

A15000 Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 15 Actual</u>	<u>FY 16 Working</u>	<u>FY 17 Allowance</u>	<u>FY 16-17 Change</u>	<u>% Change Prior Year</u>
General Fund	\$155,397	\$157,479	\$164,378	\$6,899	4.4%
Deficiencies and Reductions	0	0	0	0	
Adjusted General Fund	\$155,397	\$157,479	\$164,378	\$6,899	4.4%
 Adjusted Grand Total	 \$155,397	 \$157,479	 \$164,378	 \$6,899	 4.4%

- The fiscal 2017 allowance totals \$164.4 million in general funds. This includes \$136.7 million for the Disparity Grant program and \$27.7 million for Teacher Retirement Supplemental grants.
- The increase of \$6.9 million is entirely due to changes within the Disparity Grant program. Counties receiving an increase include Cecil, Prince George's, Washington, and Wicomico, while the grant to Baltimore City decreases.

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

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Analysis in Brief

Issues

Baltimore City is Delinquent in Submitting its Annual Financial Reports: Baltimore City is required to submit to the Department of Legislative Services (DLS) a Uniform Financial Report (UFR) and an audit report for each fiscal year. Currently, neither the fiscal 2014 nor the 2015 reports have been submitted, and Baltimore City has been delinquent in filing their annual financial reports every year since fiscal 2011. **DLS recommends that \$1 million in State funding under the Disparity Grant program be withheld until Baltimore City becomes up-to-date in filing their annual audit report and UFR.**

Recommended Actions

1. Add budget bill language withholding \$1,000,000 from Baltimore City until Baltimore City becomes up-to-date in filing their annual Uniform Financial Report and audit report with the Department of Legislative Services.

A15000
Payments to Civil Divisions of the State

Operating Budget Analysis

Program Description

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

Proposed Budget

The Governor's allowance for Payments to Civil Divisions of the State totals \$164.4 million. This is a \$6.9 million increase from the working appropriation, and, as seen in **Exhibit 1**, is attributable to the disparity grant formula. **Exhibit 2** provides a summary of funding by jurisdiction for disparity grants and the Teacher Retirement Supplemental Grants in fiscal 2017.

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

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$155,397	\$155,397
Fiscal 2016 Working Appropriation	\$157,479	\$157,479
Fiscal 2017 Allowance	<u>\$164,378</u>	<u>\$164,378</u>
Fiscal 2016-2017 Amount Change	\$6,899	\$6,899
Fiscal 2016-2017 Percent Change	4.4%	4.4%

Where It Goes:

Disparity Grants

Prince George's.....	\$7,087
Wicomico.....	561
Washington.....	182
Cecil.....	15
Baltimore City.....	-946
Total	\$6,899

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

Exhibit 2
State Funding for Payments to Civil Divisions
Fiscal 2017
(\$ in Thousands)

<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Total</u>
Allegany	\$7,299	\$1,632	\$8,931
Anne Arundel			
Baltimore City	78,105	10,048	88,153
Baltimore		3,000	3,000
Calvert			
Caroline	2,132	685	2,817
Carroll			
Cecil	322		322
Charles			
Dorchester	2,023	309	2,332
Frederick			
Garrett	2,131	406	2,538
Harford			
Howard			
Kent			
Montgomery			
Prince George's	30,175	9,629	39,804
Queen Anne's			
St. Mary's			
Somerset	4,908	382	5,290
Talbot			
Washington	1,698		1,698
Wicomico	7,926	1,568	9,493
Worcester			
Total	\$136,719	\$27,659	\$164,378

Source: Department of Legislative Services

Disparity Grants

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

Counties with per capita income tax revenues less than 75.0% of the statewide average receive grants unless a county has an income tax rate below 2.6%. Under current law, aid received by counties equals the lesser of the dollar amount necessary to raise the county's per capita income tax revenues to 75.0% of the statewide average or the amount received under the cap provisions. The original cap provision did not allow counties to receive an amount higher than what that particular county received from the State in fiscal 2010. However, Chapter 425 of 2013 changed the disparity grant formula cap provisions in order to take into account a local jurisdiction's income tax rate.

