

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

Senate Bill 835

(Senators Currie and Peters)

Budget and Taxation

**Equity in State Aid to Counties Act of 2010**

This bill alters the dates net taxable income is drawn for purposes of calculating State aid from disparity grants and education aid formulas. The disparity grant formula and education aid formulas will be calculated based on income tax returns filed by November 1, rather than August 15 (for disparity grants) and September 1 (for education aid formulas).

The bill takes effect June 1, 2010, and applies to fiscal 2011 and future fiscal years.

**Fiscal Summary**

**State Effect:** General fund expenditures increase by \$33.5 million in FY 2011 for State aid to counties and local school systems. Future year expenditure increases reflect only the estimated impact on education aid; the impact on disparity grants after FY 2011 cannot be reliably estimated but may add further to general fund expenditures. Revenues are not affected.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	33.5	11.6	12.8	14.2	15.9
Net Effect	(\$33.5)	(\$11.6)	(\$12.8)	(\$14.2)	(\$15.9)

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

**Local Effect:** County and school system revenues from State aid increase by a total of \$33.5 million in FY 2011; however, three school systems (Baltimore City and Baltimore and Montgomery counties) lose State education aid. Similar patterns continue in future years.

**Small Business Effect:** None.

## Analysis

**Current Law:** Disparity grants provide State aid to qualifying counties (and Baltimore City) that have less than 75% of the statewide per capita income wealth. Funding is determined through a formula that provides State aid to compensate for the local tax revenues that are not generated due to smaller income tax bases; however, funding levels for individual counties are capped at the amounts they received in fiscal 2010. The formula is based on income tax returns filed on or before August 15 of each year.

The majority of State education aid is distributed through formulas that allocate funding to the 24 local school systems inverse to local wealth per pupil. For the formulas, county (and Baltimore City) wealth includes net taxable income and the assessable property tax base. The net taxable income measure is based on returns filed on or before September 1 of each year.

**Background:** Most people file their income tax returns each year by April 15, but federal and State laws allow for an automatic six-month extension of the filing deadline to October 15 for those who apply for the extension by April 15. An individual filing late must submit an estimated amount of taxes owed, but a county's net taxable income, as calculated by the Office of the Comptroller, only includes taxable income amounts for completed tax returns. Using data from income tax returns submitted by August 15 (as required for the disparity grants) or September 1 (education aid formulas) undercounts total net taxable income, since many returns are not submitted until the October 15 extension deadline.

In addition, the distribution of returns filed after August 15 or September 1 is not proportionate around the State. All counties have some residents who file their income tax returns late, but in general, wealthier individuals tend to file late more often. Thus, the distribution of county net taxable income changes from the August 15 and September 1 dates established in law to November 1, when nearly all returns have been filed. Using a later date provides a more complete representation of each county's wealth and tax capacity.

The difference between tax year 2008 county net taxable income using a September 1, 2009 date and a November 1, 2009 date is shown in **Exhibit 1**. The chart shows that \$12.7 billion in taxable income (just over 10% of the total) was reported on returns filed after September 1. However, the shares of taxable income reported after September 1 are very different around the State. Nearly one-fifth of county net taxable income was attributable to late filers in Montgomery (18.5%) and Talbot counties (18.6%), while 5% or less was attributable to late filers in 12 counties.

