

A15000

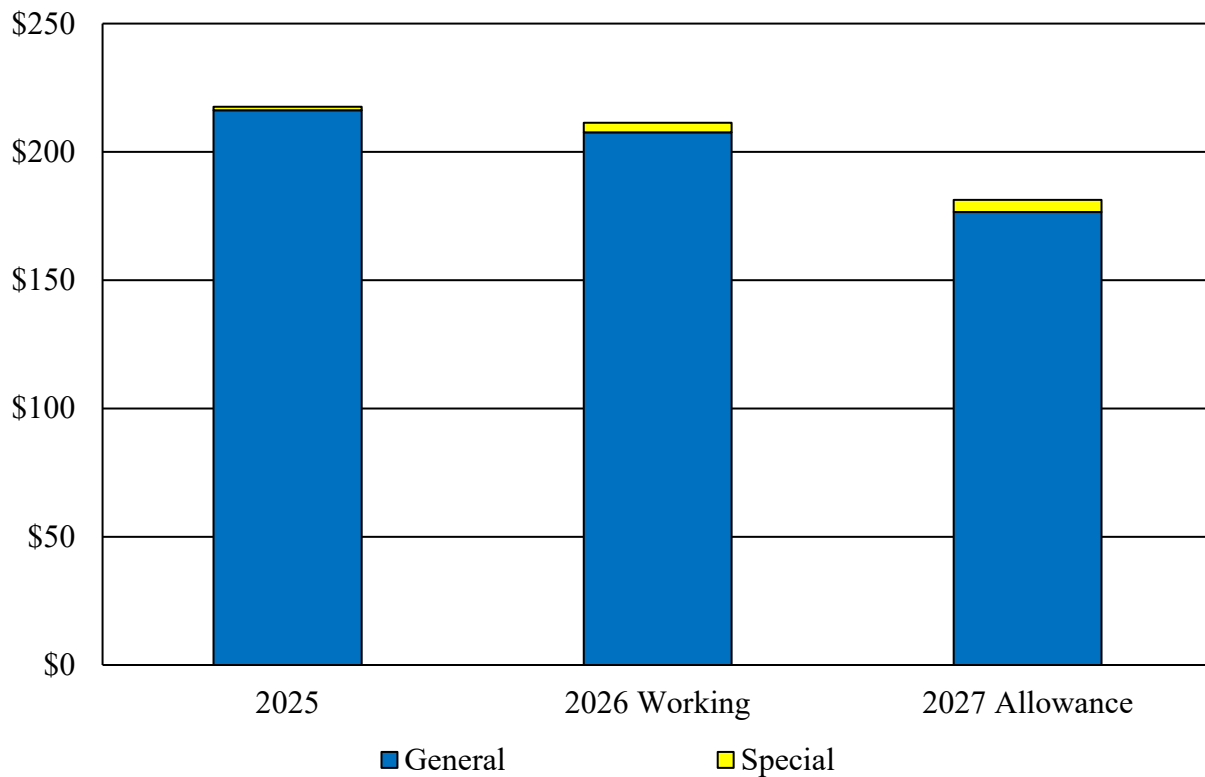
Payments to Civil Divisions of the State

Program Description

Miscellaneous State 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 distributions of the Cannabis Sales and Use Tax local share. Grants from the Calvert County Gaming Tax Fund are also included. Teachers’ retirement grants were previously included but were repealed beginning in fiscal 2027.

Operating Budget Summary

Fiscal 2027 Budget Decreases \$30.1 Million, or 14.2%, to \$181.2 Million (\$ in Millions)



Note: The fiscal 2026 working appropriation accounts for deficiencies. The fiscal 2027 allowance accounts for contingent reductions.

