

A15000
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 17</u> <u>Actual</u>	<u>FY 18</u> <u>Working</u>	<u>FY 19</u> <u>Allowance</u>	<u>FY 18-19</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$179,150	\$166,484	\$168,463	\$1,979	1.2%
Adjustments	0	0	0	0	
Adjusted General Fund	\$179,150	\$166,484	\$168,463	\$1,979	1.2%
Special Fund	0	1,041	1,200	159	15.3%
Adjustments	0	0	0	0	
Adjusted Special Fund	\$0	\$1,041	\$1,200	\$159	15.3%
Adjusted Grand Total	\$179,150	\$167,525	\$169,663	\$2,138	1.3%

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The fiscal 2019 allowance increases by \$2.1 million. The majority of this increase is due to formula changes related to the Disparity Grant Program.

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

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Analysis in Brief

Operating Budget Recommended Actions

	<u>Funds</u>
1. Add budget bill language stipulating the disparity grant amounts.	
2. Reduce disparity grants for various jurisdictions.	\$ 2,661,030
Total Reductions	\$ 2,661,030

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Payments to Civil Divisions of the State

Operating Budget Analysis

Program Description

State grant programs that 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. Beginning with fiscal 2018, grants from the Calvert County Gaming Tax Fund are also included.

Proposed Budget

The Governor’s allowance for Payments to Civil Divisions of the State totals \$169.7 million, which is an increase of \$2.1 million. As shown in **Exhibit 1**, the majority of this increase is due to changes in the disparity grants. **Exhibit 2** provides a summary of funding by jurisdiction for all of the grant programs in fiscal 2019.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2017 Actual	\$179,150	\$0	\$179,150
Fiscal 2018 Working Appropriation	166,484	1,041	167,525
Fiscal 2019 Allowance	<u>168,463</u>	<u>1,200</u>	<u>169,663</u>
Fiscal 2018-2019 Amount Change	\$1,979	\$159	\$2,138
Fiscal 2018-2019 Percent Change	1.2%	15.3%	1.3%
 Where It Goes:			
Disparity Grants			
Prince George’s.....			\$3,222
Wicomico.....			737
Cecil.....			548
Somerset.....			268
Washington.....			243
Baltimore City.....			-3,039
Other Changes			
Calvert County Gaming Tax Fund grants.....			159
Total			\$2,138

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

Exhibit 2
State Funding for Payments to Civil Divisions
Fiscal 2019
(\$ in Thousands)

<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Calvert County Gaming Grants</u>	<u>Total</u>
Allegany	\$7,299	\$1,632		\$8,931
Anne Arundel				
Baltimore City	76,013	10,048		86,060
Baltimore		3,000		3,000
Calvert			\$1,200	1,200
Caroline	2,132	685		2,817
Carroll				
Cecil	1,058			1,058
Charles				
Dorchester	2,023	309		2,332
Frederick				
Garrett	2,131	406		2,538
Harford				
Howard				
Kent				
Montgomery				
Prince George's	34,100	9,629		43,728
Queen Anne's				
St. Mary's				
Somerset	5,176	382		5,558
Talbot				
Washington	1,903			1,903
Wicomico	8,970	1,568		10,538
Worcester				
Total	\$140,804	\$27,659	\$1,200	\$169,663

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% 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% 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 effort.

Eligible counties, where the amount necessary to raise that county's per capita income tax rate to 75% 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% 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% of the uncapped grant amount;
- from a tax rate of 3% to 3.19%, 40% of the uncapped grant amount; and
- at a tax rate of 3.2% (the maximum), 60% of the uncapped grant amount.

Further, Chapter 738 of 2016 increased the proportion that a county with a 3.2% tax rate receives from 60% to 67.5% for fiscal 2018 and 2019. However, Chapter 23 of 2017 (the Budget Reconciliation and Financing Act) reduced the proportion to 63.75% for fiscal 2018. The calculation under current law for fiscal 2019 is presented in **Exhibit 3**. For fiscal 2019, Cecil, Prince George's, Somerset, Washington, and Wicomico counties are receiving increases from the fiscal 2018 grant, while the grant to Baltimore City declines under the formula.

