

A15000 Payments to Civil Divisions of the State

Executive Summary

Miscellaneous State grant programs that 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.

Operating Budget Data

(\$ in Thousands)

	FY 18 <u>Actual</u>	FY 19 <u>Working</u>	FY 20 <u>Allowance</u>	FY 19-20 <u>Change</u>	% Change <u>Prior Year</u>
General Fund	\$166,484	\$168,463	\$173,832	\$5,369	3.2%
Adjustments	0	0	0	0	
Adjusted General Fund	\$166,484	\$168,463	\$173,832	\$5,369	3.2%
Special Fund	0	1,200	1,250	50	4.2%
Adjustments	0	0	0	0	
Adjusted Special Fund	\$0	\$1,200	\$1,250	\$50	4.2%
Adjusted Grand Total	\$166,484	\$169,663	\$175,082	\$5,419	3.2%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The fiscal 2020 allowance increases by \$5.4 million compared to the fiscal 2019 working appropriation, primarily due to formula changes in the Disparity Grant Program.

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

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Key Observations

- Disparity Grant Program spending grows by \$5.4 million, or 3.8%, in the fiscal 2020 allowance.
- Disparity grant cap provisions continue to relieve significant general fund spending pressure. In the fiscal 2020 allowance, cap provisions in current law limit spending by approximately \$48 million.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

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Operating Budget Analysis

Program Description

Miscellaneous State grant programs that 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. Beginning with fiscal 2018, grants from the Calvert County Gaming Tax Fund are also included.

Fiscal 2020 Allowance

Overview of Disparity Grants

Exhibit 1 provides a summary of funding by jurisdiction for all of the grant programs in fiscal 2020 budgeted under Payments to Civil Divisions of the State. Approximately 52% of the disparity grant allowance in fiscal 2020 is provided to Baltimore City, with 25% of the total going to Prince George’s County. The remaining 23% goes to eight other jurisdictions. Each county’s Teacher Retirement Supplemental Grant amount is set in statute.

Exhibit 1
State Funding for Payments to Civil Divisions
Fiscal 2020
(\$ in Thousands)

<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Calvert County Gaming Grants</u>	<u>Total</u>
Allegany	\$7,299	\$1,632		\$8,931
Anne Arundel				
Baltimore City	76,580	10,048		86,628
Baltimore		3,000		3,000
Calvert			\$1,250	1,250
Caroline	3,301	685		3,986
Carroll				
Cecil	1,504			1,504
Charles				
Dorchester	2,023	309		2,332
Frederick				

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<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Calvert County Gaming Grants</u>	<u>Total</u>
Garrett	2,131	406		2,538
Harford				
Howard				
Kent				
Montgomery				
Prince George's	36,197	9,629		45,825
Queen Anne's				
St. Mary's				
Somerset	5,429	382		5,811
Talbot				
Washington	2,060			2,060
Wicomico	9,649	1,568		11,217
Worcester				
Total	\$146,173	\$27,659	\$1,250	\$175,082

Source: Department of Legislative Services

Proposed Budget Change

The Governor's allowance for Payments to Civil Divisions of the State totals \$175.1 million, an increase of \$5.4 million, all but \$50,000 of which is due to increases in disparity grants driven by formula, as shown in **Exhibit 2**.

Exhibit 2
Proposed Budget
Payments to Civil Divisions of the State
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2018 Actual	\$166,484	\$0	\$166,484
Fiscal 2019 Working Appropriation	168,463	1,200	169,663
Fiscal 2020 Allowance	<u>173,832</u>	<u>1,250</u>	<u>175,082</u>
Fiscal 2019-2020 Amount Change	\$5,369	\$50	\$5,419
Fiscal 2019-2020 Percent Change	3.2%	4.2%	3.2%

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Where It Goes:

Disparity Grants

Prince George’s.....	\$2,097
Caroline.....	1,169
Wicomico.....	679
Baltimore City.....	568
Cecil.....	446
Somerset.....	253
Washington.....	158

Other Changes

Calvert County Gaming Tax Fund grants.....	50
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Total **\$5,419**

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

Disparity Grants

State funding targeted to the disparity in local income tax capacity is found in Local Government Article, § 16-501. The Disparity Grant Program provides noncategorical 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% of the statewide average receive grants unless a county has an income tax rate below 2.6%. Under current law, aid received by counties equals the lesser of the dollar amount necessary to raise the county’s per capita income tax revenues to 75% 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 county received from the State in fiscal 2010. However, Chapter 425 of 2013 changed the disparity grant formula cap provisions in order to take into account a local jurisdiction’s income tax effort.

