

Department of Legislative Services  
 Maryland General Assembly  
 2013 Session

FISCAL AND POLICY NOTE

House Bill 914 (Delegate Serafini)  
 Appropriations

County Income Tax Disparity Grants - Alterations

This bill repeals the funding cap on the disparity grant program, which currently limits the disparity grant amount that a county may receive to no more than the amount received in fiscal 2010. The bill phases in the effect of the repeal over a five-year period at equal 20% increments per year, beginning with fiscal 2015.

The bill takes effect July 1, 2013.

Fiscal Summary

**State Effect:** General fund expenditures increase by approximately \$6.9 million in FY 2015 and by \$27.5 million in FY 2018. Revenues are not affected.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	6.9	13.8	20.6	27.5
Net Effect	\$0	(\$6.9)	(\$13.8)	(\$20.6)	(\$27.5)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** Local revenues in 11 jurisdictions increase by approximately \$6.9 million in FY 2015 and by approximately \$27.5 million in FY 2018.

**Small Business Effect:** None.

## Analysis

**Current Law/Background:** The disparity grant program provides noncategorical State aid to less affluent jurisdictions for county government purposes. The program reflects the State's policy to improve fiscal equity among jurisdictions by making less affluent jurisdictions less dependent on their own tax base to fund public services. Specifically, disparity grants address the differences 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 local income tax revenues less than 75% of the statewide average receive grants, unless a county has an income tax rate below 2.4% or did not receive grant funding in fiscal 2010, making it subject to the cap restriction adopted under Chapter 487 of 2009 (HB 101). Chapter 487 provides that beginning in fiscal 2011, a jurisdiction may not receive funding above the level that it received in fiscal 2010, nor may any new jurisdiction qualify for funding if it did not receive a grant in fiscal 2010.

Aid received by a county 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 program in fiscal 2010. In fiscal 2014, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) qualified for disparity grants. The fiscal 2014 State budget includes \$121.4 million for disparity grants. Absent the cap provision, State funding for the disparity grant program would total \$155.8 million in fiscal 2014.

### *Distribution*

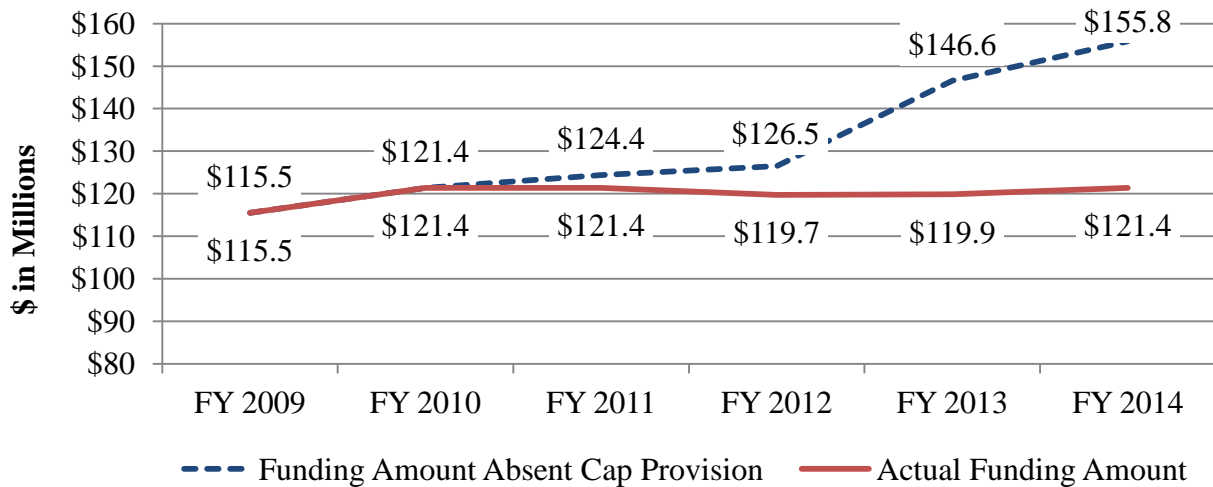
The fiscal 2014 grant under the statute is based on population estimates for July 2011 and calendar 2011 local income tax revenues raised from a 2.54% local income tax rate. A county may not receive this grant if the tax rate in that county is less than 2.4%.

