

A00
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$131,793	\$145,034	\$150,345	\$5,311	3.7%
Total Funds	\$131,793	\$145,034	\$150,345	\$5,311	3.7%

- Payments to Civil Divisions account for 2.3% of total State aid to local governments and 15.9% of total State aid to counties and municipalities.
- The broadening of income disparities across Maryland results in the disparity grant program increasing by 4.9% in fiscal 2008. Seven jurisdictions are eligible to receive disparity grants in fiscal 2008.
- Electric utility generating equipment property tax grants (electric utility grants) are fully funded in fiscal 2008. Baltimore City and 10 counties receive these grants, representing over 78% of the State's population.
- State-paid retirement costs for certain locally paid officials and employees increase by 9.6%. Baltimore City sheriff deputies account for most of these individuals, followed by orphan's court judges, master judges, State's Attorneys, and sheriffs.
- Baltimore City's share of security interest filing fees is estimated to decline slightly.

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

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Analysis in Brief

Major Trends

Local Governments Continue to Receive Record Increases in State Aid: State aid to local governments is projected to increase by 12.4% in fiscal 2008, resulting in an additional \$713.0 million in State funding. This will be the fourth consecutive year of sizable increase in State support for local governments. Since fiscal 2002, State aid has increased at an average annual rate of 8.9%. State aid for public schools has increased by \$2.3 billion, a 10.2% average annual increase; whereas, State aid for county and municipal governments has increased by \$234.1 million, a 4.9% average annual increase. State aid continues to be one of the largest and fastest growing components of the State budget. In fiscal 2008, State aid will account for 40.2% of general fund expenditures and 29.9% of State-funded expenditures (**Exhibit 1**). The increase in State aid for fiscal 2008 is projected to exceed the rate of growth for most other State programs (**Exhibit 2**). The 12.4% increase in State aid and the 15.2% increase in State education aid dwarf the 6.8% increase for medical assistance and 4.5% increase for State agencies.

Exhibit 1
State Aid Share of State Budget
Fiscal 2008
(\$ in Millions)

	<u>General Funds</u>	<u>All State Funds</u>
State Aid to Local Governments	\$5,779.5	\$6,479.4
Total State Expenditures	14,361.8	21,686.5
Total State Revenues	13,452.8	20,777.5
Percent State Aid – Expenditures	40.2%	29.9%
Percent State Aid – Revenues	43.0%	31.2%

Source: Department of Legislative Services

Exhibit 2
State Aid Increases Exceed Most State Programs
State Funds – Fiscal 2008
(\$ in Millions)

	<u>\$ Change</u>	<u>% Change</u>
Total State Aid to Local Governments	\$713.0	12.4%
Public School Funding	682.7	15.2%
Medical Assistance	157.5	6.8%
State Agencies	492.0	4.5%
Total State Expenditures	1,371.3	6.8%

Source: Department of Legislative Services

Local Government Revenues Remain Positive: During the same time period as local governments have benefited from sizeable increases in State aid, the growth in the county assessable base has soared. The average annual growth statewide has increased from 5.4% in fiscal 2003 to 15.7% in fiscal 2007. According to projections by the State Department of Assessments and Taxation, growth in the county assessable base should remain strong in the near future. The average annual growth statewide is projected to reach 15.8% in fiscal 2008 and 12.9% in fiscal 2009. Local governments have also benefited from the recent rise in net taxable income. After two years of declining income levels (2001 and 2002), net taxable income began to increase – 4.1% in tax year 2003, 8.4% in tax year 2004, and 6.0% in tax year 2005.

Issues

Federal Tax Filing Extension Impacts Disparity Grant Formula: The disparity grant formula is based on net local income tax revenues from tax returns filed by August 15. The new six-month federal filing extension has reduced the number of tax returns received by the State as of August 15. Consequently, this has affected the allocation of disparity grant funding.

Recommended Actions

1. Concur with Governor's allowance.

A00 – Payments to Civil Divisions of the State

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Operating Budget Analysis

Program Description

Several State grant programs providing funds to Maryland's counties and municipalities are budgeted under Payments to Civil Divisions of the State: disparity grants; grants to partially offset the cost of the property tax exemption for personal property used to generate electricity for sale (electric utility grants); and a grant to Baltimore City equal to \$5 of each security interest-filing fee collected by the Motor Vehicle Administration. The State pays the employer retirement cost for certain local officials and employees; these costs are also budgeted under Payments to Civil Divisions.