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

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

The calculation under current law for fiscal 2017 is presented in **Exhibit 3**. For fiscal 2017, Cecil, Prince George's, Washington, and Wicomico counties are receiving increases from the fiscal 2016 grant. This is due to a number of factors, beginning with the fact that the disparity in the per capita tax yield for Prince George's, Washington, and Wicomico counties grew compared to the statewide average. For Cecil County, while its disparity compared to the statewide average was approximately the same, the per capita grant amount increased for fiscal 2017. In fact, for every county with the exception of Baltimore City, the per capita grant amount for eligible counties increased, which resulted in an increase in the uncapped grant amount for each eligible jurisdiction, again with the exception of Baltimore City, as seen in **Exhibit 4**. However, only Cecil, Prince George's, Washington, and Wicomico counties are receiving increases because they are the only counties meeting the criteria for the proportional amount based on the local income tax rate.

Exhibit 3
Disparity Grant Calculation
Fiscal 2017

<u>County</u>	<u>Population July 2014</u>	<u>Adjusted Income Tax Revenues Tax Year 2014</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Cap Fiscal 2010</u>	<u>Uncapped Grant Fiscal 2017</u>	<u>Projected Grant With Cap and Floors Fiscal 2017</u>	<u>Difference to Fiscal 2016</u>	<u>Piggyback Calendar 2015</u>
Allegany	72,952	\$22,651,543	\$310.50	\$171.54	\$7,298,505	\$12,514,179	\$7,298,505	\$0	3.05%
Anne Arundel	560,133	411,790,590	735.17	0.00	0	0	0	0	2.56%
Baltimore City	622,793	222,105,276	356.63	125.41	79,051,790	78,105,345	78,105,345	-946,445	3.20%
Baltimore	826,925	552,995,406	668.74	0.00	0	0	0	0	2.83%
Calvert	90,613	60,234,484	664.74	0.00	0	0	0	0	2.80%
Caroline	32,538	11,193,359	344.01	138.03	2,131,782	4,491,232	2,131,782	0	2.73%
Carroll	167,830	113,559,457	676.63	0.00	0	0	0	0	3.03%
Cecil	102,383	47,741,010	466.30	15.74	0	1,611,607	322,321	15,359	2.80%
Charles	154,747	89,465,255	578.14	0.00	0	0	0	0	3.03%
Dorchester	32,578	10,845,509	332.91	149.13	2,022,690	4,858,363	2,022,690	0	2.62%
Frederick	243,675	161,838,273	664.16	0.00	0	0	0	0	2.96%
Garrett	29,679	10,988,968	370.26	111.78	2,131,271	3,317,473	2,131,271	0	2.65%
Harford	250,105	155,592,743	622.11	0.00	0	0	0	0	3.06%
Howard	309,284	297,963,212	963.40	0.00	0	0	0	0	3.20%
Kent	19,820	10,897,573	549.83	0.00	0	0	0	0	2.85%
Montgomery	1,030,447	1,018,922,310	988.82	0.00	0	0	0	0	3.20%
Prince George's	904,430	385,678,621	426.43	55.61	21,694,767	50,292,066	30,175,240	7,086,950	3.20%
Queen Anne's	48,804	32,650,394	669.01	0.00	0	0	0	0	3.20%
St. Mary's	110,382	64,771,477	586.79	0.00	0	0	0	0	3.00%
Somerset	25,859	5,220,833	201.90	280.14	4,908,167	7,244,218	4,908,167	0	3.15%