Exhibit 3
Disparity Grant Calculation
Fiscal 2019

<u>County</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>2019 Uncapped Grant</u>	<u>Fiscal 2010 (Cap)</u>	<u>Fiscal 2019 Grant Amount</u>	<u>Fiscal 2018 Grant Amount</u>	<u>Difference to Fiscal 2018</u>	<u>Piggyback Calendar 2018</u>
Allegany	\$313.97	\$190.19	\$13,718,494	\$7,298,505	\$7,298,505	\$7,298,505	\$0	3.05%
Anne Arundel	797.99	\$0.00	0	0	0	0	0	2.50%
Baltimore City	380.50	\$123.67	76,012,567	79,051,790	76,012,567	79,051,790	-3,039,223	3.20%
Baltimore	669.02	\$0.00	0	0	0	0	0	2.83%
Calvert	706.83	\$0.00	0	0	0	0	0	3.00%
Caroline	369.88	\$134.28	4,411,198	2,131,782	2,131,782	2,131,782	0	2.73%
Carroll	728.80	\$0.00	0	0	0	0	0	3.03%
Cecil	478.37	\$25.79	2,646,208	0	1,058,483	510,882	547,601	3.00%
Charles	587.15	\$0.00	0	0	0	0	0	3.03%
Dorchester	357.05	\$147.11	4,745,588	2,022,690	2,022,690	2,022,690	0	2.62%
Frederick	709.44	\$0.00	0	0	0	0	0	2.96%
Garrett	375.99	\$128.18	3,771,649	2,131,271	2,131,271	2,131,271	0	2.65%
Harford	665.96	\$0.00	0	0	0	0	0	3.06%
Howard	983.94	\$0.00	0	0	0	0	0	3.20%
Kent	529.21	\$0.00	0	0	0	0	0	2.85%
Montgomery	1,024.17	\$0.00	0	0	0	0	0	3.20%
Prince George's	448.53	\$55.63	50,517,944	21,694,767	34,099,612	30,877,226	3,222,386	3.20%
Queen Anne's	748.52	\$0.00	0	0	0	0	0	3.20%
St. Mary's	614.39	\$0.00	0	0	0	0	0	3.00%
Somerset	208.39	\$295.77	7,668,790	4,908,167	5,176,433	4,908,167	268,266	3.20%
Talbot	745.15	\$0.00	0	0	0	0	0	2.40%
Washington	440.87	\$63.30	9,513,425	0	1,902,685	1,660,099	242,586	2.80%
Wicomico	374.61	\$129.55	13,289,102	2,197,041	8,970,144	8,232,659	737,485	3.20%
Worcester	579.17	\$0.00	0	0	0	0	0	1.75%
Total	\$672.22	\$0.00	\$186,294,965	\$121,436,013	\$140,804,172	\$138,825,071	\$1,979,101	
Target (75%)	\$504.16							

Analysis of the FY 2019 Maryland Executive Budget, 2018

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Source: Department of Legislative Services

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For Prince George’s, Somerset, Washington, and Wicomico counties, the increase for fiscal 2019 can be explained by the fact that the disparity in the per capita tax yield grew compared to the statewide average, which resulted in an increase in their uncapped grant amount, as seen in **Exhibit 4**. Conversely, Baltimore City’s disparity in the per capita tax yield shrank compared to the statewide average, resulting in a decline in the uncapped grant amount. For Cecil County, while the disparity in the per capita tax yield also grew slightly compared to the statewide average, the majority of the increase is due to the fact that Cecil County increased its local income tax rate from 2.8% to 3%, making it eligible for a higher proportion of the uncapped grant amount.