Governor's Proposed Budget

Payments to Civil Divisions will total \$150.3 million in fiscal 2008, representing a \$5.3 million, or 3.7% increase over the prior year. These payments account for approximately 2.3% of total State aid to local governments and 15.9% of total State aid to counties and municipalities. Disparity grants account for the largest share of these payments, followed by the electric utility grants. Disparity grant funding will total \$114.8 million in fiscal 2008, a \$5.3 million, or 4.9% increase over the prior year. The electric utility grants are fully funded in fiscal 2008 at \$30.6 million. Baltimore City's share of security interest-filing fees is estimated at \$2.9 million in fiscal 2008, a \$200,000, or 6.4% decrease from the prior year. State-paid retirement costs for locally paid officials and employees will total \$2.0 million in fiscal 2008, a \$178,000, or 9.6% increase. **Exhibit 3** shows the funding amounts for these programs in fiscal 2007 and 2008. **Exhibit 4** shows the funding amounts for each county.

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

How Much It Grows:	General Fund	Total
2007 Working Appropriation	\$145,034	\$145,034
2008 Governor’s Allowance	<u>150,345</u>	<u>150,345</u>
Amount Change	\$5,311	\$5,311
Percent Change	3.7%	3.7%

Where It Goes:

Grants

Increase in Disparity Grants.....	\$5,333
Increase in retirement contributions for certain local officials	178
Decrease in estimated Baltimore City share of security interest filing fees.....	-200
No change in Electric Utility Grants.....	0
Total	\$5,311

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

Exhibit 4
State Funding for Payments to Civil Divisions in Fiscal 2008 Allowance
(\$ in Thousands)

County	Disparity Grants	Utility Grants	Retirement Payments	Security Filing Fees	Total Aid FY 2008	Total Aid FY 2007	Difference	Percent Difference
Allegany	\$6,971	\$0	\$11	\$0	\$6,982	\$7,357	-\$374	-5.1%
Anne Arundel	0	7,820	32	0	7,852	7,852	0	0.0%
Baltimore City	78,161	453	1,736	2,925	83,275	81,140	2,135	2.6%
Baltimore	0	1,795	18	0	1,812	1,813	0	0.0%
Calvert	0	6,097	0	0	6,097	6,097	0	0.0%
Caroline	1,913	0	10	0	1,923	1,848	74	4.0%
Carroll	0	0	37	0	37	37	0	-0.2%
Cecil	0	0	12	0	12	12	0	-0.8%
Charles	0	2,523	0	0	2,523	2,523	0	0.0%
Dorchester	2,089	187	12	0	2,289	1,694	595	35.1%
Frederick	0	0	0	0	0	0	0	n/a
Garrett	2,089	12	6	0	2,107	2,325	-218	-9.4%
Harford	0	861	0	0	861	861	0	0.0%
Howard	0	0	16	0	16	17	0	-0.8%
Kent	0	0	4	0	4	4	0	-0.8%
Montgomery	0	2,766	8	0	2,774	2,774	0	0.0%
Prince George's	19,110	7,745	48	0	26,903	23,756	3,147	13.2%
Queen Anne's	0	0	31	0	31	28	3	9.8%
St. Mary's	0	0	7	0	7	7	0	-0.8%
Somerset	4,451	0	0	0	4,451	4,501	-50	-1.1%
Talbot	0	0	11	0	11	11	0	-0.8%
Washington	0	357	0	0	357	357	0	0.0%
Wicomico	0	0	13	0	13	13	0	-0.8%
Worcester	0	0	9	0	9	9	0	-0.8%
Total	\$114,784	\$30,615	\$2,021	\$2,925	\$150,345	\$145,034	\$5,311	3.7%

Source: Department of Legislative Services

Disparity Grants

Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which is the third largest revenue source for counties after State aid and property taxes. Counties with per capita local income tax revenues less than 75% of the statewide average receive grants, assuming all counties impose a 2.54% local income tax rate. Aid received by a county equals the dollar amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average. In fiscal 2008, Baltimore City and six counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, and Somerset) qualify for disparity grants.

