

Department of Legislative Services
 Maryland General Assembly
 2007 Special Session

FISCAL AND POLICY NOTE

House Bill 24
 Appropriations

(Delegate Haynes, *et al.*)

County Income Tax Disparity Grants

This bill alters the disparity grant formula by ensuring that each county's per capita local income tax revenues will be at least 85% of the statewide average instead of 75%.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund expenditures would increase by \$94.9 million in FY 2009 and \$115.3 million by FY 2013. Future year expenditures reflect growth in county population and local income tax revenues. Revenues would not be affected.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	94.9	99.6	104.6	109.9	115.3
Net Effect	(\$94.9)	(\$99.6)	(\$104.6)	(\$109.9)	(\$115.3)

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

Local Effect: State aid to 10 local jurisdictions would increase by \$94.9 million in FY 2009 as shown in **Exhibit 1**. State aid amounts in future years are assumed to increase by 5% annually.

Small Business Effect: None.

Analysis

Current Law: Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which for most counties is the third largest revenue source after State aid and property taxes. Counties with per capita local income tax revenues less than 75% of the statewide average receive grants, assuming all counties impose a 2.54% local income tax rate. Aid received by a county equals the dollar amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average.

Background: The disparity grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. The program reflects the State's policy to improve fiscal equity among jurisdictions by making less affluent jurisdictions less dependent on their own tax base to fund public services, thereby alleviating potential fiscal stress. The disparity in local tax capacities among counties in Maryland is illustrated in **Exhibit 2** which shows the per capita local wealth amounts for each county for fiscal 2008.

History of Disparity Grant Program

State funding for the disparity grant program began in fiscal 1992 when grants were provided to counties where 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 which totaled \$8.6 million in fiscal 1992. Legislation enacted in 1992 placed the disparity grant formula in statute for fiscal 1993 and subsequent years. The program was enhanced in 1996 when legislation was enacted to provide disparity grants to counties where per capita local income tax revenues were less than 75% of the statewide average, rather than 70%. The enhancement became effective in fiscal 1998 and made Washington and Wicomico counties eligible to receive disparity grants. State funding for disparity grants increased considerably in fiscal 2001 when Prince George's County became eligible for the program.

The growth in local income tax receipts in recent years has made two counties ineligible to receive disparity grant funding for certain fiscal years due to the fact that their per capita local income tax receipts exceeded 75% of the statewide average. Both counties have consistently been on the "edge" of qualifying for the program. Washington County became ineligible to receive disparity grants in fiscal 2001 but qualified for funding in the following year only to become ineligible again in fiscal 2005. Wicomico County became ineligible to receive disparity grants in fiscal 2007 but will qualify for funding in fiscal 2009.

Disparity Grant Funding in Fiscal 2008 and 2009

Baltimore City and six counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, and Somerset) qualified for disparity grant funding in fiscal 2008; Wicomico County will qualify for funding in fiscal 2009. State funding for disparity grants under current law will total \$114.8 million in fiscal 2008 and \$115.5 million in fiscal 2009. This represents a \$0.7 million or 0.6% increase over the prior year. **Exhibit 3A** and **3B** show State funding for the disparity grant program since it was established in 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 85% of the statewide average would increase State expenditures by \$94.9 million in fiscal 2009. Exhibit 1 shows the changes in disparity grant aid for each county. It is assumed that disparity grant funding would increase by 5% each year to reflect growth in county population and local income tax revenues resulting in an increase in State expenditures of \$99.6 million in fiscal 2010 and \$115.3 million by fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - November 1, 2007
mcp/hlb

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Exhibit 1
Basing Disparity Grants on 85% of Per Capita Tax Yield
Fiscal 2009 Funding Level