<u>County</u>	<u>Population July 2014</u>	<u>Adjusted Income Tax Revenues Tax Year 2014</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Cap Fiscal 2010</u>	<u>Uncapped Grant Fiscal 2017</u>	<u>Projected Grant With Cap and Floors Fiscal 2017</u>	<u>Difference to Fiscal 2016</u>	<u>Piggyback Calendar 2015</u>
Talbot	37,643	28,128,147	747.23	0.00	0	0	0	0	2.40%
Washington	149,573	63,609,554	425.27	56.76	0	8,490,491	1,698,098	181,874	2.80%
Wicomico	101,539	35,736,566	351.95	130.09	2,197,041	13,209,210	7,925,526	561,335	3.20%
Worcester	51,675	26,569,142	514.16	0.00	0	0	0	0	1.25%
Total	5,976,407	\$3,841,149,703	\$642.72	\$0.00	\$121,436,013	\$184,134,184	\$136,718,945	\$6,899,073	
		<i>Target (0.75%)</i>	<i>\$482.04</i>						

Source: Department of Legislative Services

Exhibit 4
Effect of the Cap Provisions
Fiscal 2016-2017

<u>County</u>	<u>Uncapped Grant</u> <u>2016</u>	<u>Uncapped Grant</u> <u>2017</u>	<u>Uncapped Grant</u> <u>Difference</u> <u>2016-2017</u>	<u>Foregone Amount</u> <u>2017</u>
Allegany	\$12,135,763	\$12,514,179	\$378,416	\$5,215,674
Baltimore City	84,482,383	78,105,345	-6,377,037	0
Caroline	4,191,202	4,491,232	300,030	2,359,450
Cecil	1,534,811	1,611,607	76,795	1,289,285
Dorchester	4,167,657	4,858,363	690,706	2,835,673
Garrett	3,163,807	3,317,473	153,666	1,186,202
Prince George's	38,480,484	50,292,066	11,811,583	20,116,827
Somerset	7,118,517	7,244,218	125,701	2,336,051
Washington	7,581,120	8,490,491	909,371	6,792,393
Wicomico	12,273,651	13,209,210	935,558	5,283,684
Total	\$175,129,394	\$184,134,184	\$9,004,790	\$47,415,238

Source: Department of Legislative Services

On the other hand, the uncapped grant amount for Baltimore City has declined so far that Baltimore City is set to have a lower grant amount in fiscal 2017 than in fiscal 2016. This is because the disparity in the per capita tax yield for Baltimore City shrank in comparison to the statewide average by such a large margin that the total uncapped grant amount for Baltimore City fell below the fiscal 2010 capped amount.

As further seen in Exhibit 4, the current cap provisions continue to have a significant effect upon reducing spending in the allowance. For fiscal 2017, the current cap provisions combined to reduce spending in the allowance by \$47.4 million since every eligible county in fiscal 2017, with the exception of Baltimore City, has an uncapped grant amount higher than the cap provisions.

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

Issues

1. Baltimore City is Delinquent in Submitting Its Annual Financial Reports

Baltimore City is required by Local Government Article, Sections 16-304 and 16-306 of the *Annotated Code of Maryland* to file a Uniform Financial Report (UFR) and an audit report on or before December 31 of each year following the end of the fiscal year. Failure to submit an audit report or UFR by the required date may result in certain State funds being withheld from Baltimore City. As of January 25, 2016, the Department of Legislative Services (DLS) has not received Baltimore City's fiscal 2014 audit report or UFR that were due on December 31, 2014. In addition, the fiscal 2015 required financial reports due on December 31, 2015 have also not yet been received. Baltimore City has been delinquent in filing its annual financial reports in every fiscal year since fiscal 2011.

The annual audit and uniform financial reports contain information that is integral to the analysis that the department provides annually to the General Assembly. For example, these reports aid in analyzing the financial standing of the local governments with relation to State aid, grant programs, and local legislation. Delinquency of reporting significantly hinders the ability of the department to provide this information in a timely manner. Delinquency of reporting also hinders the ability of citizens who reside in the affected local jurisdictions to review the financial data themselves and hold their local governments accountable.