The proposed fiscal 2008 budget includes \$114.8 million for disparity grants, a \$5.3 million increase from the prior year. The fiscal 2008 grant under the statute is based on population estimates for July 2005 and calendar 2005 local income tax revenues raised from a 2.54% local income tax rate. **Exhibit 5** shows the calculation of the fiscal 2008 disparity grant. The increase in disparity grant funding in fiscal 2008 is due to the broadening of the disparity in per capita income tax revenues between less affluent counties and other counties in Maryland. As shown in **Exhibit 6**, per capita income tax revenues increased by 2.3% in calendar 2005. Three disparity grant counties (Baltimore City, Dorchester, and Prince George's) had growth below the statewide average, while three disparity grant counties (Allegany, Garrett, and Somerset) realized growth significantly above the statewide average. The increase in Caroline County was slightly above the statewide average.

The State began providing disparity grants in fiscal 1992 to counties whose per capita local income tax revenues were less than 70% of the statewide average. Baltimore City and five counties (Allegany, Caroline, Dorchester, Garrett, and Somerset) qualified for the grants. Funding for disparity grants totaled \$8.6 million in fiscal 1992. Legislation enacted in 1992 placed the disparity grant formula in statute for fiscal 1993 and subsequent years. Legislation enacted in 1996 guaranteed that, beginning in fiscal 1998, each county's per capita local income tax yield would be 75% of the statewide average, rather than 70%. This change made two counties, Washington and Wicomico, eligible for disparity grants. In fiscal 2001, Prince George's County became eligible for disparity grants, and Washington County became ineligible due to increases in its per capita local income tax yields. Washington County, however, became eligible for the program again in fiscal 2002 but again became ineligible in fiscal 2005. Wicomico County became ineligible for the program in fiscal 2007.

Electric Utility Grants

Legislation restructuring Maryland's electric utility tax system was enacted in 1999 (Chapters 5 and 6 of 1999). Beginning with fiscal 2001, the legislation phases in over two years a 50% personal property tax exemption for machinery and equipment used to generate electricity for sale. To partially offset the revenue losses, the legislation provides grants to the counties impacted by the exemption. The dollar amounts of the grants when the exemption is fully phased in are written into the statute (Article 24, Section 9-1102).

**Exhibit 5
Disparity Grant Calculation in Fiscal 2008**

County	Population July 2005	TY 2005 Adjusted Income Tax Revenues	Per Capita Tax Yield	Per Capita Grant	Total Grant	Prior Year Grant	Difference	Percent Difference
Allegany	73,639	\$18,938,960	\$257.19	\$94.67	\$6,971,337	\$7,345,436	-\$374,099	-5.1%
Anne Arundel	510,878	283,274,944	554.49	0.00	0	0	0	
Baltimore City	635,815	145,554,484	228.93	122.93	78,160,604	76,002,034	2,158,570	2.8%
Baltimore	786,113	394,636,763	502.01	0.00	0	0	0	
Calvert	87,925	44,089,720	501.45	0.00	0	0	0	
Caroline	31,822	9,283,902	291.74	60.11	1,912,848	1,838,418	74,430	4.0%
Carroll	168,541	82,625,923	490.24	0.00	0	0	0	
Cecil	97,796	36,383,309	372.03	0.00	0	0	0	
Charles	138,822	60,633,269	436.77	0.00	0	0	0	
Dorchester	31,401	8,959,780	285.33	66.52	2,088,839	1,493,893	594,946	39.8%
Frederick	220,701	113,646,621	514.93	0.00	0	0	0	
Garrett	29,909	8,434,391	282.00	69.85	2,089,259	2,307,278	-218,019	-9.4%
Harford	239,259	113,299,753	473.54	0.00	0	0	0	
Howard	269,457	185,343,437	687.84	0.00	0	0	0	
Kent	19,899	7,563,266	380.08	0.00	0	0	0	
Montgomery	927,583	638,226,443	688.05	0.00	0	0	0	
Prince George's	846,123	278,602,906	329.27	22.59	19,110,236	15,962,593	3,147,643	19.7%
Queen Anne's	45,612	24,178,027	530.08	0.00	0	0	0	
St. Mary's	96,518	41,499,383	429.97	0.00	0	0	0	
Somerset	25,845	4,642,980	179.65	172.21	4,450,729	4,500,748	-50,019	-1.1%
Talbot	35,683	20,960,388	587.41	0.00	0	0	0	
Washington	141,895	52,082,430	367.05	0.00	0	0	0	
Wicomico	90,402	31,875,863	352.60	0.00	0	0	0	
Worcester	48,750	22,633,795	464.28	0.00	0	0	0	
Total	5,600,388	\$2,627,370,738	\$469.14	\$0.00	\$114,783,851	\$109,450,400	\$5,333,451	4.9%
		<i>Target (75%)</i>	<i>\$351.86</i>					