### *Fiscal Impact of Cap Provision*

The disparity grant cap provision has reduced State expenditures by \$79.6 million over the last four years. The annual impact has grown from \$3.0 million in fiscal 2011 to \$34.4 million in fiscal 2014. The eight current grant recipients will receive \$24.8 million less in fiscal 2014 than they would receive under an uncapped formula. In addition, three counties, Cecil, Kent, and Washington, would be eligible for a grant in fiscal 2014 absent the cap. The additional funding for these three counties would range from \$348,900 in Kent County to \$7.7 million in Washington County. On a per capita basis, the State aid reduction in fiscal 2014 resulting from the cap provision ranges from \$0.71 in Baltimore City to \$89.65 in Wicomico County. **Exhibit 1** shows the level of

State funding for the disparity grant program since fiscal 2009 and the fiscal impact of the cap provision. **Exhibit 2** shows these results for each county. **Exhibit 3** shows the calculation of the disparity grant, as well as the effect of the cap provision, for fiscal 2014. The change in the per capita income tax yield for each county from fiscal 2010 to 2014, under the disparity grant formula, is shown in **Exhibit 4**.

**Exhibit 1**  
**State Funding for the Disparity Grant Program**



**State Expenditures:** Projecting forward from fiscal 2014 results, and incorporating the phase-in percentages (beginning at 20% in fiscal 2015 and reaching 100% in fiscal 2019), State expenditures increase by an estimated \$6.9 million in fiscal 2015 and by \$34.4 million in fiscal 2019. *Under these assumptions, Exhibit 5* shows the affect of the bill, by county, from fiscal 2015 to 2019.

**Local Revenues:** Baltimore City and 10 counties receive increased State aid amounts beginning in fiscal 2015 as shown in **Exhibit 5**.

### Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - February 25, 2013  
mc/hlb

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**Exhibit 2**  
**Disparity Grant Formula – Fiscal Effect of Cap Provision**  
**Fiscal 2011-2014**

<b>County</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>Total</b>	<b>Percent of Total</b>
Allegany	\$0	-\$571,407	-\$2,882,491	-\$4,039,672	-\$7,493,570	9.4%
Anne Arundel	0	0	0	0	0	0.0%
Baltimore City	0	-1,258,890	0	-437,847	-1,696,737	2.1%
Baltimore	0	0	0	0	0	0.0%
Calvert	0	0	0	0	0	0.0%
Caroline	-478,024	-1,398,899	-1,661,823	-1,921,107	-5,459,853	6.9%
Carroll	0	0	0	0	0	0.0%
Cecil	0	-183,880	-897,551	-1,497,491	-2,578,922	3.2%
Charles	0	0	0	0	0	0.0%
Dorchester	-436,122	-1,456,805	-1,899,138	-2,361,933	-6,153,998	7.7%
Frederick	0	0	0	0	0	0.0%
Garrett	0	-480,243	-899,097	-798,672	-2,178,012	2.7%
Harford	0	0	0	0	0	0.0%
Howard	0	0	0	0	0	0.0%
Kent	0	-264,661	-22,881	-348,944	-636,486	0.8%
Montgomery	0	0	0	0	0	0.0%
Prince George's	0	0	-3,181,700	-4,619,916	-7,801,616	9.8%
Queen Anne's	0	0	0	0	0	0.0%
St. Mary's	0	0	0	0	0	0.0%
Somerset	0	-581,621	-1,310,476	-1,758,965	-3,651,062	4.6%
Talbot	0	0	0	0	0	0.0%
Washington	-435,975	-5,172,730	-6,736,499	-7,729,866	-20,075,070	25.2%
Wicomico	-1,615,958	-4,162,585	-7,165,223	-8,892,698	-21,836,464	27.4%
Worcester	0	0	0	0	0	0.0%
<b>Total</b>	<b>-\$2,966,079</b>	<b>-\$15,531,721</b>	<b>-\$26,656,879</b>	<b>-\$34,407,111</b>	<b>-\$79,561,790</b>	<b>100.0%</b>

