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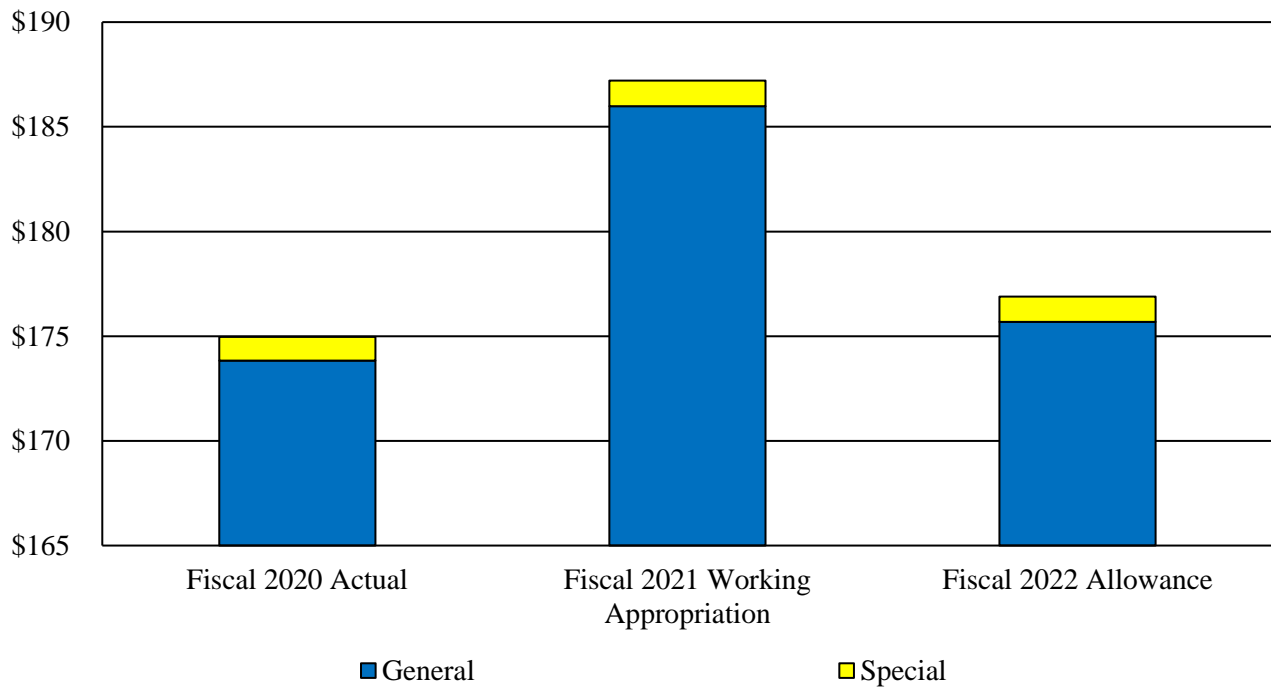
Payments to Civil Divisions of the State

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.

Operating Budget Summary

Fiscal 2022 Budget Decreases \$10.3 Million, or 5.5%, to \$176.9 Million (\$ in Millions)



- A change in the disparity grant formula and changing demographics in Baltimore City have led to a \$10.3 million reduction in grant spending.

Fiscal 2022 Allowance

Exhibit 1 provides a summary of funding by jurisdiction for all of the grant programs in fiscal 2022 budgeted under Payments to Civil Divisions of the State. Approximately 52% of the disparity grant allowance in fiscal 2022 is provided to Baltimore City with 22% of the total going to Prince George’s County. The remaining 26% 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 2022
(\$ 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	76,194	10,048		86,243
Baltimore		3,000		3,000
Calvert			\$1,220	1,220
Caroline	3,228	685		3,913
Carroll				
Cecil	1,601			1,601
Charles				
Dorchester	3,274	309		3,583
Frederick				
Garrett	2,131	406		2,537
Harford				
Howard				
Kent				
Montgomery				
Prince George’s	31,818	9,629		41,446
Queen Anne’s				
St. Mary’s				
Somerset	5,406	382		5,788
Talbot				
Washington	6,689			6,689
Wicomico	10,378	1,568		11,946
Worcester				
Total	\$148,018	\$27,659	\$1,220	\$176,897