Source: Department of Legislative Services

**Exhibit 6
Disparity Grant Components in Fiscal 2008**

County	Adjusted Local Tax Revenues			Population			Per Capita Tax Revenues		
	TY 2004	TY 2005	% Chg.	July 2004	July 2005	% Chg.	TY 2004	TY 2005	% Chg.
Allegany	\$18,070,294	\$18,938,960	4.8%	73,871	73,639	-0.3%	\$245	\$257	5.1%
Anne Arundel	270,434,530	283,274,944	4.7%	508,572	510,878	0.5%	532	554	4.3%
Baltimore City	142,903,677	145,554,484	1.9%	636,251	635,815	-0.1%	225	229	1.9%
Baltimore	378,188,684	394,636,763	4.3%	780,821	786,113	0.7%	484	502	3.6%
Calvert	42,141,600	44,089,720	4.6%	86,474	87,925	1.7%	487	501	2.9%
Caroline	8,847,260	9,283,902	4.9%	31,058	31,822	2.5%	285	292	2.4%
Carroll	78,763,718	82,625,923	4.9%	166,159	168,541	1.4%	474	490	3.4%
Cecil	34,770,557	36,383,309	4.6%	95,526	97,796	2.4%	364	372	2.2%
Charles	58,109,381	60,633,269	4.3%	135,807	138,822	2.2%	428	437	2.1%
Dorchester	9,141,553	8,959,780	-2.0%	30,912	31,401	1.6%	296	285	-3.5%
Frederick	109,551,413	113,646,621	3.7%	217,653	220,701	1.4%	503	515	2.3%
Garrett	8,057,053	8,434,391	4.7%	30,124	29,909	-0.7%	267	282	5.4%
Harford	108,853,837	113,299,753	4.1%	235,594	239,259	1.6%	462	474	2.5%
Howard	182,691,075	185,343,437	1.5%	266,738	269,457	1.0%	685	688	0.4%
Kent	7,487,586	7,563,266	1.0%	19,582	19,899	1.6%	382	380	-0.6%
Montgomery	627,947,407	638,226,443	1.6%	921,690	927,583	0.6%	681	688	1.0%
Prince George's	274,064,913	278,602,906	1.7%	842,967	846,123	0.4%	325	329	1.3%
Queen Anne's	22,502,992	24,178,027	7.4%	45,078	45,612	1.2%	499	530	6.2%
St. Mary's	39,877,614	41,499,383	4.1%	94,921	96,518	1.7%	420	430	2.3%
Somerset	4,397,562	4,642,980	5.6%	25,863	25,845	-0.1%	170	180	5.7%
Talbot	20,430,402	20,960,388	2.6%	35,017	35,683	1.9%	583	587	0.7%
Washington	49,301,356	52,082,430	5.6%	139,624	141,895	1.6%	353	367	4.0%
Wicomico	30,924,687	31,875,863	3.1%	88,782	90,402	1.8%	348	353	1.2%
Worcester	22,248,724	22,633,795	1.7%	48,974	48,750	-0.5%	454	464	2.2%
Total	\$2,549,707,872	\$2,627,370,738	3.0%	5,558,058	5,600,388	0.8%	\$459	\$469	2.3%

Source: Department of Legislative Services

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In fiscal 2001, the counties received half the amounts for a total of \$15.3 million. In fiscal 2002 and 2003, the grants totaled \$30.6 million. The fiscal 2004 appropriation was reduced by \$4.4 million, or 14.4% by the Board of Public Works on July 30, 2003. The adjusted appropriation for fiscal 2004 totaled \$26.2 million. The proposed fiscal 2005 budget eliminated funding for the grant contingent upon the enactment of legislation; however, the General Assembly rejected the Governor's proposal and fully funded the grants for that year. The fiscal 2006 proposed budget as introduced by the Governor included a \$30.6 million reduction to the grants contingent upon the enactment of legislation. Once again, the General Assembly rejected the Governor's proposal and fully funded the grants in fiscal 2006. The State budget fully funds the grants in fiscal 2007 and 2008. **Exhibit 7** shows the allocation of the grants for fiscal 2008. The Town of Williamsport will receive 35% of Washington County's allocation. Over 78% of the State's population resides in a jurisdiction receiving these grants.