Due to these concerns, **DLS recommends that \$1 million in State funding under the Disparity Grant program be withheld until Baltimore City becomes up-to-date in filing its annual audit report and UFR.**

Recommended Actions

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

, provided that \$1,000,000 of this appropriation made for the purpose of a disparity grant to Baltimore City may not be expended until Baltimore City submits to the Department of Legislative Services the Uniform Financial Report and audit report for fiscal 2014, 2015, and 2016.

Explanation: The language withholds \$1,000,000 of the disparity grant to Baltimore City until Baltimore City submits the Uniform Financial Report and audit report for fiscal 2014, 2015, and 2016 to the Department of Legislative Services. The fiscal 2014 and 2015 reports are already delinquent while the fiscal 2016 report will be due during fiscal 2017.

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 2015					
Legislative Appropriation	\$163,456	\$0	\$0	\$0	\$163,456
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-7,989	0	0	0	-7,989
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	-70	0	0	0	-70
Actual Expenditures	\$155,397	\$0	\$0	\$0	\$155,397
Fiscal 2016					
Legislative Appropriation	\$157,479	\$0	\$0	\$0	\$157,479
Budget Amendments	0	0	0	0	0
Working Appropriation	\$157,479	\$0	\$0	\$0	\$157,479

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

Actual expenditures for Payments to Civil Divisions of the State were \$8,058,878 below the legislative appropriation. Of this amount, \$7,989,089 was withdrawn by the Board of Public Works for cost containment purposes. This reduction brought the amount paid to each eligible county under the Disparity Grant program back to what that county received in fiscal 2014. Following this reduction, there was an additional \$69,789, which remained unallocated due to the fact that in fiscal 2014, Kent County was an eligible county for the Disparity Grant program but was no longer eligible in fiscal 2015. Thus, this amount reverted back to the General Fund at the end of the fiscal year.

Disparity Grant Calculation Change in Population by Jurisdiction

<u>County</u>	<u>Population July 2013</u>	<u>Population July 2014</u>	<u>Change 2013-2014</u>	<u>% Change 2013-2014</u>
Allegany	73,521	72,952	-569	-0.8%
Anne Arundel	555,743	560,133	4,390	0.8%
Baltimore City	622,104	622,793	689	0.1%
Baltimore	823,015	826,925	3,910	0.5%
Calvert	90,484	90,613	129	0.1%
Caroline	32,693	32,538	-155	-0.5%
Carroll	167,564	167,830	266	0.2%
Cecil	101,913	102,383	470	0.5%
Charles	152,864	154,747	1,883	1.2%
Dorchester	32,660	32,578	-82	-0.3%
Frederick	241,409	243,675	2,266	0.9%
Garrett	29,889	29,679	-210	-0.7%
Harford	249,215	250,105	890	0.4%
Howard	304,580	309,284	4,704	1.5%
Kent	19,944	19,820	-124	-0.6%
Montgomery	1,016,677	1,030,447	13,770	1.4%
Prince George's	890,081	904,430	14,349	1.6%
Queen Anne's	48,517	48,804	287	0.6%
St. Mary's	109,633	110,382	749	0.7%
Somerset	26,273	25,859	-414	-1.6%
Talbot	37,931	37,643	-288	-0.8%
Washington	149,588	149,573	-15	0.0%
Wicomico	100,896	101,539	643	0.6%
Worcester	51,620	51,675	55	0.1%
Total	5,928,814	5,976,407	47,593	0.8%

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

Disparity Grant Calculation
Change in Adjusted Income Tax Revenues*
Tax Year 2013-2014