For further information contact: Jacob C. Cash

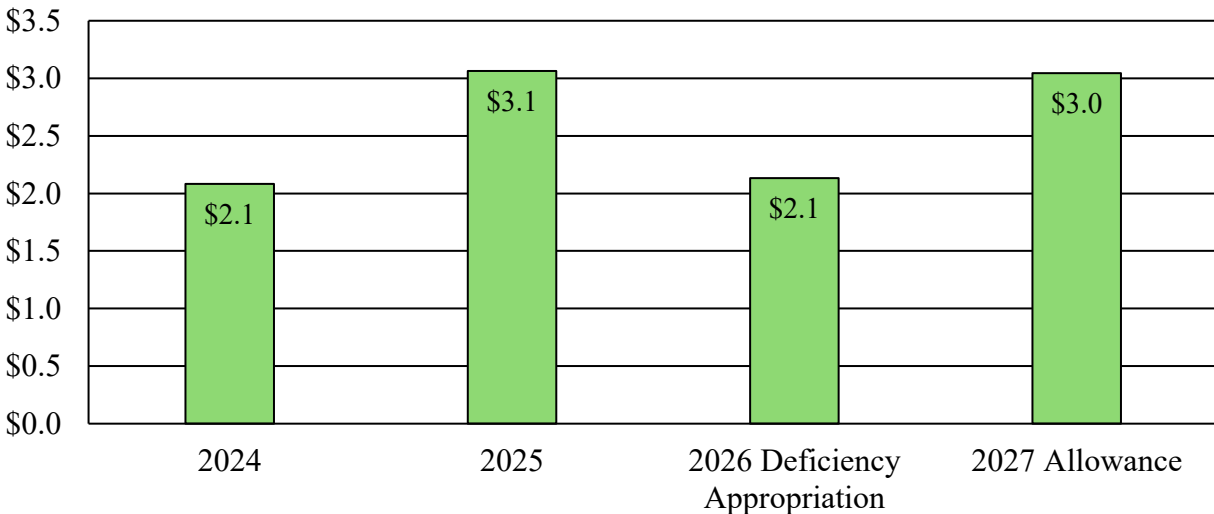
jacob.cash@mga.maryland.gov

Fiscal 2026

Proposed Deficiency

The fiscal 2027 budget includes a deficiency appropriation of \$2,133,097 to distribute the local portion of the Cannabis Sales and Use Tax to counties. Chapter 254 and 255 of 2023 imposed a 9% sales and use tax on retail sales of adult use cannabis and cannabis products. The Budget Reconciliation and Financing Act (BRFA) of 2025 revised the sales tax percentage to 12%, effective July 1, 2026. After revenues are collected, an amount is set aside for Maryland Cannabis Commission administrative expenses, then 5% of the remaining funds is distributed to counties based on the percentage of revenue that was collected from that county. Counties must distribute 50% to municipalities located in the county for tax revenues generated in the municipality. The Comptroller of Maryland submits quarterly reports on the amounts collected from the tax, including the totals distributable to all counties and municipalities for the quarter in question. With this proposed deficiency appropriation, fiscal 2026 will be the first year that these funds are included in the State budget. Distributions were also made for fiscal 2024 and 2025 but were omitted from the budget process. **Exhibit 1** shows the distributions by year. Distributions by jurisdiction are not publicly available due to the privacy of taxed businesses.

Exhibit 1
Local Cannabis Tax Distributions
Fiscal 2024-2027
(\$ in Millions)