Exhibit 4
Effect of the Cap Provisions
Fiscal 2019

<u>County</u>	<u>2018 Uncapped Grant</u>	<u>2019 Uncapped Grant</u>	<u>2018-2019 Uncapped Grant Difference</u>	<u>Foregone Amount 2019</u>
Allegany	\$13,061,991	\$13,718,494	\$656,503	\$6,419,989
Baltimore City	81,452,628	76,012,567	-5,440,061	0
Caroline	4,477,067	4,411,198	-\$65,869	2,279,416
Cecil	2,554,409	2,646,208	\$91,799	1,587,725
Dorchester	4,802,675	4,745,588	-\$57,088	2,722,898
Garrett	3,309,657	3,771,649	\$461,992	1,640,378
Prince George’s	48,434,865	50,517,944	\$2,083,079	16,418,332
Somerset	7,440,370	7,668,790	\$228,420	2,492,357
Washington	8,300,496	9,513,425	\$1,212,929	7,610,740
Wicomico	12,913,975	13,289,102	\$375,127	4,318,958
Total	\$186,748,133	\$186,294,965	-\$453,168	\$45,490,793

Source: Department of Legislative Services

As further seen in Exhibit 4, the current cap provisions continue to have a significant effect upon reducing spending in the budget. For fiscal 2019, the current cap provisions combined to reduce spending in the allowance by \$45.5 million since every eligible county in fiscal 2019 has an uncapped grant amount higher than the cap provisions, with the exception of Baltimore City.

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.

As previously mentioned, this is the final year in which a jurisdiction with a 3.2% local income tax rate is eligible to receive 67.5% of the uncapped disparity grant amount. **Due to the fiscal condition**

of the State, the Department of Legislative Services (DLS) recommends reducing these grants down to 63.75% of the uncapped grant amount, which is the amount that these jurisdictions received in fiscal 2018. Exhibit 5 contains the new grant amounts, and the difference to the allowance, of the DLS recommendation.

Exhibit 5
Impact of DLS Recommendation
Fiscal 2019

<u>County</u>	<u>Projected Grant</u>	<u>After DLS Recommendation</u>	<u>Difference</u>	<u>Difference to Fiscal 2018</u>
Allegany	\$7,298,505	\$7,298,505	\$0	\$0
Baltimore City	76,012,567	76,012,567	0	-3,039,223
Caroline	2,131,782	2,131,782	0	0
Cecil	1,058,483	1,058,483	0	547,601
Dorchester	2,022,690	2,022,690	0	0
Garrett	2,131,271	2,131,271	0	0
Prince George's	34,099,612	32,205,189	-1,894,423	1,327,963
Somerset	5,176,433	4,908,167	-268,266	0
Washington	1,902,685	1,902,685	0	242,586
Wicomico	8,970,144	8,471,803	-498,341	239,144
Total	\$140,804,172	\$138,143,142	-\$2,661,030	-\$681,929

DLS: Department of Legislative Services

Source: Department of Legislative Services

Operating Budget Recommended Actions

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

, provided that the allocation of the disparity grants shall be distributed to the eligible counties as follows:

<u>Allegany</u>	<u>\$7,298,505</u>
<u>Baltimore City</u>	<u>\$76,012,567</u>
<u>Caroline</u>	<u>\$2,131,782</u>
<u>Cecil</u>	<u>\$1,058,483</u>
<u>Dorchester</u>	<u>\$2,022,690</u>
<u>Garrett</u>	<u>\$2,131,271</u>
<u>Prince George’s</u>	<u>\$32,205,189</u>
<u>Somerset</u>	<u>\$4,908,167</u>
<u>Washington</u>	<u>\$1,902,685</u>
<u>Wicomico</u>	<u>\$8,471,803</u>

Explanation: This language dictates how much each county receives under the Disparity Grant Program for fiscal 2019.

