

# A15000

## Payments to Civil Divisions of the State

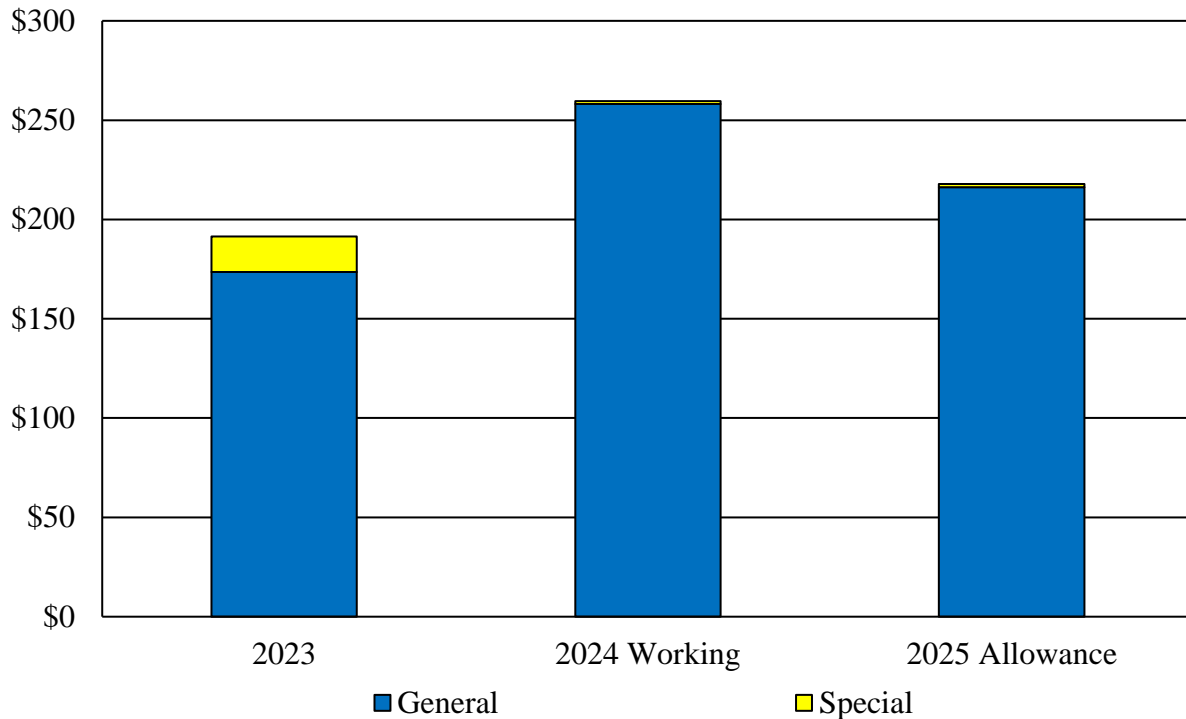
### Program Description

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. Grants from the Calvert County Gaming Tax Fund have also been included since fiscal 2018.

### *Operating Budget Summary*

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**Fiscal 2025 Budget Decreases \$41.9 Million, or 16.1%, to \$217.8 Million  
(\$ in Millions)**



- The Disparity Grant decreases by \$31.6 million in the fiscal 2025 allowance. Prince George’s County receives the largest decrease in disparity grants, by \$29.2 million. In addition, \$1.1 million of the decrease is due to the change in local income tax rate in Cecil County from 2.80% to 2.75%, which results in no disparity grant allocation in fiscal 2025.

## **Fiscal 2024**

### **Implementation of Legislative Priorities**

The fiscal 2024 working appropriation added two appropriations to miscellaneous grants within Payments to Civil Divisions of the State, which include:

- \$10,000,000 in general funds to Baltimore City for the purpose of increasing the local contribution to Baltimore City Public Schools above the fiscal 2023 contribution, which has been fully distributed; and
- \$250,000 in general funds to Kent County for the purpose of increasing the local contribution to Kent County Public Schools above the fiscal 2023 contribution, which has been fully distributed.

## **Fiscal 2025 Allowance**

**Exhibit 1** provides a summary of funding included in the fiscal 2025 allowance by jurisdiction for all of the grant programs budgeted under Payments to Civil Divisions of the State. The Disparity Grant is calculated by a formula set in statute, while each jurisdiction's Teacher Retirement Supplemental Grant amount is set in statute.

