

Department of Legislative Services  
 Maryland General Assembly  
 2000 Session

FISCAL NOTE

Senate Bill 533 (Senator McFadden) (Baltimore City Administration)

Budget and Taxation

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Political Subdivisions - Special Grant to a County - Disparity Grant Formula

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This bill alters the disparity grant formula by ensuring that each county's per capita local income tax revenues will be at least 80% of the statewide average.

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Fiscal Summary

**State Effect:** General fund expenditures would increase by \$39.1 million in FY 2002. Future year expenditures reflect growth in county population and local income tax revenues. Revenues would not be affected.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	0	39.1	42.2	45.6	49.3
Net Effect	\$0	(\$39.1)	(\$42.2)	(\$45.6)	(\$49.3)

Note: ( ) = decrease; GF = general funds;

**Local Effect:** State aid to local governments would increase by \$39.1 million in FY 2002 and \$49.3 million by FY 2005.

**Small Business Effect:** None.

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Analysis

**Current Law:** The disparity grant formula ensures that each county's per capita local income tax revenue is at least 75% of the statewide average.

**Background:** The State began providing disparity grants to counties whose per capita local

income tax revenues were less than 70% of the statewide average in fiscal 1992. These counties were Allegany, Caroline, Dorchester, Garrett, Somerset and Baltimore City. Each county's grant equaled the amount necessary to raise the county's per capita income tax revenues to 70% of the statewide average. Legislation enacted in 1992 placed the disparity grant formula in statute for fiscal 1993 and subsequent years. Legislation enacted in 1996 guaranteed that, beginning in fiscal 1998, each county's per capita local income tax revenues would be 75% of the statewide average, rather than 70%. This change made two counties, Washington and Wicomico, eligible for disparity grants; however, in subsequent years Washington County became ineligible for disparity grants. In fiscal 2001, Prince George's County became eligible for disparity grants.

**State and Local Fiscal Effect:** Altering the disparity grant formula by ensuring that each county's per capita local income tax revenues are at least 80% of the statewide average would increase State expenditures by \$39.1 million in fiscal 2002. This revision would make three additional counties (Cecil, St. Mary's, and Washington) eligible for disparity grants. **Exhibit 1** shows the changes in disparity grant aid for each county based on the fiscal 2001 formula calculation. It is assumed that disparity grant aid would increase by 8% each year to reflect growth in county population and local income tax revenues, resulting in a larger increase in State aid than shown in **Exhibit 1**.

**Additional Comments:** Chapter 493 of 1999 changed the calculation of the local income tax from a percentage of the State tax liability to a percentage of net taxable income. However, the prior method of calculating local income taxes (percentage of the State tax liability) is still used in the disparity grant formula. Legislation (SB 551/HB 945) has been introduced in the 2000 session to change the calculation of the disparity grant to reflect the current method of calculating local income taxes. This bill also would have to be amended to reflect the new method of calculating local income taxes.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 734 (Delegate Marriott, *et al.*) - Appropriations.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 23, 2000  
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**Exhibit 1**  
**Disparity Grant Formula**  
**80% of the Statewide Average Per Capita Income Tax Revenues**  
**Fiscal 2001 Formula Calculation**

County	Current Law	Proposal	Difference
Allegheny	\$5,099,138	\$6,464,149	\$1,365,011
Anne Arundel	0	0	0
Baltimore	0	0	0
Baltimore City	61,013,229	73,372,989	12,359,760
Calvert	0	0	0
Caroline	2,170,977	2,735,743	564,766
Carroll	0	0	0
Cecil	0	419,337	419,337
Charles	0	0	0
Dorchester	1,668,683	2,233,449	564,766
Frederick	0	0	0
Garrett	2,585,412	3,144,435	559,023
Harford	0	0	0
Howard	0	0	0
Kent	0	0	0
Montgomery	0	0	0
Prince George's	4,775,506	19,666,184	14,890,678
Queen Anne's	0	0	0
St. Mary's	0	1,228,854	1,228,854
Somerset	3,524,771	3,989,985	465,214
Talbot	0	0	0
Washington	0	2,267,326	2,267,326
Wicomico	788,963	2,309,046	1,520,082
Worcester	0	0	0
<b>Total</b>	<b>\$81,626,681</b>	<b>\$117,831,497</b>	<b>\$36,204,817</b>

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