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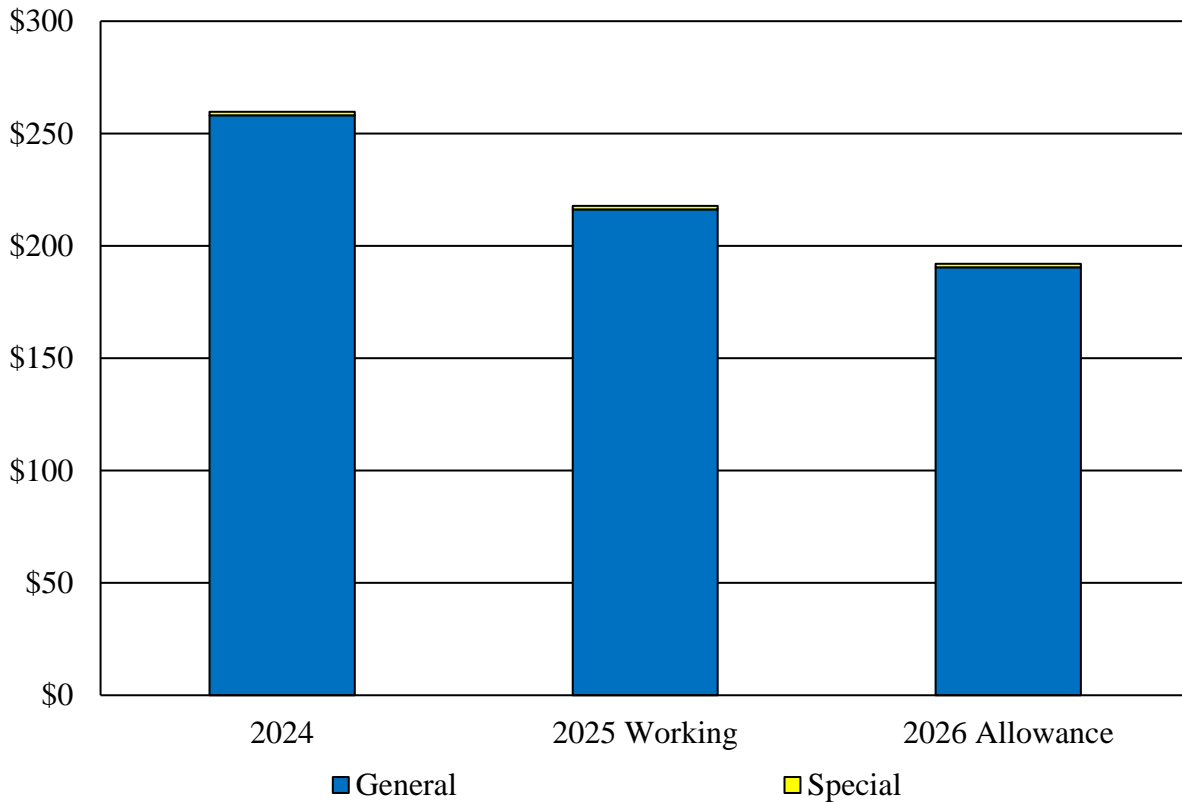
Payments to Civil Divisions of the State

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

Operating Budget Summary

Fiscal 2026 Budget Decreases \$25.8 Million, or 11.8%, to \$192 Million (\$ in Millions)



Note: The fiscal 2026 allowance accounts for contingent reductions.

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Fiscal 2026 Overview of Agency Spending

Exhibit 1 provides a summary of funding included in the fiscal 2026 allowance by jurisdiction for all 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 2026 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	\$816		\$8,115
Anne Arundel				
Baltimore City	79,052	5,024		84,076
Baltimore		1,500		1,500
Calvert			\$1,600	1,600
Caroline	3,895	343		4,237
Carroll				
Cecil				
Charles				
Dorchester	4,159	154		4,313
Frederick				
Garrett	2,047	203		2,251
Harford				
Howard				
Kent				
Montgomery				
Prince George’s	56,889	4,814		61,704
Queen Anne’s				
St. Mary’s				
Somerset	7,252	191		7,443
Talbot				
Washington	2,507			2,507
Wicomico	13,503	784		14,287
Worcester				
Total	\$176,603	\$13,829	\$1,600	\$192,032

Note: The fiscal 2026 allowance accounts for contingent reductions.

Source: Governor’s Fiscal 2026 Budget Books

Proposed Budget Change

As shown in **Exhibit 2**, general fund spending for Payments to Civil Divisions of the State declines by \$25.8 million in fiscal 2026 compared to the fiscal 2025 working appropriation. Of this total decrease, \$11.9 million is attributable to the net decrease in Disparity Grants, with the largest decline of \$12.4 million for Prince George’s County. The remaining decrease of \$13.8 million is attributable to the reduction in the mandated appropriation for the Teacher Retirement Supplemental Grants contingent on enactment of the Budget Reconciliation and Financing Act (BRFA) of 2025, which includes a provision reducing the grants.