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, are set to 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 follows:

- from a tax rate of 2.8% to 2.99%, 20% of the uncapped grant amount;
- from a tax rate of 3% to 3.19%, 40% of the uncapped grant amount; and

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- at a tax rate of 3.2% (the maximum), 67.5% of the uncapped grant amount.

Chapter 738 of 2016 increased the proportion that a county with a 3.2% tax rate receives from 60% to 67.5% for fiscal 2018 and 2019; Chapter 472 of 2018 extended the sunset for the 67.5% rate through fiscal 2021. The calculation under current law for fiscal 2020 is presented in **Exhibit 3**. For fiscal 2020, the grants to Baltimore City and Caroline, Cecil, Prince George's, Somerset, Washington, and Wicomico counties all increase.

**Exhibit 3
Disparity Grant Calculation
Fiscal 2020**

<u>County</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Fiscal 2020 Uncapped Grant</u>	<u>Fiscal 2010 (Cap)</u>	<u>Fiscal 2020 Grant Amount</u>	<u>Fiscal 2019 Grant Amount</u>	<u>Difference to Fiscal 2019</u>	<u>Piggyback Calendar 2019</u>
Allegany	\$329.32	\$198.85	\$14,240,561	\$7,298,505	\$7,298,505	\$7,298,505	\$0.00	3.05%
Anne Arundel	828.40	0	0	0	0	0	0	2.50%
Baltimore City	402.97	125.20	76,580,403	79,051,790	76,580,403	76,012,567	567,836	3.20%
Baltimore	703.49	0	0	0	0	0	0	2.83%
Calvert	740.19	0	0	0	0	0	0	3.00%
Caroline	380.85	147.32	4,889,952	2,131,782	3,300,718	2,131,782	1,168,936	3.20%
Carroll	761.73	0	0	0	0	0	0	3.03%
Cecil	491.56	36.60	3,760,942	0	1,504,377	1,058,483	445,893	3.00%
Charles	612.50	0	0	0	0	0	0	3.03%
Dorchester	376.51	151.66	4,877,662	2,022,690	2,022,690	2,022,690	0	2.62%
Frederick	739.97	0	0	0	0	0	0	2.96%
Garrett	407.40	120.77	3,530,546	2,131,271	2,131,271	2,131,271	0	2.65%
Harford	697.09	0	0	0	0	0	0	3.06%
Howard	1,037.54	0	0	0	0	0	0	3.20%
Kent	568.03	0	0	0	0	0	0	2.85%
Montgomery	1,066.12	0	0	0	0	0	0	3.20%
Prince George's	469.42	58.75	53,624,484	21,694,767	36,196,527	34,099,612	2,096,915	3.20%
Queen Anne's	777.79	0	0	0	0	0	0	3.20%
St. Mary's	643.13	0	0	0	0	0	0	3.00%
Somerset	217.84	310.33	8,043,234	4,908,167	5,429,183	5,176,433	252,749	3.20%
Talbot	817.15	0	0	0	0	0	0	2.40%
Washington	459.75	68.41	10,301,683	0	2,060,337	1,902,685	157,652	2.80%
Wicomico	389.28	138.89	14,294,580	2,197,041	9,648,842	8,970,144	678,698	3.20%
Worcester	597.09	0	0	0	0	0	0	1.75%
Total	\$704.23	\$0	\$194,144,046	\$121,436,013	\$146,172,853	\$140,804,172	\$5,368,679	
Target (75%)	\$528.17							

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

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Increases in the disparity in the per capita tax yield compared to the statewide average were the primary reason for the increases in disparity grants in those counties that saw an increase. The exception is Caroline County that sees a \$1.2 million increase due primarily to the county increasing its income tax rate to 3.2% for calendar 2019, which means that it receives 67.5% of the uncapped grant amount, rather than 40%.

As shown in **Exhibit 4**, current cap provisions continue to limit general fund spending on disparity grants. For fiscal 2020, the provisions combined to reduce spending by just under \$48 million, since every eligible county, with the exception of Baltimore City, has an uncapped grant amount higher than the cap. However, the increase of the 60% floor to 67.5% of the uncapped grant increases spending by nearly \$6 million, with about \$4 million of that going to Prince George’s County. Wicomico (\$1.1 million), Somerset (\$521,000), and Caroline (\$367,000) counties are also beneficiaries of the increased floor.

