

**A00**  
**Payments to Civil Divisions of the State**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$111,009	\$155,467	\$163,456	\$7,989	5.1%
Contingent & Back of Bill Reductions	0	0	0	0	
<b>Adjusted General Fund</b>	<b>\$111,009</b>	<b>\$155,467</b>	<b>\$163,456</b>	<b>\$7,989</b>	<b>5.1%</b>
Special Fund	36,576	0	0	0	
<b>Adjusted Special Fund</b>	<b>\$36,576</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>Adjusted Grand Total</b>	<b>\$147,585</b>	<b>\$155,467</b>	<b>\$163,456</b>	<b>\$7,989</b>	<b>5.1%</b>

- The fiscal 2015 allowance totals \$163.5 million in general funds. This includes \$135.8 million for the Disparity Grant program and \$27.7 million for Teacher Retirement Supplemental Grants.
- The increase of \$8.0 million is for increases in the Disparity Grant program due to falling tax yields per capita for Cecil, Prince George's, Washington, and Wicomico counties relative to the statewide average, as well as the new cap provision passed in the 2013 session.

Note: Numbers may not sum to total due to rounding.

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## ***Analysis in Brief***

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### **Recommended Actions**

1. Concur with Governor's allowance.

**A00**  
**Payments to Civil Divisions of the State**

***Operating Budget Analysis***

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**Program Description**

State grant programs which provide funds to Maryland’s local jurisdictions are budgeted under Payments to Civil Divisions of the State. These include disparity grants to low-wealth jurisdictions and grants to mitigate the impact of the local assumption of a portion of teacher retirement costs.

**Proposed Budget**

The Governor’s allowance for Payments to Civil Divisions of the State totals \$163.5 million in fiscal 2015, which is an \$8.0 million increase (5.1%) above the fiscal 2014 working appropriation. As seen in **Exhibit 1**, the increase is attributable to the disparity grant formula. **Exhibit 2** provides a summary of funding by jurisdiction from disparity grants and the Teacher Retirement Supplemental Grants in fiscal 2015.

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**Exhibit 1**  
**Proposed Budget**  
**Payments to Civil Divisions of the State**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Total</b>
2014 Working Appropriation	\$155,467	\$155,467
2015 Allowance	<u>163,456</u>	<u>163,456</u>
Amount Change	\$7,989	\$7,989
Percent Change	5.1%	5.1%

**Where It Goes:**

**Grants**

Disparity Grant formula.....	\$7,989
<b>Total</b>	<b>\$7,989</b>

Note: Numbers may not sum to total due to rounding.

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**Exhibit 2**  
**State Funding for Payments to Civil Divisions**  
**Fiscal 2015**  
**(\$ in Thousands)**

<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Total</u>
Allegany	\$7,299	\$1,632	\$8,931
Anne Arundel			
Baltimore City	79,052	10,048	89,099
Baltimore		3,000	3,000
Calvert			
Caroline	2,132	685	2,817
Carroll			
Cecil	530		530
Charles			
Dorchester	2,023	309	2,332
Frederick			
Garrett	2,131	406	2,538
Harford			
Howard			
Kent			
Montgomery			
Prince George's	27,503	9,629	37,132
Queen Anne's			
St. Mary's			
Somerset	4,908	382	5,290
Talbot			
Washington	1,978		1,978
Wicomico	8,241	1,568	9,809
Worcester			
<b>Total</b>	<b>\$135,797</b>	<b>\$27,659</b>	<b>\$163,456</b>

Source: Department of Legislative Services

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## **Disparity Grants**

State funding targeted to the disparity in local income tax capacity is found in Local Government Article, Section 16-501. The Disparity Grant program provides non-categorical State aid to low-wealth jurisdictions for county government purposes. Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which for most counties is one of their larger revenue sources.

Counties with per capita income tax revenues less than 75.0% of the statewide average receive grants unless a county has an income tax rate below 2.6%, which was raised from 2.4% by Chapter 425 of 2013 (the Budget Reconciliation and Financing Act). Aid received by counties equals the lesser of the dollar amount necessary to raise the county's per capita income tax revenues to 75.0% of the statewide average or the amount received under the cap provisions. The original cap provision did not allow counties to receive an amount higher than what that particular county received from the State in fiscal 2010. However, Chapter 425 changed the disparity grant formula cap provisions in order to take into account a local jurisdiction's income tax rate.

Eligible counties, where the amount necessary to raise that county's per capita income tax rate to 75% of the statewide average is more than that county received from the State in fiscal 2010, now receive the greater of the dollar amount received from the State in fiscal 2010 or a proportion of the amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average. The proportional amount is based on that particular county's income tax rate, as displayed in **Exhibit 3** below.