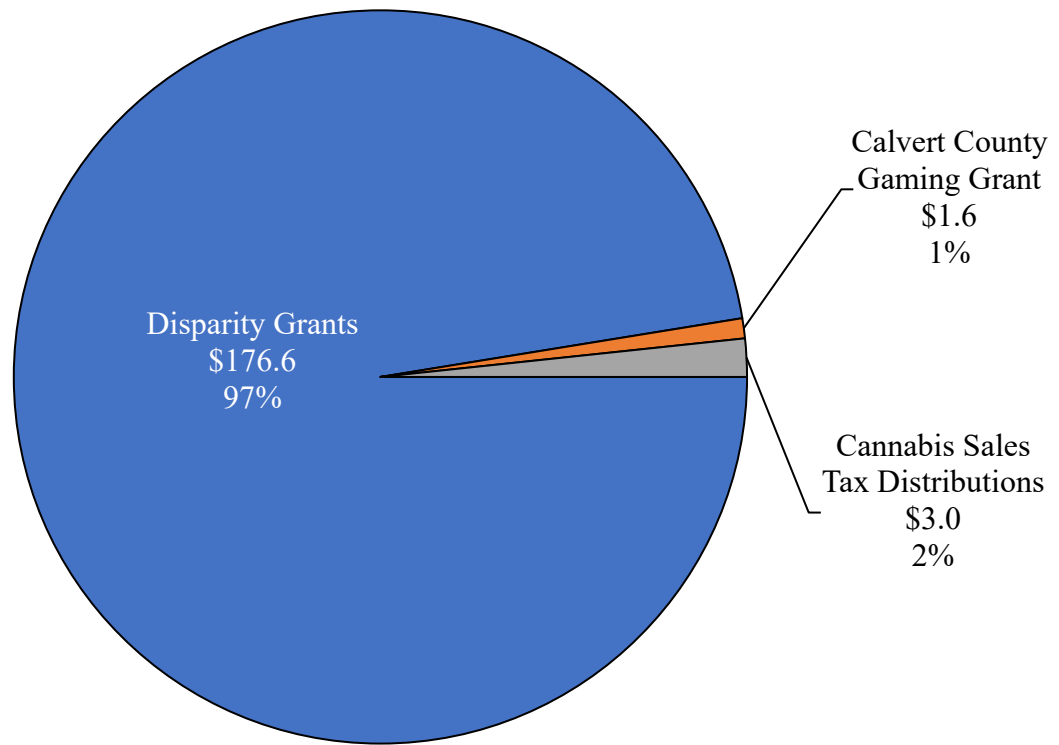


Source: Department of Budget and Management; Board of Revenue Estimates

Fiscal 2027 Overview of Agency Spending

Exhibit 2 provides a summary of funding included in the fiscal 2027 allowance for the grant programs budgeted under Payments to Civil Divisions of the State.

Exhibit 2
Overview of Payments to Civil Divisions
Fiscal 2027 Allowance
(\$ in Dollars)



Note: The fiscal 2027 allowance accounts for contingent reductions.

Source: Governor’s Fiscal 2027 Budget Books

Proposed Budget Change

As shown in **Exhibit 3**, general fund spending for Payments to Civil Divisions of the State declines by \$30.1 million in fiscal 2027 compared to the fiscal 2026 working appropriation. Of this total decrease, \$17.1 million is attributable to a one-time legislative addition, and \$13.8 million is attributable to the repeal of the Teacher Retirement Supplemental Grants beginning in fiscal 2027 through the BRFA of 2025. Special funds increase by \$0.9 million due to Cannabis Sales and Use Tax estimates provided by the Maryland Board of Revenue Estimates.

Exhibit 3
Proposed Budget
Payments to Civil Divisions of the State
(\$ in Thousands)

| How Much It Grows: | General Fund | Special Fund | Total |
|---|-------------------------|-------------------------|----------------------|
| Fiscal 2025 Actual | \$216,198 | \$1,416 | \$217,614 |
| Fiscal 2026 Working | 207,572 | 3,733 | 211,305 |
| Fiscal 2027 Allowance | 176,603 | 4,645 | 181,248 |
| Fiscal 2026-2027 \$ Change | -\$30,969 | \$912 | -\$30,057 |
| Fiscal 2026-2027 % Change | -14.92% | 24.43% | -14.22% |
| Where It Goes: | | | <u>Change</u> |
| One-time legislative addition to increase the maximum uncapped disparity grant local jurisdictions could receive from 75% to 90% | | | |
| Caroline..... | | | -\$779 |
| Dorchester..... | | | -832 |
| Somerset | | | -1,450 |
| Wicomico..... | | | -2,701 |
| Prince George’s | | | -11,378 |
| End of mandated appropriation for Teacher Retirement Supplemental Grants | | | |
| Dorchester..... | | | -154 |
| Somerset | | | -191 |
| Garrett..... | | | -203 |
| Caroline..... | | | -343 |
| Wicomico..... | | | -784 |
| Allegany..... | | | -816 |
| Baltimore | | | -1,500 |

