

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader

Senate Bill 764

(Senator Mathias, *et al.*)

Budget and Taxation

Appropriations

Local Governments - Income Tax Disparity Grants - Amounts

This bill extends the enhanced State funding provided under the disparity grant program to counties with a local income tax rate of 3.2% by extending the termination date of Chapter 738 of 2016 (from June 30, 2019 to June 30, 2021). Accordingly, the enhanced State funding will be extended for two additional years (fiscal 2020 and 2021). **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase by \$6.3 million in FY 2020 and by \$6.8 million in FY 2021. Revenues are not affected. **This bill increases a mandated appropriation in FY 2020 and FY 2021.**

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	6.3	6.8	0	0
Net Effect	\$0.0	(\$6.3)	(\$6.8)	\$0.0	\$0.0

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

Local Effect: State aid in four counties (Caroline, Prince George’s, Somerset, and Wicomico) will increase by a total of \$6.3 million in FY 2020 and by \$6.8 million in FY 2021. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: 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. Specifically, disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which for most counties is one of the larger revenue sources. Through fiscal 2010, counties with income tax rates of 2.4% or higher with per capita local income tax revenues less than 75.0% of the State's average (assuming a 2.54% statewide county income tax rate) received a grant equal to the dollar amount necessary to raise the county's per capita income tax revenues to 75.0% of the State average. Chapter 487 of 2009 included a provision, beginning in fiscal 2011, that capped each county's funding under the program at the fiscal 2010 level.

Chapter 425 of 2013 modified the formula to add a minimum grant amount based on local tax effort of eligible counties and raised from 2.4% to 2.6% the local income tax rate required to be eligible to receive a grant. Beginning in fiscal 2014, the fiscal 2010 cap amount continues to apply, but an eligible county or Baltimore City may receive a minimum amount (that can exceed the fiscal 2010 cap) based on local tax effort. The minimum amounts are (1) 20.0% of the uncapped grant amount if the local income tax rate is at least 2.8% but less than 3.0%; (2) 40.0% of the uncapped grant amount if the rate is at least 3.0% but less than 3.2%; or (3) 60.0% of the uncapped grant amount if the rate is at 3.2%.

Chapter 738 of 2016 altered the calculation of the disparity grant program for counties with a local income tax rate of 3.2% by increasing the minimum grant amount (funding floor) to 67.5% of the formula calculation in fiscal 2018 and fiscal 2019. However, Chapter 23 of 2017 modified the formula by lowering the minimum grant amount (funding floor) from 67.5% to 63.75% of the formula calculation for fiscal 2018.

Background: For fiscal 2019, Baltimore City and nine counties (Allegany, Caroline, Cecil, Dorchester, Garrett, Prince George's, Somerset, Washington, and Wicomico) qualify for disparity grants. The fiscal 2019 State budget includes \$140.8 million for disparity grants. **Appendix 1** shows the calculation for the disparity grant program for fiscal 2019. **Appendix 2** shows the fiscal effect of the program's cap and floor provisions for fiscal 2011 through 2019. Additional information on the disparity grant program can be found beginning on page 31 of the [Overview of State Aid to Local Governments](#) report.

State/Local Fiscal Effect: General fund expenditures increase by \$6.3 million in fiscal 2020 and by \$6.8 million in fiscal 2021 as a result of altering the disparity grant

program's minimum grant amount (funding floor) for counties with a local income tax rate of 3.2%. Four jurisdictions benefit from this formula change as shown in **Exhibit 1**.

Exhibit 1
Increased State Aid Under the Disparity Grant Program

<u>County</u>	<u>FY 2020</u>	<u>FY 2021</u>
Caroline	\$339,200	\$338,200
Prince George's	4,479,600	4,862,900
Somerset	419,200	538,200
Wicomico	1,053,300	1,079,800
Total	\$6,291,300	\$6,819,100

Additional Information

Prior Introductions: None.

Cross File: HB 1624 (Delegate Anderton, *et al.*) - Appropriations.

Information Source(s): Maryland Association of Counties; Comptroller's Office; Department of Budget and Management; Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2018
md/tso Third Reader - March 23, 2018

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Appendix 1 – Disparity Grant Formula Calculation Under Current Law Fiscal 2019