Exhibit 7
Electric Utility Generating Equipment Property Tax Grants
Fiscal 2008

<u>County</u>	<u>Grant Amount</u>	<u>Percent of Total</u>	<u>Per Capita Amount</u>
Anne Arundel	\$7,820,202	25.5%	\$15.31
Baltimore City	453,421	1.5%	0.71
Baltimore	1,794,835	5.9%	2.28
Calvert	6,096,574	19.9%	69.34
Charles	2,522,612	8.2%	18.17
Dorchester	187,442	0.6%	5.97
Garrett	11,907	0.0%	0.40
Harford	860,767	2.8%	3.60
Montgomery	2,765,553	9.0%	2.98
Prince George's	7,744,806	25.3%	9.15
Washington	357,082	1.2%	2.52
Total	\$30,615,201	100.0%	\$7.00

Source: Department of Legislative Services

Baltimore City Share of Security Interest-filing Fee

Since fiscal 1998, Baltimore City has received a grant equal to \$5 of each security interest-filing fee collected by the Motor Vehicle Administration. This grant is pursuant to Chapter 163 of 1996, which revised the allocation of highway user revenues between Baltimore City and the other subdivisions. Chapter 163 was contingent on the enactment of legislation increasing State aid under the disparity grant formula (Chapter 173 of 1996). The proposed fiscal 2008 budget includes \$2.9 million for Baltimore City, a \$200,000 decrease from the working appropriation for fiscal 2007.

Retirement Costs for Certain Officials and County Employees

Under State law, appointed or elected officials of the State are eligible to be members of the State employees' retirement systems. The statute specifies that this provision applies to State's Attorneys and sheriffs.¹ Over the years, judicial decisions and Attorney General's opinions have interpreted these provisions to include the following officials: county treasurers, county commissioners, orphans' court judges, bingo board members, and license and liquor commissioners. The statute also provides that certain employees of the Baltimore City Sheriff's Office are to be included in the State employees' retirement systems. Another provision makes Baltimore City deputy sheriffs eligible for the Law Enforcement Officers' Pension System.² The State pays the retirement benefits for these officials and employees, but prior to fiscal 2000, the State did not appropriate funds for the employer contributions. Language in the fiscal 1999 budget bill required that the funding be provided in the budget beginning with fiscal 2000.³

The proposed fiscal 2008 budget includes \$2.0 million for employer retirement costs associated with these locally paid officials and employees. The amount is based on the June 30, 2006, salary base for these employees increased by 5%. No growth factor is applied to the salary base for judges. The budgeted amount does not reflect the updated retirement contribution rates for fiscal 2008. Accordingly, this program is underfunded by \$167,506, which may require either a deficiency or supplemental appropriation. **Exhibit 8** shows the calculation with the updated retirement contribution rates for fiscal 2008. This is similar to the approach used to determine the State retirement payments for local teachers, community college faculty, and librarians. **Exhibit 9** shows the employer contributions allocated on a county-by-county basis in fiscal 2008. Baltimore City accounts for 75% of the individuals eligible to receive State paid retirements benefits under this program.

¹ Sections 22-205 and 23-201 of the State Personnel and Pensions Article.

² Section 26-201 of the State Personnel and Pensions Article.

³ Chapter 109, Section 32 of 1998.

Exhibit 8
Computations of Retirement Costs in Fiscal 2008

<u>Retirement System</u>	<u>Salary Base June 30, 2006</u>	<u>Increased by 5%</u>	<u>Contribution Rate</u>	<u>Total Cost</u>
Employees Retirement/Pension	\$5,650,565	\$5,933,093	8.86%	\$525,672
Law Enforcement Officers Retirement/Pension	3,450,286	3,622,800	41.74%	1,512,157
Orphans' Court Judges ¹	341,065	341,065	44.12%	150,478
Total				\$2,188,307
Allowance Amount				\$2,020,801
Deficiency or Supplemental Amount				\$167,506

¹Fiscal 2006 amount for orphans' court judges is not increased by 5%.