A15000 – Payments to Civil Divisions of the State

| Where It Goes: | <u>Change</u> |
|--|----------------------|
| Prince George’s | -4,814 |
| Baltimore City | -5,024 |
| Other Changes | |
| Local Cannabis Tax Distributions | 912 |
| Total | -\$30,057 |

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

Disparity Grants

Section 16-501 of the Local Government Article mandates that State funding be provided to counties to reduce disparities in local income tax revenue. The Disparity Grant Program provides noncategorical State aid to low-wealth jurisdictions for county government use. Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which is one of the larger revenue sources for most counties. Disparity grants increase as local income tax rates increase, encouraging maintenance of effort in collecting revenues.

Disparity Grant Formula

The State provides disparity grants to counties with tax rates above 2.6% and tax revenues below 75% of the Statewide per capita tax yield. Counties taxing below 2.6% do not receive disparity grants, and counties with revenues above 75% of the statewide per capita tax yield do not receive disparity grants.

Chapter 23 of the 2021 special session authorized local governments to impose county income tax on a bracket basis. A county that imposes 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 modified its bracket-based income tax rates in tax year 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 1** shows the bracket-based income tax rates for Anne Arundel and Frederick counties from tax years 2024 to 2026.

The disparity grant formula relies on a jurisdiction’s single income tax rate to calculate:

A15000 – Payments to Civil Divisions of the State

- the per capita income tax revenue of each jurisdiction to compare them on a rate-equalized basis, and
- the minimum State grant amount using the next calendar year’s adopted local tax rate.

The Department of Budget and Management and the Office of the Comptroller use the effective gross tax rate to calculate the minimum State Disparity Grant for counties with bracket-based income tax rates. The effective gross tax rate is calculated by dividing income tax revenues by pretax earnings and is reported in the annual Income Tax Summary Report starting with calendar 2023 for counties with bracket-based income tax rates.

Disparity grants are subject to a cap and formula for determining additional payments beyond the cap. The capped grant equals the fiscal 2010 disparity grant amount provided by the State. The uncapped grant equals the amount necessary to raise the county’s per capita income tax revenues to 75.0% of the statewide average. The disparity grant equals the lesser of the cap or the uncapped grant amount. If the cap is less than the uncapped grant amount, the disparity grant equals the greater of the cap or a proportion of the uncapped grant amount based on the county’s income tax rate, as follows:

- for a tax rate of 2.8% to 2.99%, 20% of the uncapped grant amount;
- for a tax rate of 3% to 3.19%, 40% of the uncapped grant amount; and
- for a tax rate of 3.2% or greater¹, 75% of the uncapped grant amount.

The disparity grant calculation under current law for fiscal 2027 is shown in **Exhibit 4**.

¹ The BRFA of 2025 increased the maximum local income tax rate to 3.3% and authorized counties to retroactively increase tax rates to that maximum for tax year 2025. Dorchester was the only county to retroactively increase the tax year 2025 rate to 3.3%. Kent County increased the tax year 2026 rate to 3.3%.