**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 2024 Actual	\$258,063	\$1,600	\$259,663
Fiscal 2025 Working Appropriation	216,198	1,600	217,798
Fiscal 2026 Allowance	<u>190,432</u>	<u>1,600</u>	<u>192,032</u>
Fiscal 2025-2026 Amount Change	-\$25,766	\$0	-\$25,766
Fiscal 2025-2026 Percent Change	-11.9%		-11.8%

Where It Goes:	<u>Change</u>
Disparity Grants	
Wicomico County	\$448
Somerset County	409
Washington County	140
Garrett County	-84
Caroline County	-177
Dorchester County	-284
Prince George’s County	-12,389
Teacher’s Retirement Supplemental Grants	
Dorchester County	-154
Somerset County	-191
Garrett County	-203
Caroline County	-343
Wicomico County	-784

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Where It Goes:	<u>Change</u>
Allegany County	-816
Baltimore County	-1,500
Prince George’s County	-4,814
Baltimore City	-5,024
Total	-\$25,766

Note: Numbers may not sum to total due to rounding. The fiscal 2026 allowance accounts for contingent reductions.

Budget Reconciliation and Financing Act

Section 16-503 of the Local Government Article mandated a general fund appropriation of approximately \$27.7 million each year for the Teacher Retirement Supplemental Grant for nine jurisdictions, as shown in **Exhibit 3**. The grant was established to offset costs associated with teacher pension shifting to local jurisdictions and to assist the local jurisdictions with the transition.

**Exhibit 3
Teacher Retirement Supplemental Grant Mandated Appropriation**

<u>County</u>	<u>Mandated Appropriation</u>	<u>Fiscal 2026 Allowance</u>
Allegany	\$1,632,106	\$816,053
Baltimore City	10,047,596	5,023,798
Baltimore	3,000,000	1,500,000
Caroline	685,108	342,554
Dorchester	308,913	154,456
Garrett	406,400	203,200
Prince George’s	9,628,702	4,814,351
Somerset	381,999	190,999
Wicomico	1,567,837	783,918
Total	\$27,658,661	\$13,829,332

Source: Section(s) 16-503 of the Local Government Article

A provision in the proposed BRFA reduces the Teacher Retirement Supplemental Grant appropriation by 50%, from approximately \$27.7 million in fiscal 2025 to \$13.8 million in fiscal 2026. Another BRFA provision repeals the State funding targeted to the Teacher Retirement Supplemental Grant starting in fiscal 2027. According to the Department of Budget and

Management (DBM), the local jurisdictions have had sufficient time to make accommodations for these costs over the period of more than 10 years, and the BRFA provision takes into consideration the local jurisdictions' need to plan for these costs.

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 2026 is shown in **Exhibit 4**.

Exhibit 4
Disparity Grant Calculation
Fiscal 2026

<u>County</u>	<u>Per Capita Tax Yield</u>	<u>Per Capita Grant</u>	<u>Uncapped Grant Fiscal 2026</u>	<u>(Cap) Fiscal 2010</u>	<u>Grant Amount Fiscal 2026</u>	<u>Grant Amount Fiscal 2025</u>	<u>Difference to Fiscal 2025</u>	<u>Piggyback Calendar 2025</u>
Allegany	\$458.99	\$259.01	\$17,424,533	\$7,298,505	\$7,298,505	\$7,298,505	\$0	3.03%
Anne Arundel	1,129.08	0.00	0	0	0	0	0	Varies*
Baltimore City	578.10	139.90	79,078,397	79,051,790	79,051,790	79,051,790	0	3.20%
Baltimore	901.32	0.00	0	0	0	0	0	3.20%
Calvert	996.35	0.00	0	0	0	0	0	3.00%
Caroline	563.41	154.59	5,193,004	2,131,782	3,894,753	4,071,266	-176,513	3.20%
Carroll	1,034.97	0.00	0	0	0	0	0	3.03%
Cecil	701.23	16.77	1,771,675	0	0	0	0	2.75%
Charles	799.45	0.00	0	0	0	0	0	3.03%
Dorchester	549.34	168.66	5,545,347	2,022,690	4,159,010	4,442,984	-283,973	3.20%
Frederick	1,023.61	0.00	0	0	0	0	0	Varies*
Garrett	645.97	72.03	2,047,408	2,131,271	2,047,408	2,131,271	-83,863	2.65%
Harford	953.54	0.00	0	0	0	0	0	3.06%
Howard	1,388.70	0.00	0	0	0	0	0	3.20%
Kent	816.90	0.00	0	0	0	0	0	3.20%
Montgomery	1,434.37	0.00	0	0	0	0	0	3.20%
Prince George's	637.94	80.06	75,852,619	21,694,767	56,889,464	69,278,410	-12,388,945	3.20%
Queen Anne's	1,177.27	0.00	0	0	0	0	0	3.20%
St. Mary's	902.93	0.00	0	0	0	0	0	3.00%
Somerset	329.84	388.16	9,668,976	4,908,167	7,251,732	6,842,715	409,017	3.20%
Talbot	1,190.70	0.00	0	0	0	0	0	2.40%
Washington	637.54	80.46	12,536,257	0	2,507,251	2,367,652	139,599	2.95%
Wicomico	546.21	171.79	18,003,935	2,197,041	13,502,951	13,054,914	448,037	3.20%
Worcester	898.71	0.00	0	0	0	0	0	2.25%
Avg/Total	\$957.33	n/a	\$227,122,153	\$121,436,013	\$176,602,866	\$188,539,507	-\$11,936,641	
<i>Target 75%</i>	<i>\$718.00</i>							