County	Population July 2016	Adjusted Income Tax Revenues	Per Capita Tax Yield	Per Capita Grant	Total Formula Amount	Fiscal 2010 Grant (Cap Amount)	Income Tax Effort (Floor Amount)	Grant Amount Under Cap/Floor	Net Effect of Cap/Floor Provisions	Percent Capped
Allegany	72,130	\$22,646,906	\$313.97	\$190.19	\$13,718,494	\$7,298,505	\$5,487,398	\$7,298,505	-\$6,419,989	46.8%
Anne Arundel	568,346	453,536,923	797.99	0.00	0	0	0	0	0	
Baltimore City	614,664	233,879,324	380.50	123.67	76,012,567	79,051,790	51,308,482	76,012,567	0	0.0%
Baltimore	831,026	555,971,612	669.02	0.00	0	0	0	0	0	
Calvert	91,251	64,499,045	706.83	0.00	0	0	0	0	0	
Caroline	32,850	12,150,612	369.88	134.28	4,411,198	2,131,782	0	2,131,782	-2,279,416	51.7%
Carroll	167,656	122,188,244	728.80	0.00	0	0	0	0	0	
Cecil	102,603	49,082,603	478.37	25.79	2,646,208	0	1,058,483	1,058,483	-1,587,725	60.0%
Charles	157,705	92,596,032	587.15	0.00	0	0	0	0	0	
Dorchester	32,258	11,517,757	357.05	147.11	4,745,588	2,022,690	0	2,022,690	-2,722,898	57.4%
Frederick	247,591	175,650,780	709.44	0.00	0	0	0	0	0	
Garrett	29,425	11,063,397	375.99	128.18	3,771,649	2,131,271	0	2,131,271	-1,640,378	43.5%
Harford	251,032	167,176,928	665.96	0.00	0	0	0	0	0	
Howard	317,233	312,137,081	983.94	0.00	0	0	0	0	0	
Kent	19,730	10,441,378	529.21	0.00	0	0	0	0	0	
Montgomery	1,043,863	1,069,089,192	1,024.17	0.00	0	0	0	0	0	
Prince George's	908,049	407,288,307	448.53	55.63	50,517,944	21,694,767	34,099,612	34,099,612	-16,418,332	32.5%
Queen Anne's	48,929	36,624,174	748.52	0.00	0	0	0	0	0	
St. Mary's	112,587	69,172,443	614.39	0.00	0	0	0	0	0	
Somerset	25,928	5,403,192	208.39	295.77	7,668,790	4,908,167	5,176,433	5,176,433	-2,492,357	32.5%
Talbot	37,278	27,777,715	745.15	0.00	0	0	0	0	0	
Washington	150,292	66,258,496	440.87	63.30	9,513,425	0	1,902,685	1,902,685	-7,610,740	80.0%
Wicomico	102,577	38,426,600	374.61	129.55	13,289,102	2,197,041	8,970,144	8,970,144	-4,318,958	32.5%
Worcester	51,444	29,794,849	579.17	0.00	0	0	0	0	0	
Total	6,016,447	\$4,044,373,590	\$672.22		\$186,294,965	\$121,436,013	\$108,003,238	\$140,804,172	-\$45,490,793	24.4%
		<i>75% Target:</i>	\$504.16							

**Appendix 2 – Disparity Grant Formula – Fiscal Effect of Cap/Floor Provisions
Fiscal 2011-2019**

County	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Allegany	\$0	-\$571,407	-\$2,882,491	-\$4,039,672	-\$5,858,233	-\$4,837,258	-\$5,215,674	-\$5,763,486	-\$6,419,989
Anne Arundel	0	0	0	0	0	0	0	0	0
Baltimore City	0	-1,258,890	0	-437,847	-10,442,856	-5,430,593	0	-2,400,838	0
Baltimore	0	0	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0	0	0
Caroline	-478,024	-1,398,899	-1,661,823	-1,921,107	-2,461,328	-2,059,420	-2,359,450	-2,345,285	-2,279,416
Carroll	0	0	0	0	0	0	0	0	0
Cecil	0	-183,880	-897,551	-1,497,491	-2,121,279	-1,227,849	-1,289,285	-2,043,527	-1,587,725
Charles	0	0	0	0	0	0	0	0	0
Dorchester	-436,122	-1,456,805	-1,899,138	-2,361,933	-2,745,285	-2,144,967	-2,835,673	-2,779,985	-2,722,898
Frederick	0	0	0	0	0	0	0	0	0
Garrett	0	-480,243	-899,097	-798,672	-1,685,065	-1,032,536	-1,186,202	-1,178,386	-1,640,378
Harford	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0
Kent	0	-264,661	-22,881	-348,944	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0	0	0
Prince George's	0	0	-3,181,700	-4,619,916	-18,335,635	-15,392,194	-20,116,827	-15,741,331	-16,418,332
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	0	-581,621	-1,310,476	-1,758,965	-2,492,071	-2,210,350	-2,336,051	-2,418,120	-2,492,357
Talbot	0	0	0	0	0	0	0	0	0
Washington	-435,975	-5,172,730	-6,736,499	-7,729,866	-7,912,893	-6,064,896	-6,792,393	-6,640,397	-7,610,740
Wicomico	-1,615,958	-4,162,585	-7,165,223	-8,892,698	-5,493,976	-4,909,461	-5,283,684	-4,197,042	-4,318,958
Worcester	0	0	0	0	0	0	0	0	0
Total	-\$2,966,079	-\$15,531,721	-\$26,656,879	-\$34,407,111	-\$59,548,621	-\$45,309,521	-\$47,415,238	-\$45,508,398	-\$45,490,793