

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

Senate Bill 158 (Senator McFadden)
 (By Request – 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 \$23.2 million in FY 2005. Future year expenditures reflect growth in county population and local income tax revenues. Revenues would not be affected.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	23.2	24.4	25.6	26.9
Net Effect	\$0	(\$23.2)	(\$24.4)	(\$25.6)	(\$26.9)

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

Local Effect: State aid to nine local governments would increase by a total of \$23.2 million in FY 2005 and by \$26.9 million in FY 2008.

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 2004 disparity

grant formula is based on July 2001 population estimates and calendar 2001 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. **Exhibit 1** shows the level of funding for disparity grants since fiscal 1992.

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 \$23.2 million in fiscal 2005. **Exhibit 2** shows the changes in disparity grant aid for each county based on the fiscal 2004 formula calculation. It is assumed that disparity grant aid would increase by 5% 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 2.

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 2005</u>
77.5% Program	\$19.8 million
2.59% Local Income Tax Rate	\$1.9 million

Additional Information

Prior Introductions: Similar bills were introduced at the 2002 session as SB 214 and HB 236. The Senate Budget and Taxation Committee took no action on SB 214 and the House Ways and Means Committee took no action on HB 236.

Cross File: HB 308 (Delegate Marriott, *et al.*) – Ways and Means.

Information Source: Department of Legislative Services

Fiscal Note History: First Reader - February 10, 2003
ncs/jr

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Exhibit 1
State Funding for Disparity Grants
Fiscal 1992 - 2004

County	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Allegany	\$370,000	\$1,281,750	\$1,637,429	\$1,987,382	\$2,032,596	\$2,375,837	\$3,592,611	\$3,885,678	\$4,206,580	\$5,099,138	\$5,264,420	\$7,590,374	\$7,646,528
Anne Arundel	0	0	0	0	0	0	0	0	0	0	0	0	1,600,000
Baltimore City	7,396,000	18,344,250	29,695,890	34,822,600	37,027,987	37,608,294	50,506,101	51,473,147	56,517,265	61,013,229	64,361,931	76,035,628	76,476,717
Baltimore	0	0	0	0	0	0	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0	0	0	0	0	0	0
Caroline	109,000	381,750	612,812	852,456	818,556	901,235	1,493,402	1,625,591	1,834,748	2,170,977	2,316,232	2,456,358	2,194,865
Carroll	0	0	0	0	0	0	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0	0	0	0	0	0	0
Charles	0	0	0	0	0	0	0	0	0	0	0	0	0
Dorchester	86,000	406,500	647,687	881,526	843,047	957,817	1,290,582	1,357,021	1,462,155	1,668,683	1,928,463	1,854,882	2,379,001
Frederick	0	0	0	0	0	0	0	0	0	0	0	0	0
Garrett	243,000	882,750	1,413,266	1,420,854	1,428,125	1,458,779	2,029,289	2,177,813	2,326,328	2,585,412	2,999,791	3,010,417	4,645,289
Harford	0	0	0	0	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0	0	0	0	0	0	1,075,000
Montgomery	0	0	0	0	0	0	0	0	0	0	0	0	0
Prince George's	0	0	0	0	0	0	0	0	0	4,775,506	6,879,315	14,753,100	7,067,475
Queen Anne's	0	0	0	0	0	0	0	0	0	0	0	0	180,000
St. Mary's	0	0	0	0	0	0	0	0	0	0	0	0	0
Somerset	344,000	1,203,000	2,067,096	2,272,400	2,097,023	2,211,700	2,734,070	2,954,585	3,246,259	3,524,771	3,754,928	4,288,581	4,427,422
Talbot	0	0	0	0	0	0	0	0	0	0	0	0	0
Washington	0	0	0	0	0	0	229,353	195,976	207,670	0	676,132	1,987,118	250,565
Wicomico	0	0	0	0	0	0	150,295	446,216	577,823	788,963	1,108,345	3,203,426	2,888,558
Worcester	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	\$8,548,000	\$22,500,000	\$36,074,180	\$42,237,218	\$44,247,334	\$45,513,662	\$62,025,703	\$64,116,027	\$70,378,828	\$81,626,679	\$89,289,557	\$115,179,884	\$110,831,420
Percent Change		163.2%	60.3%	17.1%	4.8%	2.9%	36.3%	3.4%	9.8%	16.0%	9.4%	29.0%	-3.8%

Exhibit 2
Calculating the Fiscal 2004 Disparity Grant Under SB 158/HB 308

<u>County</u>	<u>Population July 2001</u>	<u>Adjusted Income Tax Revenues TY 2001 at 2.59%</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Grant Under SB 158/HB 308</u>	<u>Grant Under Current Law</u>	<u>Difference</u>
Allegany	75,200	\$17,340,572	\$230.59	\$104.98	\$7,894,537	\$6,943,812	\$950,725
Anne Arundel	497,200	247,013,270	496.81	0.00	0	0	0
Baltimore City	644,300	137,409,656	213.27	122.30	78,800,193	70,439,085	8,361,108
Baltimore	764,600	350,799,186	458.80			0	0
Calvert	77,300	34,486,758	446.14	0.00	0	0	0
Caroline	30,100	7,735,740	257.00	78.57	2,365,015	1,999,817	365,197
Carroll	153,800	68,090,680	442.72	0.00	0	0	0
Cecil	88,000	30,247,505	343.72	0.00	0	0	0
Charles	123,000	49,463,450	402.14	0.00	0	0	0
Dorchester	30,900	7,759,077	251.10	84.47	2,610,136	2,231,714	378,422
Frederick	200,500	96,352,767	480.56	0.00	0	0	0
Garrett	30,000	7,135,884	237.86	97.71	2,931,314	2,556,246	375,068
Harford	222,200	95,572,680	430.12	0.00	0	0	0
Howard	255,300	160,627,517	629.17	0.00	0	0	0
Kent	19,300	6,898,086	357.41	0.00	0	0	0
Montgomery	888,400	590,379,546	664.54	0.00	0	0	0
Prince George's	812,800	257,943,364	317.35	18.22	14,810,578	5,896,001	8,914,578
Queen Anne's	41,500	18,627,251	448.85	0.00	0	0	0
St. Mary's	87,500	32,544,323	371.94	0.00	0	0	0
Somerset	25,000	4,180,801	167.23	168.34	4,208,531	3,861,886	346,645
Talbot	34,200	17,313,434	506.24	0.00	0	0	0
Washington	133,300	43,194,347	324.04	11.53	1,537,568	92,777	1,444,791
Wicomico	86,200	25,307,261	293.59	41.99	3,619,154	2,634,189	984,964
Worcester	48,200	18,255,163	378.74	0.00	0	0	0
Total	5,368,800	\$2,324,678,319	\$433.00	\$0.00	\$118,777,026	\$96,655,528	\$22,121,498
Target (77.5%)			\$335.57				