

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 419 (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 \$22.1 million in FY 2006. Future year expenditures reflect growth in county population and local income tax revenues. Revenues would not be affected.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	22.1	23.2	24.3	25.6
Net Effect	\$0	(\$22.1)	(\$23.2)	(\$24.3)	(\$25.6)

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 \$22.1 million in FY 2006, escalating to \$25.6 million in FY 2009.

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 2005 disparity grant formula is based on July 2002 population estimates and calendar 2002 local income tax revenues raised from a 2.54% local income tax rate.

Background: The disparity grant program addresses the differences in the capacities or abilities of counties to raise revenues from the local income tax. The State began providing disparity grants in fiscal 1992 to counties whose per capita local income tax revenues were less than 70% of the statewide average. Baltimore City and five counties (Allegany, Caroline, Dorchester, Garrett, and Somerset) qualified for the grants. Funding for disparity grants totaled \$8.5 million in fiscal 1992. 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 additional counties, Washington and Wicomico, eligible for disparity grants. In fiscal 2001, Prince George's County became eligible for disparity grants, and Washington County became ineligible due to increases in its per capita local income tax yields. Washington County, however, became eligible for the program once again in fiscal 2002 but became ineligible in fiscal 2005. **Exhibit 1** shows the level of funding for disparity grants since fiscal 1992.

State funding for the disparity grant program has declined in recent years. State funding reached \$115.2 million in fiscal 2003 but declined to \$105.8 million in fiscal 2004 and \$93.1 million in fiscal 2005. The decrease in the statutorily required funding amount is due to the narrowing of the disparity in per capita income tax revenues between less affluent counties and other counties in Maryland. The decrease in disparity grant funding was partially offset in fiscal 2004 by the inclusion of \$9.2 million in discretionary 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 \$22.1 million in fiscal 2006. **Exhibit 2** shows the changes in disparity grant aid for each county based on the fiscal 2005 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.

Policy Change

Estimated Impact in FY 2006

77.5% Program	\$19.7 million
2.59% Local Income Tax Rate	\$1.9 million
Combination Effect	\$0.5 million
Total	\$22.1 million

Additional Information

Prior Introductions: Similar bills were introduced at the 2003 session as SB 158 and HB 308. SB 158 received an unfavorable report by the Senate Budget and Taxation Committee. The House Ways and Means Committee took no action on HB 308. At the 2002 session, SB 214 and HB 236 (similar bills) were introduced. 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 554 (Delegate Marriott, *et al.*) (By Request – Baltimore City Administration) – Ways and Means.

Information Source: Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2004
mh/ljm

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Exhibit 1A
Disparity Grant Funding – Fiscal 1992 to 1998

<u>County</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
Allegany	\$370,000	\$1,281,750	\$1,637,429	\$1,987,382	\$2,032,596	\$2,375,837	\$3,592,611
Anne Arundel	0	0	0	0	0	0	0
Baltimore City	7,396,000	18,344,250	29,695,890	34,822,600	37,027,987	37,608,294	50,506,101
Baltimore	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0
Caroline	109,000	381,750	612,812	852,456	818,556	901,235	1,493,402
Carroll	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0
Charles	0	0	0	0	0	0	0
Dorchester	86,000	406,500	647,687	881,526	843,047	957,817	1,290,582
Frederick	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
Harford	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0
Prince George's	0	0	0	0	0	0	0
Queen Anne's	0	0	0	0	0	0	0
St. Mary's	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
Talbot	0	0	0	0	0	0	0
Washington	0	0	0	0	0	0	229,353
Wicomico	0	0	0	0	0	0	150,295
Worcester	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
Percent Change		163.2%	60.3%	17.1%	4.8%	2.9%	36.3%