<u>County</u>	<u>Adjusted Income Tax Revenues 2013</u>	<u>Adjusted Income Tax Revenues 2014</u>	<u>\$ Change 2013-2014</u>	<u>% Change 2013-2014</u>
Allegany	\$21,731,667	\$22,651,543	\$919,876	4.2%
Anne Arundel	393,400,785	411,790,590	18,389,805	4.7%
Baltimore City	202,089,668	222,105,276	20,015,609	9.9%
Baltimore	532,615,813	552,995,406	20,379,593	3.8%
Calvert	57,792,624	60,234,484	2,441,861	4.2%
Caroline	10,868,820	11,193,359	324,538	3.0%
Carroll	107,626,469	113,559,457	5,932,988	5.5%
Cecil	45,411,386	47,741,010	2,329,624	5.1%
Charles	81,352,695	89,465,255	8,112,560	10.0%
Dorchester	10,877,164	10,845,509	-31,655	-0.3%
Frederick	154,593,834	161,838,273	7,244,439	4.7%
Garrett	10,604,554	10,988,968	384,414	3.6%
Harford	148,774,313	155,592,743	6,818,431	4.6%
Howard	277,086,860	297,963,212	20,876,352	7.5%
Kent	10,479,252	10,897,573	418,321	4.0%
Montgomery	958,735,571	1,018,922,310	60,186,740	6.3%
Prince George's	371,535,104	385,678,621	14,143,518	3.8%
Queen Anne's	30,634,800	32,650,394	2,015,595	6.6%
St. Mary's	62,212,777	64,771,477	2,558,699	4.1%
Somerset	4,984,134	5,220,833	236,699	4.7%
Talbot	27,891,030	28,128,147	237,117	0.9%
Washington	61,326,555	63,609,554	2,282,999	3.7%
Wicomico	34,204,065	35,736,566	1,532,500	4.5%
Worcester	24,645,620	26,569,142	1,923,522	7.8%
Total	\$3,641,475,558	\$3,841,149,703	\$199,674,145	5.5%

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

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

Disparity Grant Calculation
Change in Adjusted Income Tax Revenue Per Capita*
Tax Year 2013-2014

<u>County</u>	<u>Per Capita Tax Yield 2013</u>	<u>Per Capita Tax Yield 2014</u>	<u>\$ Change 2013-2014</u>	<u>% Change 2013-2014</u>
Allegany	\$295.58	\$310.50	\$14.91	5.0%
Anne Arundel	707.88	735.17	27.28	3.9%
Baltimore City	324.85	356.63	31.78	9.8%
Baltimore	647.15	668.74	21.59	3.3%
Calvert	638.71	664.74	26.04	4.1%
Caroline	332.45	344.01	11.56	3.5%
Carroll	642.30	676.63	34.33	5.3%
Cecil	445.59	466.30	20.71	4.6%
Charles	532.19	578.14	45.95	8.6%
Dorchester	333.04	332.91	-0.13	0.0%
Frederick	640.38	664.16	23.77	3.7%
Garrett	354.80	370.26	15.46	4.4%
Harford	596.97	622.11	25.14	4.2%
Howard	909.73	963.40	53.66	5.9%
Kent	525.43	549.83	24.39	4.6%
Montgomery	943.01	988.82	45.81	4.9%
Prince George's	417.42	426.43	9.02	2.2%
Queen Anne's	631.42	669.01	37.59	6.0%
St. Mary's	567.46	586.79	19.33	3.4%
Somerset	189.71	201.90	12.19	6.4%
Talbot	735.31	747.23	11.92	1.6%
Washington	409.97	425.27	15.30	3.7%
Wicomico	339.00	351.95	12.95	3.8%
Worcester	477.44	514.16	36.72	7.7%
Total	\$614.20	\$642.72	\$28.52	4.6%
75%	\$460.65	\$482.04	\$21.39	4.6%

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

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

Fiscal Summary
Payments to Civil Divisions of the State

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 Disparity Grants	\$ 127,738,286	\$ 129,819,872	\$ 136,718,945	\$ 6,899,073	5.3%
02 Teacher Retirement Supplemental Grants	27,658,662	27,658,662	27,658,661	-1	0%
Total Expenditures	\$ 155,396,948	\$ 157,478,534	\$ 164,377,606	\$ 6,899,072	4.4%
General Fund	\$ 155,396,948	\$ 157,478,534	\$ 164,377,606	\$ 6,899,072	4.4%
Total Appropriations	\$ 155,396,948	\$ 157,478,534	\$ 164,377,606	\$ 6,899,072	4.4%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.