	<u>Amount</u>	
2. Reduce funding for disparity grants to reflect savings from reducing the percentage of the uncapped grant amount awarded to jurisdictions with a 3.2% local income tax rate from 67.5% to the fiscal 2018 level of 63.75%. By statute, the percentage drops to 60% in fiscal 2020.	\$ 2,661,030	GF
Total General Fund Reductions	\$ 2,661,030	

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Appendix 1
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 2017					
Legislative Appropriation	\$164,378	\$0	\$0	\$0	\$164,378
Deficiency Appropriation	19,695	0	0	0	19,695
Cost Containment	-3,923	0	0	0	-3,923
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	-1,000	0	0	0	-1,000
Actual Expenditures	\$179,150	\$0	\$0	\$0	\$179,150
Fiscal 2018					
Legislative Appropriation	\$166,484	\$1,041	\$0	\$0	\$167,525
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$166,484	\$1,041	\$0	\$0	\$167,525

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

Actual expenditures for Payments to Civil Divisions of the State were \$14,772,422 above the legislative appropriation, all in general funds. The majority of this difference is due to a deficiency appropriation, totaling \$19,695,182, to provide local jurisdictions with assistance in paying their fiscal 2017 State Retirement Agency administrative fees. This increase was offset by two reductions within the Disparity Grant Program, including \$3,922,760 in cost containment reductions and a \$1,000,000 reversion in the disparity grant for Baltimore City due to restrictive budget language requesting a report that was not submitted before the end of the fiscal year.

Appendix 2
Disparity Grant Calculation
Change in Population by Jurisdiction

<u>County</u>	<u>Population July 2015</u>	<u>Population July 2016</u>	<u>2015-2016 Change</u>	<u>2015-2016 % Change</u>
Allegany	72,528	72,130	-398	-0.5%
Anne Arundel	564,195	568,346	4,151	0.7%
Baltimore City	621,849	614,664	-7,185	-1.2%
Baltimore	831,128	831,026	-102	0.0%
Calvert	90,595	91,251	656	0.7%
Caroline	32,579	32,850	271	0.8%
Carroll	167,627	167,656	29	0.0%
Cecil	102,382	102,603	221	0.2%
Charles	156,118	157,705	1,587	1.0%
Dorchester	32,384	32,258	-126	-0.4%
Frederick	245,322	247,591	2,269	0.9%
Garrett	29,460	29,425	-35	-0.1%
Harford	250,290	251,032	742	0.3%
Howard	313,414	317,233	3,819	1.2%
Kent	19,787	19,730	-57	-0.3%
Montgomery	1,040,116	1,043,863	3,747	0.4%
Prince George's	909,535	908,049	-1,486	-0.2%
Queen Anne's	48,904	48,929	25	0.1%
St. Mary's	111,413	112,587	1,174	1.1%
Somerset	25,768	25,928	160	0.6%
Talbot	37,512	37,278	-234	-0.6%
Washington	149,585	150,292	707	0.5%
Wicomico	102,370	102,577	207	0.2%
Worcester	51,540	51,444	-96	-0.2%
Total	6,006,401	6,016,447	10,046	0.2%

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

Appendix 3
Disparity Grant Calculation
Change in Adjusted Income Tax Revenues*

<u>County</u>	<u>Tax Year 2015 Adjusted Income Tax Revenues</u>	<u>Tax Year 2016 Adjusted Income Tax Revenues</u>	<u>2015-2016 \$ Change</u>	<u>2015-2016 % Change</u>
Allegany	\$22,816,021	\$22,646,906	-\$169,115	-0.7%
Anne Arundel	432,462,666	453,536,923	21,074,257	4.9%
Baltimore City	226,162,437	233,879,324	7,716,888	3.4%
Baltimore	557,409,238	555,971,612	-1,437,626	-0.3%
Calvert	63,010,542	64,499,045	1,488,503	2.4%
Caroline	11,639,049	12,150,612	511,563	4.4%
Carroll	118,888,642	122,188,244	3,299,602	2.8%
Cecil	48,091,721	49,082,603	990,881	2.1%
Charles	89,660,100	92,596,032	2,935,932	3.3%
Dorchester	11,216,979	11,517,757	300,778	2.7%
Frederick	168,978,255	175,650,780	6,672,525	3.9%
Garrett	11,263,559	11,063,397	-200,162	-1.8%
Harford	162,423,933	167,176,928	4,752,995	2.9%
Howard	308,362,039	312,137,081	3,775,042	1.2%
Kent	10,739,816	10,441,378	-298,438	-2.8%
Montgomery	1,046,961,701	1,069,089,192	22,127,491	2.1%
Prince George's	401,492,156	407,288,307	5,796,151	1.4%
Queen Anne's	34,128,369	36,624,174	2,495,805	7.3%
St. Mary's	67,861,825	69,172,443	1,310,618	1.9%
Somerset	5,306,495	5,403,192	96,697	1.8%
Talbot	28,737,143	27,777,715	-959,428	-3.3%
Washington	65,695,923	66,258,496	562,573	0.9%
Wicomico	37,726,219	38,426,600	700,381	1.9%
Worcester	30,611,661	29,794,849	-816,813	-2.7%
Total	\$3,961,646,491	\$4,044,373,590	\$82,727,099	2.1%