Exhibit 4
Disparity Grant Calculation Under Current Law
Fiscal 2027

| <u>County</u> | <u>Per Capita Tax Yield</u> | <u>Per Capita Grant</u> | <u>Uncapped Grant Fiscal 2027</u> | <u>(Cap) Fiscal 2010</u> | <u>Grant Amount Fiscal 2027</u> | <u>Piggyback Calendar 2026</u> |
|-------------------|-----------------------------|-------------------------|-----------------------------------|--------------------------|---------------------------------|--------------------------------|
| Allegany | \$499.13 | \$270.49 | \$18,149,297 | \$7,298,505 | \$13,611,973 | 3.20% |
| Anne Arundel | 1,228.57 | 0.00 | 0 | 0 | 0 | Varies* |
| Baltimore City | 626.09 | 143.54 | 81,567,869 | 79,051,790 | 79,051,790 | 3.20% |
| Baltimore | 967.52 | 0.00 | 0 | 0 | 0 | 3.20% |
| Calvert | 1,095.89 | 0.00 | 0 | 0 | 0 | 3.20% |
| Caroline | 585.23 | 184.39 | 6,315,005 | 2,131,782 | 4,736,254 | 3.20% |
| Carroll | 1,107.44 | 0.00 | 0 | 0 | 0 | 3.03% |
| Cecil | 741.21 | 28.41 | 3,020,616 | 0 | 0 | 2.74% |
| Charles | 846.06 | 0.00 | 0 | 0 | 0 | 3.03% |
| Dorchester | 575.53 | 194.09 | 6,431,830 | 2,022,690 | 4,823,873 | 3.30% |
| Frederick | 1,091.93 | 0.00 | 0 | 0 | 0 | Varies* |
| Garrett | 683.24 | 86.38 | 2,452,571 | 2,131,271 | 2,131,271 | 2.65% |
| Harford | 1,016.59 | 0.00 | 0 | 0 | 0 | 3.06% |
| Howard | 1,480.46 | 0.00 | 0 | 0 | 0 | 3.20% |
| Kent | 874.35 | 0.00 | 0 | 0 | 0 | 3.30% |
| Montgomery | 1,539.35 | 0.00 | 0 | 0 | 0 | 3.20% |
| Prince George's | 666.99 | 102.63 | 99,208,139 | 21,694,767 | 74,406,104 | 3.20% |
| Queen Anne's | 1,249.60 | 0.00 | 0 | 0 | 0 | 3.20% |
| St. Mary's | 970.99 | 0.00 | 0 | 0 | 0 | 3.20% |
| Somerset | 346.29 | 423.33 | 10,685,338 | 4,908,167 | 8,014,004 | 3.20% |
| Talbot | 1,296.33 | 0.00 | 0 | 0 | 0 | 2.40% |
| Washington | 679.83 | 89.80 | 14,118,296 | 0 | 2,823,659 | 2.95% |
| Wicomico | 594.06 | 175.56 | 18,667,542 | 2,197,041 | 14,000,657 | 3.20% |
| Worcester | 956.53 | 0.00 | 0 | 0 | 0 | 2.25% |
| Avg/Total | \$1,026.16 | \$0.00 | \$260,616,502 | \$121,436,013 | \$203,599,585 | |
| <i>Target 75%</i> | <i>\$769.62</i> | | | | | |

* See Appendix 2 for variable tax rates based on tax filing status. Local effective tax rates are used to calculate disparity grants for counties with variable tax rates.

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

BRFA

The BRFA of 2026 proposes to level-fund the disparity grant at the fiscal 2026 formula funding level for fiscal 2027 through 2029 by setting specific amounts for each jurisdiction that applies only during those years. The combined impact across jurisdictions totals \$27.0 million. **Exhibit 5** shows the reduction and the proposed funding level under the BRFA by jurisdiction. Therefore, amounts for fiscal 2027 through 2029 would not reflect changes in local income tax levels, nor would they mirror any change in wealth disparities between the counties. For instance, Allegany County raised the county’s local income tax rate and, under current law, would be eligible in fiscal 2027 for \$13.6 million. However, the BRFA provision would cap Allegany County at \$7.3 million, the level prior to raising taxes and meeting the requirements for the maximum grant.