County	Population July 2006	TY 2006 Adjusted Income Tax Revenues	Per Capita Tax Yield	Per Capita Grant	Proposed Funding	Funding Under Current Law	Difference	Percent Difference
Allegany	72,831	\$20,118,657	\$276.24	\$141.76	\$10,324,407	\$6,742,870	\$3,581,537	53.1%
Anne Arundel	509,300	297,651,819	584.43	0.00	0	0	0	
Baltimore City	631,366	157,336,128	249.20	168.80	106,572,307	75,524,256	31,048,051	41.1%
Baltimore	787,384	407,515,159	517.56	0.00	0	0	0	
Calvert	88,804	47,091,246	530.28	0.00	0	0	0	
Caroline	32,617	9,776,476	299.74	118.26	3,857,298	2,253,325	1,603,973	71.2%
Carroll	170,260	86,438,212	507.68	0.00	0	0	0	
Cecil	99,506	38,127,828	383.17	34.82	3,465,277	0	3,465,277	
Charles	140,416	62,660,915	446.25	0.00	0	0	0	
Dorchester	31,631	9,535,436	301.46	116.54	3,686,194	2,130,708	1,555,486	73.0%
Frederick	222,938	120,426,194	540.18	0.00	0	0	0	
Garrett	29,859	9,000,565	301.44	116.56	3,480,376	2,012,030	1,468,346	73.0%
Harford	241,402	119,153,097	493.59	0.00	0	0	0	
Howard	272,452	195,118,977	716.16	0.00	0	0	0	
Kent	19,983	8,598,065	430.27	0.00	0	0	0	
Montgomery	932,131	677,306,890	726.62	0.00	0	0	0	
Prince George's	841,315	288,579,452	343.01	74.99	63,086,816	21,714,314	41,372,502	190.5%
Queen Anne's	46,241	24,815,275	536.65	0.00	0	0	0	
St. Mary's	98,854	44,141,903	446.54	0.00	0	0	0	
Somerset	25,774	5,135,457	199.25	218.75	5,637,971	4,370,509	1,267,462	29.0%
Talbot	36,062	22,132,728	613.74	0.00	0	0	0	
Washington	143,748	55,075,535	383.14	34.86	5,010,548	0	5,010,548	
Wicomico	91,987	33,185,017	360.76	57.24	5,265,177	741,624	4,523,552	610.0%
Worcester	48,866	22,668,592	463.89	0.00	0	0	0	
Total	5,615,727	\$2,761,589,623	\$491.76	\$0.00	\$210,386,371	\$115,489,636	\$94,896,735	82.2%
		<i>Target (85%)</i>	<i>\$418.00</i>					

Exhibit 2
Local Wealth Calculation – Fiscal 2008

County	Per Capita Property Base	Per Capita Income Base	Per Capita Total Wealth	Percent of State Avg.	Per Capita Ranking	Local Wealth Base	
						% Property	% Income
Allegany	\$15,883	\$10,641	\$26,524	45.5%	22	59.9%	40.1%
Anne Arundel	48,950	22,165	71,114	121.9%	6	68.8%	31.2%
Baltimore City	16,675	9,744	26,418	45.3%	23	63.1%	36.9%
Baltimore	32,151	20,092	52,243	89.6%	14	61.5%	38.5%
Calvert	46,517	19,794	66,311	113.7%	7	70.2%	29.8%
Caroline	26,040	11,699	37,739	64.7%	21	69.0%	31.0%
Carroll	36,664	19,341	56,004	96.0%	11	65.5%	34.5%
Cecil	32,498	14,710	47,209	80.9%	16	68.8%	31.2%
Charles	38,491	17,297	55,788	95.7%	12	69.0%	31.0%
Dorchester	30,991	11,750	42,741	73.3%	19	72.5%	27.5%
Frederick	40,235	20,336	60,571	103.9%	8	66.4%	33.6%
Garrett	46,158	11,558	57,716	99.0%	10	80.0%	20.0%
Harford	33,625	18,751	52,376	89.8%	13	64.2%	35.8%
Howard	53,620	27,001	80,621	138.2%	4	66.5%	33.5%
Kent	44,077	15,283	59,360	101.8%	9	74.3%	25.7%
Montgomery	62,988	27,231	90,219	154.7%	3	69.8%	30.2%
Prince George's	30,150	13,497	43,647	74.8%	17	69.1%	30.9%
Queen Anne's	53,709	20,849	74,558	127.8%	5	72.0%	28.0%
St. Mary's	33,653	16,816	50,469	86.5%	15	66.7%	33.3%
Somerset	18,690	7,547	26,237	45.0%	24	71.2%	28.8%
Talbot	75,151	23,259	98,410	168.7%	2	76.4%	23.6%
Washington	28,574	14,633	43,207	74.1%	18	66.1%	33.9%
Wicomico	24,645	14,176	38,820	66.6%	20	63.5%	36.5%
Worcester	119,287	18,667	137,954	236.5%	1	86.5%	13.5%
Total	\$39,534	\$18,790	\$58,323	100.0%		67.8%	32.2%