Source: Department of Legislative Services

Proposed Budget Change

General fund spending for disparity grants declines by \$10.3 million, as shown in **Exhibit 2**. The largest decrease is in Prince George’s County, which will see a reduction of \$4.1 million in its disparity grant due to the sunset of a provision to provide a grant of at least 67.5% of the county’s 2010 grant. Law now sets the minimum for counties with a 3.2% tax rate at 60% of its 2010 grant. Other counties with disparity grant reductions – with the exception of Baltimore City – were affected by the same change in law.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2020 Actual	\$173,832	\$1,133	\$174,964
Fiscal 2021 Working Appropriation	185,980	1,220	187,200
Fiscal 2022 Allowance	<u>175,677</u>	<u>1,220</u>	<u>176,897</u>
Fiscal 2021-2022 Amount Change	-\$10,303	\$0	-\$10,303
Fiscal 2021-2022 Percent Change	-5.5%		-5.5%

Where It Goes:

Disparity Grants

Prince George’s County	-\$4,125
Baltimore City.....	-2,858
Washington County	-1,093
Wicomico County	-912
Somerset County.....	-544
Dorchester County	-341
Cecil County	-244
Caroline County	-186
Total	-\$10,303

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

Baltimore City’s grant declined by \$2.9 million due to a combination of increasing wealth and declining population. A key part of the disparity grant formula is per capita tax yield; Baltimore City’s is increasing, which reduces its disparity grant.

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
- at a tax rate of 3.2% (the maximum), 60% of the uncapped grant amount.

The floor for the final group of counties was previously 67.5%, but that provision sunsets after fiscal 2021. HB 737 of 2020 would have permanently increased the floor for counties with 3.2% tax rates to 75% of the uncapped grant; however, the Governor vetoed that legislation. The veto's impact by county is shown in **Exhibit 3**.

Exhibit 3
Impact of Veto of HB 737 of 2020
Fiscal 2022
(\$ in Thousands)

<u>County</u>	<u>Disparity Grant</u> <u>Fiscal 2022</u>	<u>Disparity Grant</u> <u>Under HB 737 of 2020</u> <u>Fiscal 2022</u>	<u>Difference</u>
Allegany	\$7,299	\$7,299	
Baltimore City	76,194	76,194	
Caroline	3,228	4,035	-\$807
Cecil	1,601	1,601	
Dorchester	3,274	4,093	-819
Garrett	2,131	2,131	
Prince George's	31,818	39,772	-7,954
Somerset	5,406	6,757	-1,351
Washington	6,689	8,361	-1,672
Wicomico	10,378	12,973	-2,595
Total	\$148,018	\$163,217	-\$15,198

Source: Department of Legislative Services

The disparity grant calculation under current law for fiscal 2022 is presented in **Exhibit 4**.