**Exhibit 1**  
**Overview of Payments to Civil Divisions**  
**Fiscal 2025 Allowance**  
**(\$ in Thousands)**

<u>County</u>	<u>Disparity Grant</u>	<u>Teacher Retirement Supplemental Grant</u>	<u>Calvert County Gaming 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			\$1,600	1,600
Caroline	4,071	685		4,756
Carroll				
Cecil				
Charles				
Dorchester	4,443	309		4,752
Frederick				
Garrett	2,131	406		2,538
Harford				
Howard				
Kent				
Montgomery				
Prince George’s	69,278	9,629		78,907
Queen Anne’s				
St. Mary’s				
Somerset	6,843	382		7,225
Talbot				
Washington	2,368			2,368
Wicomico	13,055	1,568		14,623
Worcester				
<b>Total</b>	<b>\$188,540</b>	<b>\$27,659</b>	<b>\$1,600</b>	<b>\$217,798</b>

Source: Governor’s Fiscal 2025 Budget Books

**Proposed Budget Change**

As shown in **Exhibit 2**, general fund spending in Payments to Civil Divisions of the State declines by \$41.9 million. Disparity grants decline in all jurisdictions a net decrease of \$31.6 million except for Allegany County, where the amount increases by \$1.8 million, or 32.6%, and Dorchester County, where the amount increases by \$508,389, or 12.9%. Prince George’s County’s grant declines by \$29.2 million, or 29.7%, and Wicomico County’s grant declines by \$2 million, or 13.3%. The changes are formula driven. Allegany County’s net local tax revenue for tax year 2022 decreased by \$14.9 million, or 30%, leading to an increase in its per capita grant amount. Prince George’s County has seen a population decline, while tax revenues have remained stable. This leads to a lower per capita grant amount. Cecil County reduced its tax rate, which reduced the amount that it is eligible to receive, because it no longer qualifies for the floor of 40% of its uncapped grant and resulted in no disparity grant allocation for fiscal 2025.

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

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Total</b>
Fiscal 2023 Actual	\$173,508	\$17,965	\$191,473
Fiscal 2024 Working Appropriation	258,063	1,600	259,663
Fiscal 2025 Allowance	<u>216,198</u>	<u>1,600</u>	<u>217,798</u>
Fiscal 2024-2025 Amount Change	-\$41,865	\$0	-\$41,865
Fiscal 2024-2025 Percent Change	-16.2%		-16.1%

<b>Where It Goes:</b>	<b>Change</b>
<b>Disparity Grants</b>	
Allegany County .....	\$1,794
Dorchester County .....	508
Somerset County .....	-386
Caroline County .....	-616
Washington County .....	-622
Cecil County .....	-1,081
Wicomico County .....	-2,009
Prince George’s County .....	-29,204

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<b>Where It Goes:</b>	<b><u>Change</u></b>
<b>Other Changes</b>	
One-time addition of \$10 million and \$250,000 to Miscellaneous Grants in the fiscal 2024 working appropriation to assist the jurisdictions in increasing their local contribution to Baltimore City Public Schools and Kent County Public Schools, respectively.....	-10,250
<b>Total</b>	<b>-\$41,865</b>

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

Miscellaneous grants declined by \$10.2 million because the fiscal 2024 working appropriation includes \$10 million and \$250,000 in general funds to assist Baltimore City and Kent County in increasing the local contribution to Baltimore City Public Schools and Kent County Public Schools, respectively, above the fiscal 2023 contribution.

### **Disparity Grants**

State funding targeted to the disparity in local income tax capacity is found in § 16-501 of the Local Government Article. 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 per capita tax revenue 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.

A cap on the grant is set at the county’s fiscal 2010 grant amount. However, if an eligible county’s grant amount determined by the formula is higher than the county’s maximum grant amount, the county is provided a portion of the uncapped amount. The size of the grant is then based on the county 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), 75% of the uncapped grant amount.

The disparity grant calculation under current law for fiscal 2025 is shown in **Exhibit 3**.