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

Source: State Retirement Agency

Exhibit 9
State Paid Retirement Cost for Locally Paid Officials and Employees in Fiscal 2008 Allowance

<u>County</u>	<u>Number of Individuals</u>	<u>Percent of Total</u>	<u>Allocation of State Aid</u>	<u>Type of Position</u>
Allegany	2	0.9%	\$10,997	Sheriff, State's Attorney
Anne Arundel	2	0.9%	31,694	Sheriff, Master Judge
Baltimore City	165	75.3%	1,736,091	Sheriff Deputies (157), Master Judges (8)
Baltimore	3	1.4%	17,657	Sheriff, State's Attorney, Master Judge
Calvert	0	0.0%	0	None
Caroline	2	0.9%	9,796	State's Attorney, County Treasurer
Carroll	5	2.3%	36,765	State's Attorney, Orphan's Ct. Judges (3), Master Judge
Cecil	2	0.9%	12,104	State's Attorney, County Treasurer
Charles	0	0.0%	0	None
Dorchester	3	1.4%	12,486	Sheriff, State's Attorney, County Treasurer
Frederick	0	0.0%	0	None
Garrett	4	1.8%	5,916	State's Attorney, License & Liquor Board (2), County Commissioner
Harford	0	0.0%	0	None
Howard	3	1.4%	16,467	State's Attorney, Orphan's Ct. Judge, Master Judge
Kent	1	0.5%	4,159	County Treasurer
Montgomery	1	0.5%	8,037	Sheriff
Prince George's	5	2.3%	48,305	State's Attorney, Master Judges (4)
Queen Anne's	5	2.3%	30,516	Sheriff, State's Attorney, Orphan's Ct. Judges (3)
St. Mary's	1	0.5%	7,197	State's Attorney
Somerset	0	0.0%	0	None
Talbot	2	0.9%	10,963	Sheriff, State's Attorney
Washington	0	0.0%	0	None
Wicomico	2	0.9%	12,934	Sheriff, State's Attorney
Worcester	11	5.0%	8,717	State's Attorney, Orphan's Ct. Judges (2), Misc. Boards (8)
Subtotal	219	100.0%	\$2,020,801	
Deficiency or Supplemental Amount			167,506	
Total			\$2,188,307	

Source: Department of Budget and Management; State Retirement Agency

Issues

1. Federal Tax Filing Extension Impacts Disparity Grant Formula

State law bases the disparity grant formula on income tax returns filed through August 15 of the second prior tax year preceding the applicable fiscal year. For fiscal 2008, the disparity grant calculation is based on income tax returns filed through August 15 of tax year 2005. In previous years, this date coincided with a four-month automatic tax filing extension. However, beginning with tax year 2005, the federal government has expanded the automatic income tax filing extension from four months (August 15) to six months (October 15). The Comptroller's office has adjusted State filing extensions to reflect those of the federal government. Consequently, many individuals who filed for an extension in tax year 2005 were not counted in the local income tax revenue measurement used to calculate the disparity grant in fiscal 2008. Based on income tax returns filed through the six-month extension, net local income tax revenues were understated by \$424.4 million, which represents over 12% of the total amount in tax year 2005.

The two-month extension had a greater effect on the filing of tax returns in affluent counties (**Exhibit 10**). Disparity grant counties on average had a higher percentage of their tax returns filed prior to the six-month extension deadline. For example, in Dorchester, Prince George's, and Somerset counties, tax returns filed after September 1 accounted for less than 5% of net local income tax revenues; whereas, in Montgomery and Talbot counties, tax returns filed after September 1 accounted for more than 20% of net local income tax revenues. In particular, Montgomery County accounted for over one-half (52.2%) of the additional net local income tax revenues received after September 1.

If the disparity grant calculation was based on income tax returns filed through the six-month extension, State funding for this program would increase by \$53.4 million in fiscal 2008. Three additional counties (Cecil, Washington, and Wicomico) would become eligible for disparity grants as shown in **Exhibit 11**.