Exhibit 4
Effect of the Cap Provisions
Fiscal 2020

<u>County</u>	<u>Fiscal 2019 Uncapped Grant</u>	<u>2020 Uncapped Grant</u>	<u>Fiscal 2019-2020 Uncapped Grant Difference</u>	<u>Foregone Amount 2020</u>
Allegany	\$13,718,494	\$14,240,561	\$522,067	\$6,942,056
Baltimore City	76,012,567	76,580,403	567,836	0
Caroline	4,411,198	4,889,952	478,754	1,589,234
Cecil	2,646,208	3,760,942	1,114,734	2,256,565
Dorchester	4,745,588	4,877,662	132,074	2,854,972
Garrett	3,771,649	3,530,546	-241,103	1,399,275
Prince George’s	50,517,944	53,624,484	3,106,540	17,427,957
Somerset	7,668,790	8,043,234	374,444	2,614,051
Washington	9,513,425	10,301,683	788,258	8,241,346
Wicomico	13,289,102	14,294,580	1,005,478	4,645,738
Total	\$186,294,965	\$194,144,047	\$7,849,082	\$47,971,196

Source: Department of Legislative Services

A comparison of 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 data.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

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Appendix 1
Current and Prior Year Budgets
Payments to Civil Divisions of the State
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2018					
Legislative Appropriation	\$166,484	\$1,041	\$0	\$0	\$167,525
Deficiency/Withdrawn Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-\$1,041	0	0	-1,041
Actual Expenditures	\$166,484	\$0	\$0	\$0	\$166,484
Fiscal 2019					
Legislative Appropriation	\$168,463	\$1,200	\$0	\$0	\$169,663
Budget Amendments	0	0	0	0	0
Working Appropriation	\$168,463	\$1,200	\$0	\$0	\$169,663

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

The \$1 million special fund appropriation for Calvert County gaming grants in fiscal 2018 was canceled, as it was disbursed by the General Accounting Division via a direct revenue transfer outside of the appropriation rather than using the appropriation. Fiscal 2018 was the first year that these funds were properly budgeted; it is anticipated that the proper appropriation process will be used going forward.

Fiscal 2019

There were no changes to the fiscal 2019 legislative appropriation.

Appendix 2
Disparity Grant Calculation
Change in Population by Jurisdiction

<u>County</u>	<u>Population July 2016</u>	<u>Population July 2017</u>	<u>2016-2017 Change</u>	<u>2016-2017% Change</u>
Allegany	72,130	71,615	-515	-0.7%
Anne Arundel	568,346	573,235	4,889	0.9%
Baltimore City	614,664	611,648	-3,016	-0.5%
Baltimore	831,026	832,468	1,442	0.2%
Calvert	91,251	91,502	251	0.3%
Caroline	32,850	33,193	343	1.0%
Carroll	167,656	167,781	125	0.1%
Cecil	102,603	102,746	143	0.1%
Charles	157,705	159,700	1,995	1.3%
Dorchester	32,258	32,162	-96	-0.3%
Frederick	247,591	252,022	4,431	1.8%
Garrett	29,425	29,233	-192	-0.7%
Harford	251,032	252,160	1,128	0.4%
Howard	317,233	321,113	3,880	1.2%
Kent	19,730	19,384	-346	-1.8%
Montgomery	1,043,863	1,058,810	14,947	1.4%
Prince George's	908,049	912,756	4,707	0.5%
Queen Anne's	48,929	49,770	841	1.7%
St. Mary's	112,587	112,667	80	0.1%
Somerset	25,928	25,918	-10	0.0%
Talbot	37,278	37,103	-175	-0.5%
Washington	150,292	150,578	286	0.2%
Wicomico	102,577	102,923	346	0.3%
Worcester	51,444	51,690	246	0.5%
Total	6,016,447	6,052,177	35,730	0.6%