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### **Exhibit 3 Disparity Grant Proportional Cap Provisions**

<b><u>Local Income Tax Rate</u></b>	<b><u>Proportion of Disparity Amount Received</u></b>
2.8%, up to 2.99%	20%
3.0%, up to 3.19%	40%
3.2% (maximum)	60%

Source: Department of Legislative Services

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These changes are fully funded in the fiscal 2014 working appropriation, which led to Cecil, Kent, and Washington counties receiving grants and Wicomico County receiving an increase above the fiscal 2010 cap amount, as displayed in **Exhibit 4**.

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**Exhibit 4**  
**Disparity Grant by Recipient**  
**BRFA of 2013 Formula Funding Change**  
**Fiscal 2014-2015**  
**(\$ in Thousands)**

<u>County</u>	<u>Prior Cap</u>	<u>2014 Working</u>	<u>Difference</u>	<u>Percent Difference</u>
Allegany	\$7,299	\$7,299		0.0%
Baltimore City	79,052	79,052		0.0%
Caroline	2,132	2,132		0.0%
Cecil		299	\$299	100.0%
Dorchester	2,023	2,023		0.0%
Garrett	2,131	2,131		0.0%
Kent		70	70	100.0%
Prince George's	21,695	21,695		0.0%
Somerset	4,908	4,908		0.0%
Washington		1,546	1,546	100.0%
Wicomico	2,197	6,654	4,457	202.9%
<b>Total</b>	<b>\$121,436</b>	<b>\$127,808</b>	<b>\$6,372</b>	<b>5.2%</b>

BRFA: Budget Reconciliation and Financing Act

Source: Department of Legislative Services

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**Exhibit 5** contains the calculations for the disparity grant for fiscal 2015. In fiscal 2015, Cecil, Prince George's, Washington, and Wicomico counties are receiving increases from the fiscal 2014 working appropriation, while Kent County is not receiving a disparity grant due to that county no longer being eligible. All of the increases in the fiscal 2015 allowance are attributable to increases in per capita income disparity for each county as well as changes in the cap provisions passed in the prior session.

**Exhibit 5  
Disparity Grant Calculation – Fiscal 2015**

County	Population July 2012	Adjusted Income Tax Revenues Tax Year 2012	Per Capita Tax Yield	Per Capita Grant	Total Grant	Cap Fiscal 2010	Grant Amount Fiscal 2015	Difference to Fiscal 2014	Piggyback CY 2013
Allegany	74,012	\$21,367,884	\$288.71	\$177.76	\$13,156,738	\$7,298,505	\$7,298,505	\$0	3.05%
Anne Arundel	550,488	394,879,322	717.33	0.00	0	0	0	0	2.56%
Baltimore City	621,342	200,344,808	322.44	144.03	89,494,646	79,051,790	79,051,790	0	3.20%
Baltimore	817,455	526,859,790	644.51	0.00	0	0	0	0	2.83%
Calvert	89,628	57,322,013	639.55	0.00	0	0	0	0	2.80%
Caroline	32,718	10,668,963	326.09	140.38	4,593,110	2,131,782	2,131,782	0	2.63%
Carroll	167,217	106,273,492	635.54	0.00	0	0	0	0	3.05%
Cecil	101,696	44,786,870	440.40	26.07	2,651,599	0	530,320	230,821	2.80%
Charles	150,592	80,047,873	531.55	0.00	0	0	0	0	2.90%
Dorchester	32,551	10,416,197	320.00	146.48	4,767,975	2,022,690	2,022,690	0	2.62%
Frederick	239,582	149,575,736	624.32	0.00	0	0	0	0	2.96%
Garrett	29,854	10,109,757	338.64	127.83	3,816,336	2,131,271	2,131,271	0	2.65%
Harford	248,622	148,398,111	596.88	0.00	0	0	0	0	3.06%
Howard	299,430	280,540,373	936.91	0.00	0	0	0	0	3.20%
Kent	20,191	10,916,650	540.67	0.00	0	0	0	-69,789	2.85%
Montgomery	1,004,709	999,832,877	995.15	0.00	0	0	0	0	3.20%
Prince George's	881,138	365,188,264	414.45	52.02	45,839,087	21,694,767	27,503,452	5,808,685	3.20%
Queen Anne's	48,595	30,240,004	622.29	0.00	0	0	0	0	3.20%
St. Mary's	108,987	61,485,909	564.16	0.00	0	0	0	0	3.00%
Somerset	26,253	4,846,086	184.59	281.88	7,400,238	4,908,167	4,908,167	0	3.15%
Talbot	38,098	28,236,980	741.17	0.00	0	0	0	0	2.40%
Washington	149,180	59,697,371	400.17	66.30	9,891,116	0	1,978,223	432,250	2.80%
Wicomico	100,647	33,214,199	330.01	136.47	13,734,939	2,197,041	8,240,964	1,587,120	3.20%
Worcester	51,578	24,739,175	479.65	0.00	0	0	0	0	1.25%
<b>Total</b>	<b>5,884,563</b>	<b>\$3,659,988,706</b>	<b>\$621.96</b>	<b>\$0.00</b>	<b>\$195,345,785</b>	<b>\$121,436,013</b>	<b>\$135,797,164</b>	<b>\$7,989,089</b>	
		<i>Target (0.75%)</i>	<i>\$466.47</i>						