**Exhibit 3**  
**Disparity Grant Calculation**  
**Fiscal 2025**

<u>County</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Uncapped Grant Fiscal 2025</u>	<u>(Cap) Fiscal 2010</u>	<u>Grant Amount Fiscal 2025</u>	<u>Grant Amount Fiscal 2024</u>	<u>Difference to Fiscal 2024</u>	<u>Piggyback Calendar 2024</u>
Allegany	\$435.10	\$260.53	\$17,525,063	\$7,298,505	\$7,298,505	\$5,504,536	\$1,793,969	3.03%
Anne Arundel	1,095.81	0.00	0	0	0	0	0	Various*
Baltimore City	554.48	141.14	80,442,116	79,051,790	79,051,790	79,051,790	0	3.20%
Baltimore	898.85	0.00	0	0	0	0	0	3.20%
Calvert	959.08	0.00	0	0	0	0	0	3.00%
Caroline	533.26	162.37	5,428,355	2,131,782	4,071,266	4,686,791	-615,525	3.20%
Carroll	990.97	0.00	0	0	0	0	0	3.03%
Cecil	679.15	16.48	1,729,186	0	0	1,080,718	-1,080,718	2.75%
Charles	756.46	0.00	0	0	0	0	0	3.03%
Dorchester	514.61	181.02	5,923,978	2,022,690	4,442,984	3,934,595	508,388	3.20%
Frederick	995.05	0.00	0	0	0	0	0	Various*
Garrett	610.92	84.71	2,420,923	2,131,271	2,131,271	2,131,271	0	2.65%
Harford	910.34	0.00	0	0	0	0	0	3.06%
Howard	1,348.97	0.00	0	0	0	0	0	3.20%
Kent	755.41	0.00	0	0	0	0	0	3.20%
Montgomery	1,398.23	0.00	0	0	0	0	0	3.20%
Prince George's	598.08	97.54	92,371,213	21,694,767	69,278,410	98,482,132	-29,203,722	3.20%
Queen Anne's	1,131.29	0.00	0	0	0	0	0	3.20%
St. Mary's	876.84	0.00	0	0	0	0	0	3.00%
Somerset	323.93	371.69	9,123,620	4,908,167	6,842,715	7,229,163	-386,448	3.20%
Talbot	1,234.32	0.00	0	0	0	0	0	2.40%
Washington	619.54	76.09	11,838,261	0	2,367,652	2,990,075	-622,422	2.95%
Wicomico	529.32	166.31	17,406,552	2,197,041	13,054,914	15,063,448	-2,008,534	3.20%
Worcester	900.39	0.00	0	0	0	0	0	2.25%
<b>Avg/Total</b>	<b>\$927.50</b>	<b>n/a</b>	<b>\$244,209,268</b>	<b>\$121,436,013</b>	<b>\$188,539,507</b>	<b>\$220,154,519</b>	<b>-\$31,615,012</b>	
Target 75%	\$695.63							

\*: See Exhibit 5 for different tax rates based on tax filing status for Calendar 2024.

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

## Adoption of Graduated Income Tax Rates Beginning Tax Year 2023

Chapter 23 of the 2021 special session requires all local governments to impose a minimum tax rate of 2.25% and a rate up to 3.2%. Additionally, it authorizes local governments to impose the county income tax on a bracket basis and alters the local income tax rates that a jurisdiction must impose in order to qualify for enhanced State funding under the Disparity Grant Program. This change is subject to the jurisdiction imposing the county income tax on a bracket basis. A county that imposes the county income tax on a bracket basis that differs from the State income tax brackets must (1) set the income tax brackets that apply to each income tax rate by ordinance or resolution and (2) notify the Comptroller of a rate or income bracket change by July 1 prior to the year in which a new bracket is established.

Since the enactment of Chapter 23, Anne Arundel and Frederick counties have adopted bracket-based income tax rates beginning tax year 2023. **Exhibit 4** shows the bracket-based income tax rates for Anne Arundel and Frederick counties beginning tax year 2023.

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### Exhibit 4 Income Tax Brackets Tax Year 2023

<u>County</u>	<u>Tax Rate</u>
Anne Arundel	2.70% of Maryland taxable income of \$1 through \$50,000 2.81% of Maryland taxable income in excess of \$50,000
Frederick	2.75% of Maryland taxable income of \$100,000 or less and a filing status of married filing joint, head of household, and qualifying widow(er) with dependent child 2.75% of Maryland taxable income of \$50,000 or less and a filing status of single, married filing separately, and dependent 2.96% of Maryland taxable income for all other taxpayers

Source: Comptroller of Maryland

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Beginning tax year 2024, Anne Arundel and Frederick counties modified their income tax brackets by incorporating a 3.2% rate for high income earners and is shown in **Exhibit 5**. As of February 8, 2024, only Anne Arundel and Frederick counties have adopted bracket-based income tax rates.

