional funding was provided to Prince George’s County, with half going to the county budget and half going to the county board of education budget.

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 2011					
Legislative Appropriation	\$121,436	\$0	\$0	\$0	\$121,436
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$121,436	\$0	\$0	\$0	\$121,436
Fiscal 2012					
Legislative Appropriation	\$110,927	\$0	\$0	\$0	\$110,927
Budget Amendments	8,820	0	0	0	8,820
Working Appropriation	\$119,747	\$0	\$0	\$0	\$119,747

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

Fiscal 2011

The fiscal 2011 budget closed with no changes to the original appropriation.

Fiscal 2012

The fiscal 2012 working appropriation was increased by \$8.8 million for the Disparity Grant program per language in the budget bill which authorized the transfer of restricted funds in the Aid to Education budget for this purpose. This action was made in conjunction with a provision of Chapter 397 (the BRFA of 2011) which increased the grant amount for one year only to 77% of the statewide average. This resulted in an increased grant to Prince George's County.

Disparity Grant Calculation Change in Population by Jurisdiction

<u>County</u>	<u>Population July 2009</u>	<u>Population July 2010</u>	<u>Change 2009-2010</u>	<u>% Change 2009-2010</u>
Allegany	72,532	75,201	2,489	3.4%
Anne Arundel	521,209	539,198	17,989	3.5%
Baltimore City	637,418	620,583	-16,835	-2.6%
Baltimore	789,814	805,709	15,895	2.0%
Calvert	89,212	88,936	-276	-0.3%
Caroline	33,367	33,093	-274	-0.8%
Carroll	170,089	167,241	-2,848	-1.7%
Cecil	100,796	101,199	403	0.4%
Charles	142,226	147,086	4,860	3.4%
Dorchester	32,043	32,650	607	1.9%
Frederick	227,980	234,122	6,142	2.7%
Garrett	29,555	30,063	508	1.7%
Harford	242,514	245,177	2,663	1.1%
Howard	281,884	288,376	6,492	2.3%
Kent	20,247	20,222	-25	-0.1%
Montgomery	971,600	976,203	4,603	0.5%
Prince George's	834,560	865,271	30,711	3.7%
Queen Anne's	47,958	47,899	-59	-0.1%
St. Mary's	102,999	105,786	2,787	2.7%
Somerset	25,959	26,481	522	2.0%
Talbot	36,262	37,834	1,572	4.3%
Washington	145,910	147,558	1,648	1.1%
Wicomico	94,222	98,843	4,621	4.9%
Worcester	49,122	51,431	2,309	4.7%
Total	5,699,478	5,785,982	86,504	1.5%

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 2009</u>	<u>Adjusted Income Tax Revenues Tax Year 2010</u>	<u>\$ Change 2009-2010</u>	<u>% Change 2009-2010</u>
Allegany	\$20,875,330	\$21,011,905	\$136,575	0.7%
Anne Arundel	323,554,849	342,862,258	19,307,409	6.0%
Baltimore City	172,305,192	180,489,048	8,183,856	4.7%
Baltimore	423,948,390	447,307,518	23,359,128	5.5%
Calvert	50,496,344	51,783,869	1,287,525	2.5%
Caroline	9,693,034	9,966,098	273,064	2.8%
Carroll	89,793,425	93,195,748	3,402,323	3.8%
Cecil	39,762,700	41,179,873	1,417,173	3.6%
Charles	70,125,219	74,195,031	4,069,812	5.8%
Dorchester	9,219,503	9,653,680	434,177	4.7%
Frederick	127,132,187	135,299,373	8,167,186	6.4%
Garrett	9,101,463	9,469,495	368,032	4.0%
Harford	125,189,147	130,851,664	5,662,517	4.5%
Howard	220,864,467	238,512,845	17,648,379	8.0%
Kent	7,759,451	8,385,203	625,751	8.1%
Montgomery	783,509,396	858,470,982	74,961,586	9.6%
Prince George's	319,559,534	334,893,637	15,334,103	4.8%
Queen Anne's	25,204,435	26,883,326	1,678,891	6.7%
St. Mary's	52,160,783	55,410,816	3,250,033	6.2%
Somerset	4,798,053	4,791,863	-6,190	-0.1%
Talbot	22,367,258	24,244,393	1,877,134	8.4%
Washington	52,653,032	54,616,484	1,963,452	3.7%
Wicomico	30,981,605	31,735,561	753,957	2.4%
Worcester	20,634,249	22,452,359	1,818,110	8.8%
Total	\$3,011,689,045	\$3,207,663,030	\$195,973,984	6.5%

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 2009</u>	<u>Per Capita Tax Yield Tax Year 2010</u>	<u>\$ Change 2009-2010</u>	<u>% Change 2009-2010</u>
Allegany	\$287.81	\$280.08	-\$8	-2.7%
Anne Arundel	620.78	635.87	15	2.4%
Baltimore City	270.32	290.84	21	7.6%
Baltimore	536.77	555.17	18	3.4%
Calvert	566.03	582.26	16	2.9%
Caroline	290.50	301.15	11	3.7%
Carroll	527.92	557.25	29	5.6%
Cecil	394.49	406.92	12	3.2%
Charles	493.05	504.43	11	2.3%
Dorchester	287.72	295.67	8	2.8%
Frederick	557.65	577.90	20	3.6%
Garrett	307.95	314.99	7	2.3%
Harford	516.21	533.70	17	3.4%
Howard	783.53	827.09	44	5.6%
Kent	383.24	414.66	31	8.2%
Montgomery	806.41	879.40	732	9.1%
Prince George's	382.91	387.04	4	1.1%
Queen Anne's	525.55	561.25	36	6.8%
St. Mary's	506.42	523.80	17	3.4%
Somerset	184.83	180.95	-4	-2.1%
Talbot	616.82	640.81	24	3.9%
Washington	360.86	370.14	9	2.6%
Wicomico	328.81	321.07	-8	-2.4%
Worcester	420.06	436.55	16	3.9%
Total	\$528.41	\$554.39	\$26	4.9%
75% of Avg. Tax Yield	\$396.31	\$415.79	\$19	4.9%

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 11</u> <u>Actual</u>	<u>FY 12</u> <u>Wrk Approp</u>	<u>FY 13</u> <u>Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13</u> <u>% Change</u>
01 Miscellaneous Grants	\$ 0	\$ 0	\$ 3,075,000	\$ 3,075,000	0%
01 Disparity Grants	121,436,013	119,747,039	139,510,379	19,763,340	16.5%
Total Expenditures	\$ 121,436,013	\$ 119,747,039	\$ 142,585,379	\$ 22,838,340	19.1%
General Fund	\$ 121,436,013	\$ 119,747,039	\$ 142,585,379	\$ 22,838,340	19.1%
Total Appropriations	\$ 121,436,013	\$ 119,747,039	\$ 142,585,379	\$ 22,838,340	19.1%

Note: The fiscal 2012 appropriation does not include deficiencies. The fiscal 2013 allowance does not include contingent reductions.