CY: calendar year

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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As displayed in **Exhibit 6**, the total grant amount for each grant recipient increased from fiscal 2014 to 2015, with the exception of Kent County. The largest increase is for Prince George’s County with a total grant increase of \$19.5 million. This large increase made Prince George’s County subject to the proportional cap provision, as opposed to the fiscal 2010 cap provision, which in turn led to the \$5.8 million increase in disparity grant funds for that county. Further, as noted in Exhibit 6, the cap provisions combined have effectively reduced spending in the allowance by \$59.5 million since every eligible county in fiscal 2015 has a total grant amount higher than the cap provisions.

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**Exhibit 6**  
**Effect of the Cap Provisions**  
**Fiscal 2015**

<u>County</u>	<u>2014 Total Grant</u>	<u>2015 Total Grant</u>	<u>2014-2015 Total Grant Increase</u>	<u>2015 Foregone Amount</u>
Allegany	\$11,338,177	\$13,156,738	\$1,818,561	\$5,858,233
Baltimore City	79,489,637	89,494,646	10,005,009	10,442,856
Caroline	4,052,889	4,593,110	540,221	2,461,328
Cecil	1,497,491	2,651,599	1,154,108	2,121,279
Dorchester	4,384,623	4,767,975	383,352	2,745,285
Garrett	2,929,943	3,816,336	886,393	1,685,065
Kent	348,944	0	-348,944	0
Prince George’s	26,314,683	45,839,087	19,524,404	18,335,635
Somerset	6,667,132	7,400,238	733,106	2,492,071
Washington	7,729,866	9,891,116	2,161,250	7,912,893
Wicomico	11,089,739	13,734,939	2,645,200	5,493,975
<b>Total</b>	<b>\$155,843,124</b>	<b>\$195,345,784</b>	<b>\$39,502,660</b>	<b>\$59,548,620</b>

Source: Department of Legislative Services

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The year-over-year changes in each of the individual components that affect the grant’s formula can be found in the appendices. **Appendix 2** contains population data, **Appendix 3** contains adjusted income tax wealth data, and **Appendix 4** provides income tax wealth per capita.



***Recommended Actions***

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1. Concur with Governor's allowance.

## *Current and Prior Year Budgets*

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### **Current and Prior Year Budgets Payments to Civil Divisions of the State (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2013</b>					
Legislative Appropriation	\$111,009	\$31,576	\$0	\$0	\$142,585
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	5,000	0	0	5,000
Reversions and Cancellations	0	0	0	0	0
<b>Actual Expenditures</b>	<b>\$111,009</b>	<b>\$36,576</b>	<b>\$0</b>	<b>\$0</b>	<b>\$147,585</b>
<b>Fiscal 2014</b>					
Legislative Appropriation	\$155,467	\$0	\$0	\$0	\$155,467
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$155,467</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$155,467</b>

Note: Numbers may not sum to total due to rounding.

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## **Fiscal 2013**

The fiscal 2013 legislative appropriation consisted of \$111.0 million in general funds and \$31.6 million in special funds. The special funds represent reductions effected by Section 42 of the budget bill and subsequently funded by Chapter 1 of the First Special Session of 2012. Of the special funds, \$12.0 million is the portion reduced from actual disparity grants, and the remaining \$19.6 million is the amount designated for Teacher Retirement Supplemental Grants. Special funds were increased by \$5.0 million through budget amendment in fiscal 2013. Section 46 of the fiscal 2013 budget bill authorized the transfer from the Revenue Stabilization Fund to fully fund the Teacher Retirement Supplemental Grants at the amounts specified in statute. This provided an additional \$2.0 million for Prince George’s County and \$3.0 million for Baltimore County.