**Exhibit 5**  
**Income Tax Brackets**  
**Tax Year 2024**

<u>County</u>	<u>Tax Filing Status</u>	<u>Tax Rate</u>
Anne Arundel	Single, Married Filing Separately, or Dependent	2.70% of Maryland taxable income of \$1 through \$50,000
		2.81% of Maryland taxable income of \$50,001 through \$400,000
		3.20% of Maryland taxable income of over \$400,000
	Married Filing Jointly, Head of Household, or Qualified Surviving Spouse	2.70% of Maryland taxable income of \$1 through \$75,000
		2.81% of Maryland taxable income of \$75,001 through \$480,000
		3.20% of Maryland taxable income of over \$480,000
Frederick	Single, Married Filing Separately and Dependent Taxpayer	2.25% for taxpayers who have a net taxable income between \$1 and not exceeding \$25,000
		2.75% for taxpayers who have a net taxable income between \$25,001 and not exceeding \$50,000
		2.96% for taxpayers who have a net taxable income between \$50,001 and not exceeding \$150,000
		3.20% for taxpayers who have a net taxable income of \$150,001 or more
	Married Filing Jointly, Head of Household, or Qualified Surviving Spouse	2.25% for taxpayers who have a net taxable income between \$1 and not exceeding \$25,000
		2.75% for taxpayers who have a net taxable income between \$25,001 and not exceeding \$100,000
		2.96% for taxpayers who have a net taxable income between \$100,001 and not exceeding \$250,000
		3.20% for taxpayers who have a net taxable income of \$250,001 or more

Source: Comptroller of Maryland

The adoption of graduated income tax rates beginning tax year 2023 does not impact the fiscal 2025 allowance calculation because the fiscal 2025 allowance is based on tax year 2022 net



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income tax amount. The adoption of graduated income tax rates beginning in tax year 2023 impacts the fiscal 2026 allowance calculation next year, as fiscal 2026 allowance is based on tax year 2023 net income tax amount.

The adoption of graduated income tax complicates the determination of a jurisdiction's per capita tax yield, which is based on the jurisdiction's income tax revenues and its population in that tax year. Additionally, a cap on the grant is set at the county's fiscal 2010 grant amount. There is a provision that if an eligible county's grant amount determined by the formula is higher than the county's maximum grant amount, the county is provided a portion of the uncapped amount. This portion of the uncapped amount may vary due to the graduated income tax rates, which may result in a varying grant amount. **The Department of Budget and Management (DBM) should comment on how it will address the challenges associated with calculating the formula beginning in fiscal 2026 and work with the Office of the Comptroller to obtain the data needed.**

**The Department of Legislative Services (DLS) recommends adopting committee narrative requesting a report from DBM and the Office of the Comptroller on the impact of the adoption of new income tax bracket rates by jurisdictions on the disparity grant calculation and a plan for how DBM will calculate the disparity grant amounts, starting with the fiscal 2026 allowance.**

## ***Operating Budget Recommended Actions***

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1. Adopt the following narrative:

**Adoption of Bracket-based Income Tax Beginning Tax Year 2023:** Chapter 23 of the 2021 special session requires all local governments to impose a minimum tax rate of 2.25% up and a rate up to 3.2%. It also authorizes local governments to impose the county income tax on a bracket basis and alters the local income tax rates that a jurisdiction must impose to qualify for enhanced State funding under the Disparity Grant Program. Since the enactment of Chapter 23, Anne Arundel and Frederick counties have adopted bracket-based income tax rates. The adoption of bracket-based income tax rates beginning tax year 2023 impacts the disparity grant amount calculation beginning fiscal 2026 allowance. The committees request that the Department of Budget and Management (DBM), in consultation with the Office of the Comptroller, submit a report on how the adoption of bracket-based income tax rates beginning tax year 2023 by jurisdictions impacts the calculation of the disparity grant, how the tax revenue will be calculated, and how it will calculate the disparity grant amount.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on the calculation of the Disparity Grant amount after the adoption of bracket-based income tax beginning tax year 2023	DBM Office of the Comptroller	October 15, 2024

**Appendix 1**  
**Object/Fund Difference Report**  
**Payments to Civil Divisions of the State**

<u>Object/Fund</u>	<u>FY 23</u> <u>Actual</u>	<u>FY 24</u> <u>Working</u> <u>Appropriation</u>	<u>FY 25</u> <u>Allowance</u>	<u>FY 24 - FY 25</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
<b>Objects</b>					
12 Grants, Subsidies, and Contributions	\$ 191,472,803	\$ 259,663,180	\$ 217,798,168	-\$ 41,865,012	-16.1%
<b>Total Objects</b>	<b>\$ 191,472,803</b>	<b>\$ 259,663,180</b>	<b>\$ 217,798,168</b>	<b>-\$ 41,865,012</b>	<b>-16.1%</b>
<b>Funds</b>					
01 General Fund	\$ 173,507,741	\$ 258,063,180	\$ 216,198,168	-\$ 41,865,012	-16.2%
03 Special Fund	17,965,062	1,600,000	1,600,000	0	0%
<b>Total Funds</b>	<b>\$ 191,472,803</b>	<b>\$ 259,663,180</b>	<b>\$ 217,798,168</b>	<b>-\$ 41,865,012</b>	<b>-16.1%</b>