Exhibit 5
Formula Funding under Current Law Compared to
Proposed under the BRFA

| <u>County</u> | <u>Grant Amount</u> <u>Under Formula</u> <u>Fiscal 2027</u> | <u>Contingent</u> <u>Reduction</u> | <u>Funding Under</u> <u>BRFA of 2026</u> <u>Fiscal 2027</u> |
|-----------------|---|---------------------------------------|---|
| Allegany | \$13,611,973 | -\$6,313,468 | \$7,298,505 |
| Anne Arundel | 0 | 0 | 0 |
| Baltimore City | 79,051,790 | 0 | 79,051,790 |
| Baltimore | 0 | 0 | 0 |
| Calvert | 0 | 0 | 0 |
| Caroline | 4,736,254 | -841,501 | 3,894,753 |
| Carroll | 0 | 0 | 0 |
| Cecil | 0 | 0 | 0 |
| Charles | 0 | 0 | 0 |
| Dorchester | 4,823,873 | -664,863 | 4,159,010 |
| Frederick | 0 | 0 | 0 |
| Garrett | 2,131,271 | -83,863 | 2,047,408 |
| Harford | 0 | 0 | 0 |
| Howard | 0 | 0 | 0 |
| Kent | 0 | 0 | 0 |
| Montgomery | 0 | 0 | 0 |
| Prince George’s | 74,406,104 | -17,516,640 | 56,889,464 |
| Queen Anne’s | 0 | 0 | 0 |
| St. Mary’s | 0 | 0 | 0 |

A15000 – Payments to Civil Divisions of the State

| <u>County</u> | <u>Grant Amount Under Formula Fiscal 2027</u> | <u>Contingent Reduction</u> | <u>Funding Under BRFA of 2026 Fiscal 2027</u> |
|----------------------|--|--|--|
| Somerset | 8,014,004 | -762,272 | 7,251,732 |
| Talbot | 0 | 0 | 0 |
| Washington | 2,823,659 | -316,408 | 2,507,251 |
| Wicomico | 14,000,657 | -497,706 | 13,502,951 |
| Worcester | 0 | 0 | 0 |
| Total | \$203,599,585 | -\$26,996,721 | \$176,602,864 |

BRFA: Budget Reconciliation and Financing Act

Source: Department of Budget and Management; Department of Legislative Services

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

**Appendix 1
Local Graduated Income Tax Rates
Tax Years 2024-2026**

| <u>County</u> | <u>Tax Filing Status</u> | <u>Tax Rates 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 |
| | | 2.25% for taxpayers who have a net taxable income between \$1 and not exceeding \$25,000 |
| | Married Filing Jointly, Head of Household, or Qualified Surviving Spouse | 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 |

A15000 – Payments to Civil Divisions of the State

| <u>County</u> | <u>Tax Filing Status</u> | <u>Tax Rates for Tax Years 2025 and 2026</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 |
| | 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 2
Object/Fund Difference Report
Payments to Civil Divisions of the State

| <u>Object/Fund</u> | <u>FY 25</u> <u>Actual</u> | <u>FY 26</u> <u>Wrk Approp</u> | <u>FY 27</u> <u>Allowance</u> | <u>FY 26-27</u> <u>\$ Change</u> | <u>% Change</u> |
|---|-------------------------------|-----------------------------------|----------------------------------|-------------------------------------|-----------------|
| Objects | | | | | |
| 12 Grants, Subsidies, and Contributions | \$217,614,602 | \$211,304,876 | \$208,244,472 | -\$3,060,404 | -1.4% |
| Total Objects | \$217,614,602 | \$211,304,876 | \$208,244,472 | -\$3,060,404 | -1.4% |
| Funds | | | | | |
| 01 General Funds | \$216,198,168 | \$207,571,779 | \$203,599,585 | -\$3,972,194 | -1.9% |
| 03 Special Funds | 1,416,434 | 3,733,097 | 4,644,887 | 911,790 | 24.4% |
| Total Funds | \$217,614,602 | \$211,304,876 | \$208,244,472 | -\$3,060,404 | -1.4% |

Note: The fiscal 2026 working appropriation includes deficiencies. The fiscal 2027 allowance does not include contingent reductions.