**Exhibit 1**  
**Tax Year 2008 Net Taxable Income by County**  
(\$ in Millions)

<b>County</b>	<b>Returns Filed by</b>			<b>Share Filed After Nov. 1</b>
	<b>September 1</b>	<b>November 1</b>	<b>Increase</b>	
Allegany	\$850	\$866	\$16	1.9%
Anne Arundel	12,196	13,439	1,243	9.2%
Baltimore City	6,787	7,382	595	8.1%
Baltimore	16,156	18,135	1,979	10.9%
Calvert	1,884	1,982	99	5.0%
Caroline	399	409	11	2.6%
Carroll	3,513	3,619	105	2.9%
Cecil	1,578	1,690	112	6.7%
Charles	2,664	2,780	116	4.2%
Dorchester	390	402	12	2.9%
Frederick	4,932	5,187	255	4.9%
Garrett	368	396	29	7.3%
Harford	4,882	5,102	221	4.3%
Howard	7,982	8,813	831	9.4%
Kent	318	345	27	7.9%
Montgomery	26,808	32,876	6,069	18.5%
Prince George's	12,242	12,724	482	3.8%
Queen Anne's	984	1,071	86	8.1%
St. Mary's	1,899	1,958	59	3.0%
Somerset	204	210	6	2.9%
Talbot	812	998	186	18.6%
Washington	2,171	2,248	77	3.4%
Wicomico	1,276	1,330	54	4.1%
Worcester	838	910	73	8.0%
<b>Total</b>	<b>\$112,131</b>	<b>\$124,873</b>	<b>\$12,742</b>	<b>10.2%</b>

Source: Comptroller's Office

The proposed fiscal 2011 State budget includes \$97.1 million for eight qualifying counties through disparity grants and \$5.7 billion for State education aid.

**State Expenditures:** General fund expenditures increase by \$33.5 million in fiscal 2011 due to increases in State aid that would result from the change to net taxable income drawdown dates. Spending for disparity grants increases \$24.4 million, and State aid for education increases \$9.1 million.

In future years, the impact of the change on State funding for disparity grants cannot be reliably estimated; however, funding for the program is capped at \$121.4 million and will probably reach that level in most years. State aid for education will increase by an estimated \$11.6 million in fiscal 2012 and an estimated \$15.9 million by fiscal 2015.

**Local Revenues:** State aid for local governments under the disparity grants increases by \$24.4 million in fiscal 2011. Baltimore City and four counties receive additional State assistance. Aid for local school systems increases by \$9.1 million, with 3 systems (Baltimore City and Baltimore and Montgomery counties) losing State funding and 19 systems getting more State funding. The changes have no impact on the Talbot and Worcester county schools because very high wealth per student figures in the two counties already places the school systems at the minimum funding levels for the State's wealth-based formulas. The impact of the changes is shown by county in **Exhibit 2**.

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**Exhibit 2**  
**Impact of Changing Net Taxable Income Drawdown Dates to November 1**  
**Fiscal 2011**  
**(\$ in Thousands)**

<b>County</b>	<b>Disparity Grant Impact</b>	<b>Education Aid Impact</b>	<b>Net Impact</b>
Allegany	\$1,267	\$1,423	\$2,690
Anne Arundel	0	1,124	1,124
Baltimore City	4,649	(191)	4,457
Baltimore	0	(4,264)	(4,264)
Calvert	0	940	940
Caroline	0	611	611
Carroll	0	1,974	1,974
Cecil	0	945	945
Charles	0	3,129	3,129
Dorchester	0	560	560
Frederick	0	2,108	2,108
Garrett	75	259	334
Harford	0	2,142	2,142
Howard	0	28	28
Kent	0	133	133
Montgomery	0	(18,766)	(18,766)
Prince George's	18,278	10,877	29,154
Queen Anne's	0	332	332
St. Mary's	0	1,238	1,238
Somerset	86	395	480
Talbot	0	0	0
Washington	0	2,546	2,546
Wicomico	0	1,577	1,577
Worcester	0	0	0
<b>Total</b>	<b>\$24,354</b>	<b>\$9,118</b>	<b>\$33,473</b>

Source: Department of Legislative Services

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The distribution of increases and decreases to State aid is expected to stay relatively stable in future years.

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### **Additional Information**

**Prior Introductions:** HB 1742 of 2006 would have changed the net taxable income drawdown date from September 1 to November 1 for education aid formulas only. The bill received a hearing in the House Ways and Means Committee, but no further action was taken on the bill.

**Cross File:** None.

**Information Source(s):** Allegany, Harford, Montgomery, and Talbot counties; Maryland State Department of Education; Comptroller's Office; Maryland Association of Counties; Maryland Association of Boards of Education; Department of Legislative Services

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