*: See Appendix 2 for different tax rates based on tax filing status for calendar 2025.

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. Anne Arundel County has modified its bracket-based income tax rates in tax years 2024 and 2025, from 2.81% to 2.94% for taxable income of \$50,001 through \$400,000 for people filing as single, married filing separately, or dependent, and for taxable income of \$75,001 through \$480,000 for people filing married filing jointly, head of household, or qualified surviving spouse. **Appendix 2** shows the bracket-based income tax rates for Anne Arundel and Frederick counties from tax years 2023 to 2025.

The adoption of bracket-based income tax rates impacts the disparity grant formula because it relies on a jurisdiction's single income tax rate (1) to compute the per capita income tax revenue of each jurisdiction and compare them on a rate-equalized basis and (2) when using the next calendar year's adopted local tax rate to determine the minimum State grant amount. Committee narrative in the 2024 *Joint Chairmen's Report* (JCR) requested that DBM and the Office of the Comptroller submit a report on how the minimum State grant would be calculated for jurisdictions that no longer have a single income tax rate. The agencies submitted the report on October 15, 2024, and proposed to use the effective gross tax rate, which is calculated by dividing income tax revenues by pretax earnings, for jurisdictions with bracket-based income tax rates. The agencies noted that the effective tax rates for jurisdictions with bracket-based income tax rates would be reported in the annual Income Tax Summary Report starting with calendar 2023. The agencies also note that no change to statute is required at this time as no income tax rate is specifically defined for disparity grants and that provisions are already included in the statute for the final determination of minimum disparity grant funding for jurisdictions with multiple tax rates.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
2024 Joint Chairmen’s Report Responses from Agency

The 2024 JCR requested that DBM prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Adoption of Bracket-based Income Tax Beginning Tax Year 2023:*** Chapter 23 authorized local governments to impose the county income tax on a bracket basis and altered the local income tax rates that a jurisdiction must impose to qualify for enhanced State funding under the Disparity Grant Program. Anne Arundel and Frederick counties adopted bracket-based income tax rates beginning tax year 2023. Further discussion of the report is included in the Budget Analysis section of this analysis.

**Appendix 2
Local Graduated Income Tax Rates
Tax Years 2023-2025**

<u>County</u>	<u>Tax Rate for Tax Year 2023</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

<u>County</u>	<u>Tax Filing Status</u>	<u>Tax Rate for Tax Year 2024</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	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

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<u>County</u>	<u>Tax Filing Status</u>	<u>Tax Rate for Tax Year 2024</u>
	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

<u>County</u>	<u>Tax Filing Status</u>	<u>Tax Rate for Tax Year 2025</u>
Anne Arundel	Single, Married Filing Separately, or Dependent	2.70% of Maryland taxable income of \$1 through \$50,000 2.94% 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 2.94% 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	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

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<u>County</u>	<u>Tax Filing Status</u>	<u>Tax Rate for Tax Year 2025</u>
	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

Appendix 3
Object/Fund Difference Report
Payments to Civil Divisions of the State

<u>Object/Fund</u>	<u>FY 24</u> <u>Actual</u>	<u>FY 25</u> <u>Working</u> <u>Appropriation</u>	<u>FY 26</u> <u>Allowance</u>	<u>FY 25 - FY 26</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 259,663,180	\$ 217,798,168	\$ 205,861,525	-\$ 11,936,643	-5.5%
Total Objects	\$ 259,663,180	\$ 217,798,168	\$ 205,861,525	-\$ 11,936,643	-5.5%
Funds					
01 General Fund	\$ 258,063,180	\$ 216,198,168	\$ 204,261,525	-\$ 11,936,643	-5.5%
03 Special Fund	1,600,000	1,600,000	1,600,000	0	0%
Total Funds	\$ 259,663,180	\$ 217,798,168	\$ 205,861,525	-\$ 11,936,643	-5.5%

Note: The fiscal 2026 allowance does not include contingent reductions.