**Exhibit 4
Disparity Grant Calculation
Fiscal 2021**

<u>County</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Uncapped Grant Fiscal 2022</u>	<u>(Cap) Fiscal 2010</u>	<u>Grant Amount Fiscal 2022</u>	<u>Grant Amount Fiscal 2021</u>	<u>Difference to Fiscal 2020</u>	<u>Piggyback Calendar 2020</u>
Allegany	\$348.77	\$225.95	\$16,115,758	\$7,298,505	\$7,298,505	\$7,298,505	\$0	3.05%
Anne Arundel	900.93	0.00	0	0	0	0	0	2.81%
Baltimore City	441.37	133.34	76,194,238	79,051,790	76,194,238	79,051,790	-2,857,552	3.20%
Baltimore	761.97	0.00	0	0	0	0	0	3.20%
Calvert	802.66	0.00	0	0	0	0	0	3.00%
Caroline	422.81	151.90	5,380,547	2,131,782	3,228,328	3,414,809	-186,481	3.20%
Carroll	827.99	0.00	0	0	0	0	0	3.03%
Cecil	529.84	44.87	4,003,104	0	1,601,242	1,845,541	-244,300	3.00%
Charles	655.06	0.00	0	0	0	0	0	3.03%
Dorchester	407.33	167.38	5,456,953	2,022,690	3,274,172	3,615,259	-341,087	3.20%
Frederick	805.14	0.00	0	0	0	0	0	2.96%
Garrett	460.73	113.98	3,289,259	2,131,271	2,131,271	2,131,271	0	2.65%
Harford	754.68	0.00	0	0	0	0	0	3.06%
Howard	1,125.62	0.00	0	0	0	0	0	3.20%
Kent	631.50	0.00	0	0	0	0	0	3.20%
Montgomery	1,154.85	0.00	0	0	0	0	0	3.20%
Prince George's	516.15	58.56	53,029,535	21,694,767	31,817,721	35,943,016	-4,125,295	3.20%
Queen Anne's	853.71	0.00	0	0	0	0	0	3.20%
St. Mary's	709.14	0.00	0	0	0	0	0	3.17%
Somerset	231.40	343.31	9,009,760	4,908,167	5,405,856	5,949,783	-543,927	3.20%
Talbot	992.11	0.00	0	0	0	0	0	2.40%
Washington	498.33	76.38	11,147,794	0	6,688,676	7,781,374	-1,092,698	3.20%
Wicomico	412.63	162.08	17,297,313	2,197,041	10,378,388	11,290,175	-911,787	3.20%
Worcester	652.28	0.00	0	0	0	0	0	2.25%
Total	\$766.28	\$0.00	\$200,924,260	\$121,436,013	\$148,018,396	\$158,321,522	-\$10,303,126	
Target (75%)	\$574.71							

Analysis of the FY 2022 Maryland Executive Budget, 2021

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Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Disparity Grant Calculation
Change in Population by Jurisdiction
July 2018 to July 2019

<u>County</u>	<u>Population July 2018</u>	<u>Population July 2019</u>	<u>Change 2018-2019</u>	<u>% Change 2018-2019</u>
Allegany	70,975	70,416	-559	-0.8%
Anne Arundel	576,031	579,234	3,203	0.6%
Baltimore City	602,495	593,490	-9,005	-1.5%
Baltimore	828,431	827,370	-1,061	-0.1%
Calvert	92,003	92,525	522	0.6%
Caroline	33,304	33,406	102	0.3%
Carroll	168,429	168,447	18	0.0%
Cecil	102,826	102,855	29	0.0%
Charles	161,503	163,257	1,754	1.1%
Dorchester	31,998	31,929	-69	-0.2%
Frederick	255,648	259,547	3,899	1.5%
Garrett	29,163	29,014	-149	-0.5%
Harford	253,956	255,441	1,485	0.6%
Howard	323,196	325,690	2,494	0.8%
Kent	19,383	19,422	39	0.2%
Montgomery	1,052,567	1,050,688	-1,879	-0.2%
Prince George's	909,308	909,327	19	0.0%
Queen Anne's	50,251	50,381	130	0.3%
St. Mary's	112,664	113,510	846	0.8%
Somerset	25,675	25,616	-59	-0.2%
Talbot	36,968	37,181	213	0.6%
Washington	150,926	151,049	123	0.1%
Wicomico	103,195	103,609	414	0.4%
Worcester	51,823	52,276	453	0.9%
Total	6,042,718	6,045,680	2,962	0.0%

Note: Bold indicates disparity grant recipients.

Source: Maryland Department of Planning

Appendix 2
Disparity Grant Calculation
Change in Adjusted Income Tax Revenues*
Tax Year 2018-2019

