

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 214 (Senator McFadden ,*et.al.*)
 (Baltimore City Administration)

Budget and Taxation

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

This bill alters the disparity grant formula by ensuring that each county's per capita local income tax revenues will be at least 77.5% of the statewide average based on a 2.59% local income tax rate.

Fiscal Summary

State Effect: General fund expenditures would increase by \$25.5 million in FY 2004. Future year expenditures reflect growth in county population and local income tax revenues. Revenues would not be affected.

| (in dollars) | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|----------------|---------|----------------|----------------|----------------|----------------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 25,536,000 | 27,834,300 | 30,339,400 | 33,069,900 |
| Net Effect | \$0 | (\$25,536,000) | (\$27,834,300) | (\$30,339,400) | (\$33,069,900) |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: State aid to ten local governments would increase by a total of \$25.5 million in FY 2004 and by \$33.1 million in FY 2007.

Small Business Effect: None.

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. The fiscal 2003 disparity grant formula is based on July 2000 population estimates and calendar 2000 local income tax revenues raised from a 2.54% local income tax rate.

Background: The disparity grant addresses the differences in the capacities or abilities of counties to raise revenues from the local income tax. 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. Local governments receiving the grants were Baltimore City and Allegany, Caroline, Dorchester, Garrett, and Somerset counties. Each county's grant equaled the amount necessary to raise the county's per capita income tax revenues to 70% of the statewide average. The 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. 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 77.5% of the statewide average based on a 2.59% local income tax rate would increase State expenditures by \$25.5 million in fiscal 2004. This revision would make Cecil County eligible for disparity grants. **Exhibit 1** shows the changes in disparity grant aid for each county based on the fiscal 2003 formula calculation. It is assumed that disparity grant aid would increase by 9% 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.

This legislation alters the disparity grant by: (1) ensuring that each county's per capita local income tax revenues will be at least 77.5% of the statewide average instead of 75% of the statewide average; and (2) basing the per capita local income tax revenues on a 2.59% local income tax rate instead of a 2.54% local income tax rate. The following table shows the fiscal impact of both proposed changes separately.

| <u>Policy Change</u> | <u>Estimated Impact in FY 2004</u> |
|-----------------------------|------------------------------------|
| 77.5% Program | \$22,619,400 |
| 2.59% Local Income Tax Rate | \$2,471,400 |

Additional Information

Prior Introductions: Similar bills were introduced at the 2000 session as SB 533 and HB 734. SB 533 was withdrawn and no action was taken on HB 734. At the 2001 session, HB 654 received an unfavorable report by the House Ways and Means Committee and SB 451 was withdrawn.

Cross File: HB 236 (Delegate Marriott) (Baltimore City Administration) – Ways and Means.

Information Source: Department of Legislative Services

Fiscal Note History: First Reader - January 28, 2002
mam/jr

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Exhibit 1
Calculating the FY 2003 Disparity Grant Under SB 214

| County | Population July 1, 2000 | Adj. Income Tax Revenue (TY 2000) | Per Capita Tax Yield | Per Capita Grant | Grant Under SB 214 | Grant Under Current Law | Difference | Percent Change |
|-----------------|------------------------------------|--------------------------------------------------|---------------------------------|-----------------------------|-------------------------------|------------------------------------|---------------------|---------------------------|
| Allegany | 74,930 | \$17,644,462 | \$235.48 | \$114.59 | \$8,585,933 | \$7,590,374 | \$995,559 | 13.1% |
| Anne Arundel | 489,656 | 254,189,117 | 519.12 | 0.00 | 0 | 0 | 0 | |
| Baltimore City | 651,154 | 143,060,936 | 219.70 | 130.36 | 84,885,504 | 76,035,628 | 8,849,876 | 11.6% |
| Baltimore | 754,292 | 363,228,213 | 481.55 | 0.00 | 0 | 0 | 0 | |
| Calvert | 74,563 | 33,224,274 | 445.59 | 0.00 | 0 | 0 | 0 | |
| Caroline | 29,772 | 7,581,236 | 254.64 | 95.42 | 2,840,909 | 2,456,357 | 384,552 | 15.7% |
| Carrroll | 150,897 | 66,481,029 | 440.57 | 0.00 | 0 | 0 | 0 | |
| Cecil | 85,951 | 29,923,166 | 348.14 | 1.92 | 165,299 | 0 | 165,299 | |
| Charles | 120,546 | 47,534,547 | 394.33 | 0.00 | 0 | 0 | 0 | |
| Dorchester | 30,674 | 8,500,124 | 277.11 | 72.95 | 2,237,780 | 1,854,882 | 382,898 | 20.6% |
| Frederick | 195,277 | 92,286,809 | 472.59 | 0.00 | 0 | 0 | 0 | |
| Garrett | 29,846 | 7,041,339 | 235.92 | 114.14 | 3,406,711 | 3,010,417 | 396,294 | 13.2% |
| Harford | 218,590 | 96,642,971 | 442.12 | 0.00 | 0 | 0 | 0 | |
| Howard | 247,842 | 168,737,203 | 680.83 | 0.00 | 0 | 0 | 0 | |
| Kent | 19,197 | 6,913,860 | 360.15 | 0.00 | 0 | 0 | 0 | |
| Montgomery | 873,341 | 634,293,537 | 726.28 | 0.00 | 0 | 0 | 0 | |
| Prince George's | 801,515 | 256,488,045 | 320.00 | 30.06 | 24,094,567 | 14,753,100 | 9,341,467 | |
| Queen Anne's | 40,563 | 18,316,858 | 451.57 | 0.00 | 0 | 0 | 0 | |
| St. Mary's | 86,211 | 30,546,877 | 354.33 | 0.00 | 0 | 0 | 0 | |
| Somerset | 24,747 | 4,010,611 | 162.06 | 188.00 | 4,652,456 | 4,288,581 | 363,875 | 8.5% |
| Talbot | 33,812 | 19,284,968 | 570.36 | 0.00 | 0 | 0 | 0 | |
| Washington | 131,923 | 42,665,703 | 323.41 | 26.65 | 3,515,966 | 1,987,119 | 1,528,847 | |
| Wicomico | 84,644 | 25,408,607 | 300.18 | 49.88 | 4,222,322 | 3,203,426 | 1,018,896 | 31.8% |
| Worcester | 46,543 | 18,403,402 | 395.41 | 0.00 | 0 | 0 | 0 | |
| Total | 5,296,486 | \$2,392,407,894 | \$451.70 | | \$138,607,447 | \$115,179,884 | \$23,427,563 | 20.3% |

Sources:

(1) Population: MD Center for Health Statistics, DHMH, July 1, 2000 Population Estimates.

(2) Adjusted Income Tax Revenue: Derived from Summary Report of Maryland Individual Income Tax Returns filed for the tax year 2000.

Adjusted income tax revenue are amounts a county would collect from a 2.59% rate.

Target (77.5%) \$350.07

Prepared by: Department of Legislative Services, Office of Policy Analysis