### Disparity Grant Calculation Change in Population by Jurisdiction

County	Population July 2011	Population July 2012	Change 2011-2012	% Change 2011-2012
<b>Allegany</b>	<b>74,692</b>	<b>74,012</b>	<b>-680</b>	<b>-0.9%</b>
Anne Arundel	544,403	550,488	6,085	1.1%
<b>Baltimore City</b>	<b>619,493</b>	<b>621,342</b>	<b>1,849</b>	<b>0.3%</b>
Baltimore	809,941	817,455	7,514	0.9%
Calvert	89,256	89,628	372	0.4%
<b>Caroline</b>	<b>32,985</b>	<b>32,718</b>	<b>-267</b>	<b>-0.8%</b>
Carroll	167,288	167,217	-71	0.0%
<b>Cecil</b>	<b>101,694</b>	<b>101,696</b>	<b>2</b>	<b>0.0%</b>
Charles	149,130	150,592	1,462	1.0%
<b>Dorchester</b>	<b>32,640</b>	<b>32,551</b>	<b>-89</b>	<b>-0.3%</b>
Frederick	236,745	239,582	2,837	1.2%
<b>Garrett</b>	<b>30,051</b>	<b>29,854</b>	<b>-197</b>	<b>-0.7%</b>
Harford	246,489	248,622	2,133	0.9%
Howard	293,142	299,430	6,288	2.1%
Kent	20,204	20,191	-13	-0.1%
Montgomery	989,794	1,004,709	14,915	1.5%
<b>Prince George's</b>	<b>871,233</b>	<b>881,138</b>	<b>9,905</b>	<b>1.1%</b>
Queen Anne's	48,354	48,595	241	0.5%
St. Mary's	107,484	108,987	1,503	1.4%
<b>Somerset</b>	<b>26,339</b>	<b>26,253</b>	<b>-86</b>	<b>-0.3%</b>
Talbot	38,025	38,098	73	0.2%
<b>Washington</b>	<b>148,203</b>	<b>149,180</b>	<b>977</b>	<b>0.7%</b>
<b>Wicomico</b>	<b>99,190</b>	<b>100,647</b>	<b>1,457</b>	<b>1.5%</b>
Worcester	51,514	51,578	64	0.1%
<b>Total</b>	<b>5,828,289</b>	<b>5,884,563</b>	<b>56,274</b>	<b>1.0%</b>

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

**Disparity Grant Calculation**  
**Change in Adjusted Income Tax Revenues\***

County	Adjusted Income Tax Revenues Tax Year 2011	Adjusted Income Tax Revenues Tax Year 2012	\$ Change 2011-2012	% Change 2011-2012
<b>Allegany</b>	<b>\$20,932,284</b>	<b>\$21,367,884</b>	<b>\$435,600</b>	<b>2.1%</b>
Anne Arundel	356,980,595	394,879,322	37,898,727	10.6%
<b>Baltimore City</b>	<b>188,160,512</b>	<b>200,344,808</b>	<b>12,184,296</b>	<b>6.5%</b>
Baltimore	467,807,583	526,859,790	59,052,207	12.6%
Calvert	53,703,393	57,322,013	3,618,621	6.7%
<b>Caroline</b>	<b>10,198,184</b>	<b>10,668,963</b>	<b>470,779</b>	<b>4.6%</b>
Carroll	98,847,144	106,273,492	7,426,348	7.5%
<b>Cecil</b>	<b>42,439,106</b>	<b>44,786,870</b>	<b>2,347,764</b>	<b>5.5%</b>
Charles	76,676,386	80,047,873	3,371,487	4.4%
<b>Dorchester</b>	<b>9,717,394</b>	<b>10,416,197</b>	<b>698,803</b>	<b>7.2%</b>
Frederick	139,651,320	149,575,736	9,924,416	7.1%
<b>Garrett</b>	<b>10,053,505</b>	<b>10,109,757</b>	<b>56,253</b>	<b>0.6%</b>
Harford	138,242,686	148,398,111	10,155,425	7.3%
Howard	253,280,498	280,540,373	27,259,875	10.8%
Kent	8,380,136	10,916,650	2,536,514	30.3%
Montgomery	904,843,901	999,832,877	94,988,976	10.5%
<b>Prince George's</b>	<b>350,099,001</b>	<b>365,188,264</b>	<b>15,089,264</b>	<b>4.3%</b>
Queen Anne's	28,017,992	30,240,004	2,222,012	7.9%
St. Mary's	58,465,884	61,485,909	3,020,025	5.2%
<b>Somerset</b>	<b>4,712,556</b>	<b>4,846,086</b>	<b>133,529</b>	<b>2.8%</b>
Talbot	25,438,614	28,236,980	2,798,366	11.0%
<b>Washington</b>	<b>56,300,809</b>	<b>59,697,371</b>	<b>3,396,562</b>	<b>6.0%</b>
<b>Wicomico</b>	<b>31,765,012</b>	<b>33,214,199</b>	<b>1,449,187</b>	<b>4.6%</b>
Worcester	22,745,926	24,739,175	1,993,250	8.8%
<b>Total</b>	<b>\$3,357,460,421</b>	<b>\$3,659,988,706</b>	<b>\$302,528,285</b>	<b>9.0%</b>