Exhibit 1B
Disparity Grant Funding – Fiscal 1999 to 2005

<u>County</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Allegany	\$3,885,678	\$4,206,580	\$5,099,138	\$5,264,420	\$7,590,374	\$7,505,173	\$5,901,718
Anne Arundel	0	0	0	0	0	0	0
Baltimore City	51,473,147	56,517,265	61,013,229	64,361,931	76,035,628	75,060,702	69,559,286
Baltimore	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0
Caroline	1,625,591	1,834,748	2,170,977	2,316,232	2,456,358	2,149,120	1,814,313
Carroll	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0
Charles	0	0	0	0	0	0	0
Dorchester	1,357,021	1,462,155	1,668,683	1,928,463	1,854,882	2,344,457	1,890,562
Frederick	0	0	0	0	0	0	0
Garrett	2,177,813	2,326,328	2,585,412	2,999,791	3,010,417	4,589,226	2,716,755
Harford	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0
Prince George's	0	0	4,775,506	6,879,315	14,753,100	6,792,727	5,509,803
Queen Anne's	0	0	0	0	0	0	0
St. Mary's	0	0	0	0	0	0	0
Somerset	2,954,585	3,246,259	3,524,771	3,754,928	4,288,581	4,347,556	3,752,653
Talbot	0	0	0	0	0	0	0
Washington	195,976	207,670	0	676,132	1,987,118	213,559	0
Wicomico	446,216	577,823	788,963	1,108,345	3,203,426	2,828,900	1,957,309
Worcester	0	0	0	0	0	0	0
Total	\$64,116,027	\$70,378,828	\$81,626,679	\$89,289,557	\$115,179,884	\$105,831,420	\$93,102,398
Percent Change	3.4%	9.8%	16.0%	9.4%	29.0%	-8.1%	-12.0%

Exhibit 2
Calculating the Fiscal 2005 Disparity Grant Under SB 419/HB 554

<u>County</u>	<u>Population</u> <u>July 2002</u>	<u>Adjusted Income</u>		<u>Per Capita</u> <u>Grant</u>	<u>Statutory</u> <u>Grant</u>	<u>Current Law</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
		<u>Tax Revenues</u> <u>TY 2002 at 2.59%</u>	<u>Per Capita</u> <u>Tax Yield</u>					
Allegany	74,203	\$17,464,785	\$235.36	\$91.65	\$6,800,649	\$5,901,718	\$898,931	15.2%
Anne Arundel	503,388	247,382,495	491.44	0.00	0	0	0	
Baltimore City	638,614	131,170,642	205.40	121.62	77,665,203	69,559,286	8,105,917	11.7%
Baltimore	770,298	342,760,428	444.97	0.00	0	0	0	
Calvert	80,906	37,500,309	463.50	0.00	0	0	0	
Caroline	30,300	7,738,873	255.41	71.61	2,169,657	1,814,313	355,345	19.6%
Carroll	159,025	69,468,881	436.84	0.00	0	0	0	
Cecil	90,335	30,599,897	338.74	0.00	0	0	0	
Charles	129,040	51,604,576	399.91	0.00	0	0	0	
Dorchester	30,451	7,708,909	253.16	73.86	2,249,001	1,890,562	358,439	19.0%
Frederick	209,125	97,588,155	466.65	0.00	0	0	0	
Garrett	29,878	7,194,960	240.81	86.20	2,575,570	2,216,755	358,815	16.2%
Harford	227,713	97,784,479	429.42	0.00	0	0	0	
Howard	260,117	160,345,000	616.43	0.00	0	0	0	
Kent	19,613	6,515,754	332.22	0.00	0	0	0	
Montgomery	910,156	571,754,267	628.19	0.00	0	0	0	
Prince George's	833,084	258,023,959	309.72	17.29	14,406,338	5,509,803	8,896,535	161.5%
Queen Anne's	42,835	19,040,295	444.50	0.00	0	0	0	
St. Mary's	90,044	34,012,294	377.73	0.00	0	0	0	
Somerset	25,555	4,260,748	166.73	160.29	4,096,100	3,752,653	343,447	9.2%
Talbot	34,263	16,495,568	481.44	0.00	0	0	0	
Washington	134,246	43,132,824	321.30	5.72	767,524	0	767,524	
Wicomico	86,318	25,320,818	293.34	33.67	2,906,394	1,957,309	949,085	48.5%
Worcester	48,630	18,212,752	374.52	0.00	0	0	0	
Total	5,458,137	\$2,303,081,670	\$421.95	\$0.00	\$113,636,436	\$92,602,398	\$21,034,038	22.7%
		<i>Target (77.5%)</i>	<i>\$327.01</i>					