Note: Bold indicates disparity grant recipients

Source: Maryland Department of Planning

Appendix 3
Disparity Grant Calculation
Change in Adjusted Income Tax Revenues*

<u>County</u>	<u>Tax Year 2016 Adjusted Income Tax Revenues</u>	<u>Tax Year 2017 Adjusted Income Tax Revenues</u>	<u>2016-2017 \$ Change</u>	<u>2016-2017 % Change</u>
Allegany	\$22,646,906	\$23,584,279	\$937,373	4.1%
Anne Arundel	453,536,923	474,867,392	21,330,469	4.7%
Baltimore City	233,879,324	246,473,251	12,593,927	5.4%
Baltimore	555,971,612	585,631,374	29,659,762	5.3%
Calvert	64,499,045	67,728,607	3,229,563	5.0%
Caroline	12,150,612	12,641,569	490,957	4.0%
Carroll	122,188,244	127,804,483	5,616,238	4.6%
Cecil	49,082,603	50,506,334	1,423,732	2.9%
Charles	92,596,032	97,816,792	5,220,760	5.6%
Dorchester	11,517,757	12,109,317	591,560	5.1%
Frederick	175,650,780	186,487,738	10,836,958	6.2%
Garrett	11,063,397	11,909,425	846,028	7.6%
Harford	167,176,928	175,777,426	8,600,498	5.1%
Howard	312,137,081	333,168,887	21,031,806	6.7%
Kent	10,441,378	11,010,677	569,300	5.5%
Montgomery	1,069,089,192	1,128,821,726	59,732,534	5.6%
Prince George's	407,288,307	428,465,151	21,176,844	5.2%
Queen Anne's	36,624,174	38,710,603	2,086,428	5.7%
St. Mary's	69,172,443	72,459,642	3,287,199	4.8%
Somerset	5,403,192	5,645,856	242,664	4.5%
Talbot	27,777,715	30,318,705	2,540,990	9.1%
Washington	66,258,496	69,228,984	2,970,487	4.5%
Wicomico	38,426,600	40,066,181	1,639,581	4.3%
Worcester	29,794,849	30,863,833	1,068,984	3.6%
Total	\$4,044,373,590	\$4,262,098,231	\$217,724,641	5.4%

* 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: Comptroller of Maryland

Appendix 4
Disparity Grant Calculation
Change in Adjusted Income Tax Revenue Per Capita*

<u>County</u>	<u>Tax Year 2016</u> <u>Per Capita</u> <u>Tax Yield</u>	<u>Tax Year 2017</u> <u>Per Capita</u> <u>Tax Yield</u>	<u>2016-2017\$</u> <u>Change</u>	<u>2016-2017</u> <u>% Change</u>
Allegany	\$313.97	\$329.32	\$15.35	4.9%
Anne Arundel	797.99	828.40	30.40	3.8%
Baltimore City	380.50	402.97	22.47	5.9%
Baltimore	669.02	703.49	34.47	5.2%
Calvert	706.83	740.19	33.36	4.7%
Caroline	369.88	380.85	10.97	3.0%
Carroll	728.80	761.73	32.93	4.5%
Cecil	478.37	491.56	13.19	2.8%
Charles	587.15	612.50	25.36	4.3%
Dorchester	357.05	376.51	19.46	5.4%
Frederick	709.44	739.97	30.53	4.3%
Garrett	375.99	407.40	31.41	8.4%
Harford	665.96	697.09	31.13	4.7%
Howard	983.94	1,037.54	53.61	5.4%
Kent	529.21	568.03	38.82	7.3%
Montgomery	1,024.17	1,066.12	41.96	4.1%
Prince George's	448.53	469.42	20.89	4.7%
Queen Anne's	748.52	777.79	29.27	3.9%
St. Mary's	614.39	643.13	28.74	4.7%
Somerset	208.39	217.84	9.44	4.5%
Talbot	745.15	817.15	72.00	9.7%
Washington	440.87	459.75	18.89	4.3%
Wicomico	374.61	389.28	14.67	3.9%
Worcester	579.17	597.09	17.92	3.1%
Total	\$672.22	\$704.23	\$32.01	4.8%
Target (75%)	\$504.16	\$528.17	\$24.01	4.8%

* 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 Legislative Services

Appendix 5
Fiscal Summary
Payments to Civil Divisions of the State

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 Disparity Grants	\$ 138,825,071	\$ 140,804,172	\$ 146,172,853	\$ 5,368,681	3.8%
02 Teacher Retirement Supplemental Grants	27,658,661	27,658,661	27,658,661	0	0%
03 Calvert County BINGO Grants	0	1,200,000	1,250,000	50,000	4.2%
Total Expenditures	\$ 166,483,732	\$ 169,662,833	\$ 175,081,514	\$ 5,418,681	3.2%
General Fund	\$ 166,483,732	\$ 168,462,833	\$ 173,831,514	\$ 5,368,681	3.2%
Special Fund	0	1,200,000	1,250,000	50,000	4.2%
Total Appropriations	\$ 166,483,732	\$ 169,662,833	\$ 175,081,514	\$ 5,418,681	3.2%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.