**Exhibit 3**  
**Disparity Grant Formula Calculation**  
**Fiscal 2014**

<b>County</b>	<b>Population July 2011</b>	<b>Adjusted Income Tax Revenues</b>	<b>Per Capita Tax Yield</b>	<b>Per Capita Grant</b>	<b>Total Formula Amount</b>	<b>Fiscal 2010 Grant (Cap)</b>	<b>Grant Amount Under Cap</b>	<b>Net Effect of Cap Provision</b>	<b>Percent Capped</b>
Allegany	74,692	\$20,932,284	\$280.25	\$151.80	\$11,338,177	\$7,298,505	\$7,298,505	-\$4,039,672	35.6%
Anne Arundel	544,403	356,980,595	655.73	0.00	0	0	0	0	
Baltimore City	619,493	188,160,512	303.73	128.31	79,489,637	79,051,790	79,051,790	-437,847	0.6%
Baltimore	809,941	467,807,583	577.58	0.00	0	0	0	0	
Calvert	89,256	53,703,393	601.68	0.00	0	0	0	0	
Caroline	32,985	10,198,184	309.18	122.87	4,052,889	2,131,782	2,131,782	-1,921,107	47.4%
Carroll	167,288	98,847,144	590.88	0.00	0	0	0	0	
Cecil	101,694	42,439,106	417.32	14.73	1,497,491	0	0	-1,497,491	100.0%
Charles	149,130	76,676,386	514.16	0.00	0	0	0	0	
Dorchester	32,640	9,717,394	297.71	134.33	4,384,623	2,022,690	2,022,690	-2,361,933	53.9%
Frederick	236,745	139,651,320	589.88	0.00	0	0	0	0	
Garrett	30,051	10,053,505	334.55	97.50	2,929,943	2,131,271	2,131,271	-798,672	27.3%
Harford	246,489	138,242,686	560.85	0.00	0	0	0	0	
Howard	293,142	253,280,498	864.02	0.00	0	0	0	0	
Kent	20,204	8,380,136	414.78	17.27	348,944	0	0	-348,944	100.0%
Montgomery	989,794	904,843,901	914.17	0.00	0	0	0	0	
Prince George's	871,233	350,099,001	401.84	30.20	26,314,683	21,694,767	21,694,767	-4,619,916	17.6%
Queen Anne's	48,354	28,017,992	579.43	0.00	0	0	0	0	
St. Mary's	107,484	58,465,884	543.95	0.00	0	0	0	0	
Somerset	26,339	4,712,556	178.92	253.13	6,667,132	4,908,167	4,908,167	-1,758,965	26.4%
Talbot	38,025	25,438,614	669.00	0.00	0	0	0	0	
Washington	148,203	56,300,809	379.89	52.16	7,729,866	0	0	-7,729,866	100.0%
Wicomico	99,190	31,765,012	320.24	111.80	11,089,739	2,197,041	2,197,041	-8,892,698	80.2%
Worcester	51,514	22,745,926	441.55	0.00	0	0	0	0	
<b>Total</b>	<b>5,828,289</b>	<b>\$3,357,460,421</b>	<b>\$576.06</b>		<b>\$155,843,124</b>	<b>\$121,436,013</b>	<b>\$121,436,013</b>	<b>-\$34,407,111</b>	<b>22.1%</b>
		<i>75% Target:</i>	<i>\$432.05</i>						