* 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

Appendix 4
Disparity Grant Calculation
Change in Adjusted Income Tax Revenue Per Capita*

<u>County</u>	<u>Tax Year 2015 Per Capita Tax Yield</u>	<u>Tax Year 2016 Per Capita Tax Yield</u>	<u>2015-2016 \$ Change</u>	<u>2015-2016 % Change</u>
Allegany	\$314.58	\$313.97	-\$0.61	-0.2%
Anne Arundel	766.51	797.99	31.48	4.1%
Baltimore City	363.69	380.50	16.81	4.6%
Baltimore	670.67	669.02	-1.65	-0.2%
Calvert	695.52	706.83	11.31	1.6%
Caroline	357.26	369.88	12.63	3.5%
Carroll	709.25	728.80	19.56	2.8%
Cecil	469.73	478.37	8.65	1.8%
Charles	574.31	587.15	12.84	2.2%
Dorchester	346.37	357.05	10.68	3.1%
Frederick	688.80	709.44	20.64	3.0%
Garrett	382.33	375.99	-6.35	-1.7%
Harford	648.94	665.96	17.02	2.6%
Howard	983.88	983.94	0.06	0.0%
Kent	542.77	529.21	-13.56	-2.5%
Montgomery	1,006.58	1,024.17	17.58	1.7%
Prince George's	441.43	448.53	7.11	1.6%
Queen Anne's	697.86	748.52	50.65	7.3%
St. Mary's	609.10	614.39	5.29	0.9%
Somerset	205.93	208.39	2.46	1.2%
Talbot	766.08	745.15	-20.93	-2.7%
Washington	439.19	440.87	1.68	0.4%
Wicomico	368.53	374.61	6.08	1.7%
Worcester	593.94	579.17	-14.77	-2.5%
Total	\$659.57	\$672.22	\$12.65	1.9%
75%	\$494.68	\$504.16	\$9.49	1.9%

* 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

**Appendix 5
Fiscal Summary
Payments to Civil Divisions of the State**

<u>Program/Unit</u>	<u>FY 17 Actual</u>	<u>FY 18 Wrk Approp</u>	<u>FY 19 Allowance</u>	<u>Change</u>	<u>FY 18 - FY 19 % Change</u>
01 Disparity Grants	\$ 131,796,185	\$ 138,825,071	\$ 140,804,172	\$ 1,979,101	1.4%
02 Teacher Retirement Supplemental Grants	27,658,661	27,658,661	27,658,661	0	0%
03 Calvert County BINGO Grants	0	1,040,803	1,200,000	159,197	15.3%
04 Teacher Retirement Administrative Fee	19,695,181	0	0	0	0%
Total Expenditures	\$ 179,150,027	\$ 167,524,535	\$ 169,662,833	\$ 2,138,298	1.3%
General Fund	\$ 179,150,027	\$ 166,483,732	\$ 168,462,833	\$ 1,979,101	1.2%
Special Fund	0	1,040,803	1,200,000	159,197	15.3%
Total Appropriations	\$ 179,150,027	\$ 167,524,535	\$ 169,662,833	\$ 2,138,298	1.3%

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.