\* Per the Disparity Grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

**Disparity Grant Calculation**  
**Change in Adjusted Income Tax Revenue Per Capita\***

County	Per Capita Tax Yield Tax Year 2011	Per Capita Tax Yield Tax Year 2012	\$ Change 2010-2011	% Change 2010-2011
<b>Allegany</b>	<b>\$280.25</b>	<b>\$288.71</b>	<b>\$8.46</b>	<b>3.0%</b>
Anne Arundel	655.73	717.33	61.60	9.4%
<b>Baltimore City</b>	<b>303.73</b>	<b>322.44</b>	<b>18.71</b>	<b>6.2%</b>
Baltimore	577.58	644.51	66.93	11.6%
Calvert	601.68	639.55	37.88	6.3%
<b>Caroline</b>	<b>309.18</b>	<b>326.09</b>	<b>16.91</b>	<b>5.5%</b>
Carroll	590.88	635.54	44.66	7.6%
<b>Cecil</b>	<b>417.32</b>	<b>440.40</b>	<b>23.08</b>	<b>5.5%</b>
Charles	514.16	531.55	17.40	3.4%
<b>Dorchester</b>	<b>297.71</b>	<b>320.00</b>	<b>22.28</b>	<b>7.5%</b>
Frederick	589.88	624.32	34.44	5.8%
<b>Garrett</b>	<b>334.55</b>	<b>338.64</b>	<b>4.09</b>	<b>1.2%</b>
Harford	560.85	596.88	36.04	6.4%
Howard	864.02	936.91	72.89	8.4%
Kent	414.78	540.67	125.89	30.4%
Montgomery	914.17	995.15	80.97	8.9%
<b>Prince George's</b>	<b>401.84</b>	<b>414.45</b>	<b>12.61</b>	<b>3.1%</b>
Queen Anne's	579.43	622.29	42.85	7.4%
St. Mary's	543.95	564.16	20.21	3.7%
<b>Somerset</b>	<b>178.92</b>	<b>184.59</b>	<b>5.67</b>	<b>3.2%</b>
Talbot	669.00	741.17	72.17	10.8%
<b>Washington</b>	<b>379.89</b>	<b>400.17</b>	<b>20.28</b>	<b>5.3%</b>
<b>Wicomico</b>	<b>320.24</b>	<b>330.01</b>	<b>9.76</b>	<b>3.0%</b>
Worcester	441.55	479.65	38.10	8.6%
<b>Total</b>	<b>\$576.06</b>	<b>\$621.96</b>	<b>\$45.90</b>	<b>8.0%</b>
	<b>75%</b>	<b>\$432.05</b>	<b>\$466.47</b>	<b>8.0%</b>

\* Per the Disparity Grant formula, income tax revenues are adjusted for all jurisdictions using a standardized 2.54% tax rate.

Note: Bold indicates disparity grant recipients.

Source: Department of Budget and Management

**Fiscal Summary**  
**Payments to Civil Divisions of the State**

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 Disparity Grants	\$ 119,926,717	\$ 127,808,075	\$ 135,797,164	\$ 7,989,089	6.3%
02 Teacher Retirement Supplemental Grants	27,658,661	27,658,662	27,658,662	0	0%
<b>Total Expenditures</b>	<b>\$ 147,585,378</b>	<b>\$ 155,466,737</b>	<b>\$ 163,455,826</b>	<b>\$ 7,989,089</b>	<b>5.1%</b>
General Fund	\$ 111,009,045	\$ 155,466,737	\$ 163,455,826	\$ 7,989,089	5.1%
Special Fund	36,576,333	0	0	0	0.0%
<b>Total Appropriations</b>	<b>\$ 147,585,378</b>	<b>\$ 155,466,737</b>	<b>\$ 163,455,826</b>	<b>\$ 7,989,089</b>	<b>5.1%</b>

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.