**Exhibit 4**  
**Disparity Grant Funding – Per Capita Income Tax Yield**  
**Fiscal 2010 and 2014**

County	TY 2007 FY 2010	TY 2011 FY 2014	Avg. Annual Change	Rank	Percent of State Average					
					TY 2007 FY 2010	Rank	TY 2011 FY 2014	Rank	Point Difference	Rank
Allegany	\$292.48	\$280.25	-1.1%	18	55.8%	22	48.6%	23	-7.2	15
Anne Arundel	618.63	655.73	1.5%	10	118.1%	4	113.8%	4	-4.2	11
Baltimore City	269.01	303.73	3.1%	4	51.3%	23	52.7%	21	1.4	4
Baltimore	555.39	577.58	1.0%	12	106.0%	7	100.3%	9	-5.7	12
Calvert	551.81	601.68	2.2%	7	105.3%	8	104.4%	5	-0.9	7
Caroline	328.25	309.18	-1.5%	19	62.6%	20	53.7%	20	-9.0	18
Carroll	547.40	590.88	1.9%	8	104.5%	9	102.6%	6	-1.9	8
Cecil	422.16	417.32	-0.3%	16	80.6%	15	72.4%	14	-8.1	17
Charles	469.47	514.16	2.3%	6	89.6%	13	89.3%	12	-0.3	6
Dorchester	329.51	297.71	-2.5%	22	62.9%	19	51.7%	22	-11.2	20
Frederick	572.18	589.88	0.8%	14	109.2%	5	102.4%	7	-6.8	14
Garrett	321.09	334.55	1.0%	11	61.3%	21	58.1%	18	-3.2	10
Harford	526.69	560.85	1.6%	9	100.5%	10	97.4%	10	-3.1	9
Howard	763.32	864.02	3.1%	3	145.7%	2	150.0%	2	4.3	2
Kent	456.39	414.78	-2.4%	21	87.1%	14	72.0%	15	-15.1	24
Montgomery	773.25	914.17	4.3%	1	147.6%	1	158.7%	1	11.1	1
Prince George's	366.84	401.84	2.3%	5	70.0%	18	69.8%	16	-0.2	5
Queen Anne's	557.57	579.43	1.0%	13	106.4%	6	100.6%	8	-5.8	13
St. Mary's	480.32	543.95	3.2%	2	91.7%	11	94.4%	11	2.8	3
Somerset	204.36	178.92	-3.3%	23	39.0%	24	31.1%	24	-7.9	16
Talbot	674.03	669.00	-0.2%	15	128.6%	3	116.1%	3	-12.5	21
Washington	396.22	379.89	-1.0%	17	75.6%	16	65.9%	17	-9.7	19
Wicomico	369.55	320.24	-3.5%	24	70.5%	17	55.6%	19	-14.9	23
Worcester	476.58	441.55	-1.9%	20	90.9%	12	76.6%	13	-14.3	22
<b>Total</b>	<b>\$524.03</b>	<b>\$576.06</b>	<b>2.4%</b>		<b>100.0%</b>		<b>100.0%</b>		<b>0.0</b>	

Source: Department of Legislative Services

**Exhibit 5**  
**Disparity Grant Funding under the Bill**  
**Increased State Cost over Current Law**

<b>County</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
Allegany	\$807,934	\$1,615,869	\$2,423,803	\$3,231,738	\$4,039,672
Anne Arundel	0	0	0	0	0
Baltimore City	87,569	175,139	262,708	350,278	437,847
Baltimore	0	0	0	0	0
Calvert	0	0	0	0	0
Caroline	384,221	768,443	1,152,664	1,536,886	1,921,107
Carroll	0	0	0	0	0
Cecil	299,498	598,997	898,495	1,197,993	1,497,491
Charles	0	0	0	0	0
Dorchester	472,387	944,773	1,417,160	1,889,546	2,361,933
Frederick	0	0	0	0	0
Garrett	159,734	319,469	479,203	638,937	798,672
Harford	0	0	0	0	0
Howard	0	0	0	0	0
Kent	69,789	139,577	209,366	279,155	348,944
Montgomery	0	0	0	0	0
Prince George's	923,983	1,847,967	2,771,950	3,695,933	4,619,916
Queen Anne's	0	0	0	0	0
St. Mary's	0	0	0	0	0
Somerset	351,793	703,586	1,055,379	1,407,172	1,758,965
Talbot	0	0	0	0	0
Washington	1,545,973	3,091,946	4,637,920	6,183,893	7,729,866
Wicomico	1,778,540	3,557,079	5,335,619	7,114,158	8,892,698
Worcester	0	0	0	0	0
<b>Total</b>	<b>\$6,881,422</b>	<b>\$13,762,844</b>	<b>\$20,644,267</b>	<b>\$27,525,689</b>	<b>\$34,407,111</b>

Source: Department of Legislative Services