Source: Department of Legislative Services

Exhibit 3A
Disparity Grant Program – Funding History
Fiscal 1992-2000

County	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Allegany	\$370,000	\$1,281,750	\$1,637,429	\$1,987,382	\$2,032,596	\$2,375,837	\$3,592,611	\$3,885,677	\$4,206,580
Anne Arundel	0	0	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	51,473,147	56,517,265
Baltimore	0	0	0	0	0	0	0	0	0
Calvert	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	1,625,590	1,834,748
Carroll	0	0	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0	0	0
Charles	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
Frederick	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
Harford	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0	0	0
Prince George's	0	0	0	0	0	0	0	0	0
Queen Anne's	0	0	0	0	0	0	0	0	0
St. Mary's	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
Talbot	0	0	0	0	0	0	0	0	0
Washington	0	0	0	0	0	0	229,353	195,976	207,670
Wicomico	0	0	0	0	0	0	150,295	446,216	577,823
Worcester	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	\$64,116,025	\$70,378,828

Exhibit 3B
Disparity Grant Program – Funding History
Fiscal 2001-2009

County	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Allegany	\$5,099,138	\$5,264,420	\$7,590,374	\$7,505,173	\$5,901,718	\$6,100,040	\$7,345,435	\$6,971,337	\$6,742,870
Anne Arundel	0	0	0	0	0	0	0	0	0
Baltimore City	61,013,229	64,361,931	76,035,628	75,060,702	69,559,286	69,695,420	76,002,034	78,160,604	75,524,256
Baltimore	0	0	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0	0	0
Caroline	2,170,977	2,316,232	2,456,358	2,149,120	1,814,313	1,889,377	1,838,418	1,912,848	2,253,325
Carroll	0	0	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0	0	0
Charles	0	0	0	0	0	0	0	0	0
Dorchester	1,668,683	1,928,463	1,854,882	2,344,457	1,890,562	2,032,786	1,493,893	2,088,839	2,130,708
Frederick	0	0	0	0	0	0	0	0	0
Garrett	2,585,412	2,999,791	3,010,417	4,589,226	2,716,755	2,039,677	2,307,278	2,089,259	2,012,030
Harford	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0	0	0
Prince George's	4,775,506	6,879,315	14,753,100	6,792,727	5,509,803	9,762,389	15,962,593	19,110,236	21,714,314
Queen Anne's	0	0	0	0	0	0	0	0	0
St. Mary's	0	0	0	0	0	0	0	0	0
Somerset	3,524,771	3,754,928	4,288,581	4,347,556	3,752,653	3,732,513	4,500,748	4,450,729	4,370,509
Talbot	0	0	0	0	0	0	0	0	0
Washington	0	676,132	1,987,118	213,559	0	0	0	0	0
Wicomico	788,963	1,108,345	3,203,426	2,828,900	1,957,309	1,325,931	0	0	741,624
Worcester	0	0	0	0	0	0	0	0	0
Total	\$81,626,679	\$89,289,557	\$115,179,884	\$105,831,420	\$93,102,399	\$96,578,133	\$109,450,399	\$114,783,852	\$115,489,636

Source: Department of Legislative Services; October 2007