County	Adjusted Income Tax Revenues <u>2018</u>	Adjusted Income Tax Revenues <u>2019</u>	<u>\$ Change</u> <u>2018-2019</u>	<u>% Change</u> <u>2018-2019</u>
Allegany	\$24,753,628	\$25,639,353	\$885,725	3.6%
Anne Arundel	518,961,934	533,202,984	\$14,241,051	2.7%
Baltimore City	265,923,528	275,732,038	\$9,808,510	3.7%
Baltimore	631,235,718	643,313,491	\$12,077,773	1.9%
Calvert	73,847,096	78,928,090	\$5,080,995	6.9%
Caroline	14,081,270	14,428,463	\$347,193	2.5%
Carroll	139,457,810	144,077,496	\$4,619,687	3.3%
Cecil	54,481,598	56,987,607	\$2,506,009	4.6%
Charles	105,794,730	109,582,632	\$3,787,902	3.6%
Dorchester	13,033,732	13,476,229	\$442,497	3.4%
Frederick	205,831,556	217,180,955	\$11,349,400	5.5%
Garrett	13,436,292	13,915,393	\$479,101	3.6%
Harford	191,654,696	203,780,349	\$12,125,653	6.3%
Howard	363,796,627	380,383,813	\$16,587,186	4.6%
Kent	12,240,337	12,086,594	-\$153,743	-1.3%
Montgomery	1,215,558,850	1,242,969,035	\$27,410,185	2.3%
Prince George's	469,342,322	486,181,006	\$16,838,684	3.6%
Queen Anne's	42,899,755	45,028,883	\$2,129,128	5.0%
St. Mary's	79,894,580	85,671,508	\$5,776,928	7.2%
Somerset	5,941,266	6,179,954	\$238,688	4.0%
Talbot	36,676,152	33,829,075	-\$2,847,078	-7.8%
Washington	75,211,190	78,420,880	\$3,209,690	4.3%
Wicomico	42,581,335	44,140,503	\$1,559,169	3.7%
Worcester	33,803,057	34,800,752	\$997,695	3.0%
Total	\$4,630,439,059	\$4,779,937,084	\$149,498,025	3.5%

* 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 3
Disparity Grant Calculation
Change in Adjusted Income Tax Revenue Per Capita*
Tax Year 2018-2019

<u>County</u>	<u>Per Capita Tax Yield 2018</u>	<u>Per Capita Tax Yield 2019</u>	<u>\$ Change 2018-2019</u>	<u>% Change 2018-2019</u>
Allegany	\$348.77	\$364.11	\$15.35	4.4%
Anne Arundel	900.93	920.53	19.60	2.2%
Baltimore City	441.37	464.59	23.22	5.3%
Baltimore	761.97	777.54	15.57	2.0%
Calvert	802.66	853.05	50.39	6.3%
Caroline	422.81	431.91	9.10	2.2%
Carroll	827.99	855.33	27.34	3.3%
Cecil	529.84	554.06	24.22	4.6%
Charles	655.06	671.23	16.16	2.5%
Dorchester	407.33	422.07	14.74	3.6%
Frederick	805.14	836.77	31.63	3.9%
Garrett	460.73	479.61	18.88	4.1%
Harford	754.68	797.76	43.08	5.7%
Howard	1,125.62	1,167.93	42.31	3.8%
Kent	631.50	622.31	-9.18	-1.5%
Montgomery	1,154.85	1,183.00	28.15	2.4%
Prince George's	516.15	534.66	18.51	3.6%
Queen Anne's	853.71	893.77	40.06	4.7%
St. Mary's	709.14	754.75	45.61	6.4%
Somerset	231.40	241.25	9.85	4.3%
Talbot	992.11	909.85	-82.26	-8.3%
Washington	498.33	519.18	20.84	4.2%
Wicomico	412.63	426.03	13.40	3.2%
Worcester	652.28	665.71	13.43	2.1%
Total	\$766.28	\$790.64	\$24.36	3.2%
Target (75%)	\$574.71	\$592.98	\$46.54	8.8%

* 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 4
Object/Fund Difference Report
Payments to Civil Divisions of the State

<u>Object/Fund</u>	<u>FY 20</u> <u>Actual</u>	<u>FY 21</u> <u>Working</u> <u>Appropriation</u>	<u>FY 22</u> <u>Allowance</u>	<u>FY 21 - FY 22</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 174,964,477	\$ 187,200,184	\$ 176,897,058	-\$ 10,303,126	-5.5%
Total Objects	\$ 174,964,477	\$ 187,200,184	\$ 176,897,058	-\$ 10,303,126	-5.5%
Funds					
01 General Fund	\$ 173,831,514	\$ 185,980,184	\$ 175,677,058	-\$ 10,303,126	-5.5%
03 Special Fund	1,132,963	1,220,000	1,220,000	0	0%
Total Funds	\$ 174,964,477	\$ 187,200,184	\$ 176,897,058	-\$ 10,303,126	-5.5%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.