Exhibit 10
Net Local Income Tax Revenues Used in the Disparity Grant Formula Calculation
Tax Year 2005

County	Used in Calculation September 2006	Summary Report November 2006	Percent of Total	Percent of Net Local Tax Used in Formula Calculation		Per Capita Tax Yield Used in Formula Calculation	
Allegany	\$21,846,910	\$23,309,819	93.7%	1. Montgomery	78.4%	1. Montgomery	\$688
Anne Arundel	285,505,455	313,832,418	91.0%	2. Talbot	79.8%	2. Howard	688
Baltimore City	174,779,991	195,498,313	89.4%	3. Kent	85.5%	3. Talbot	587
Baltimore	439,693,716	501,865,536	87.6%	4. Baltimore	87.6%	4. Anne Arundel	554
Calvert	48,602,841	52,239,015	93.0%	5. Worcester	88.1%	5. Queen Anne's	530
Caroline	9,612,859	10,136,642	94.8%	6. Baltimore City	89.4%	6. Frederick	515
Carroll	99,216,168	102,935,332	96.4%	7. Queen Anne's	90.6%	7. Baltimore	502
Cecil	40,107,585	42,294,392	94.8%	8. Anne Arundel	91.0%	8. Calvert	501
Charles	69,226,961	72,530,465	95.4%	9. Howard	91.1%	9. Carroll	490
Dorchester	9,241,978	9,656,927	95.7%	10. Frederick	92.5%	10. Harford	474
Frederick	132,438,582	143,166,368	92.5%	11. Garrett	92.7%	11. Worcester	464
Garrett	8,799,660	9,488,980	92.7%	12. Calvert	93.0%	12. Charles	437
Harford	136,494,978	146,365,180	93.3%	13. Harford	93.3%	13. St. Mary's	430
Howard	233,503,543	256,183,553	91.1%	14. Allegany	93.7%	14. Kent	380
Kent	8,486,341	9,923,303	85.5%	15. Cecil	94.8%	15. Cecil	372
Montgomery	804,064,810	1,025,536,849	78.4%	16. Caroline	94.8%	16. Washington	367
Prince George's	350,995,787	365,819,713	95.9%	17. Washington	95.3%	17. Wicomico	353
Queen Anne's	27,128,889	29,949,925	90.6%	18. Charles	95.4%	18. Prince George's	329
St. Mary's	49,831,937	52,177,469	95.5%	19. St. Mary's	95.5%	19. Caroline	292
Somerset	5,758,026	6,024,813	95.6%	20. Somerset	95.6%	20. Dorchester	285
Talbot	18,567,272	23,253,365	79.8%	21. Wicomico	95.6%	21. Garrett	282
Washington	57,413,703	60,254,521	95.3%	22. Dorchester	95.7%	22. Allegany	257
Wicomico	38,903,612	40,678,963	95.6%	23. Prince George's	95.9%	23. Baltimore City	229
Worcester	11,138,678	12,647,518	88.1%	24. Carroll	96.4%	24. Somerset	180
Total	\$3,081,360,283	\$3,505,769,379	87.9%				

Source: Department of Legislative Services

Note: Counties receiving disparity grants are in bold.

Exhibit 11
Disparity Grant Calculations for Fiscal 2008
Includes Tax Returns Filed through the Six-month Extension

County	Funding Using Six-month Extension	Funding Under Current Law	Difference
Allegany	\$9,219,650	\$6,971,337	\$2,248,313
Anne Arundel	0	0	0
Baltimore City	91,268,877	78,160,604	13,108,273
Baltimore	0	0	0
Calvert	0	0	0
Caroline	2,926,592	1,912,848	1,013,745
Carroll	0	0	0
Cecil	713,093	0	713,093
Charles	0	0	0
Dorchester	3,186,059	2,088,839	1,097,220
Frederick	0	0	0
Garrett	2,856,804	2,089,259	767,545
Harford	0	0	0
Howard	0	0	0
Kent	0	0	0
Montgomery	0	0	0
Prince George's	47,748,851	19,110,236	28,638,615
Queen Anne's	0	0	0
St. Mary's	0	0	0
Somerset	5,469,788	4,450,729	1,019,059
Talbot	0	0	0
Washington	2,043,041	0	2,043,041
Wicomico	2,794,935	0	2,794,935
Worcester	0	0	0
Total	\$168,227,689	\$114,783,851	\$53,443,839

Source: Department of Legislative Services

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Payments to Civil Divisions of the State (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$132,036	\$0	\$0	\$0	\$132,036
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	-243	0	0	0	-243
Actual Expenditures	\$131,793	\$0	\$0	\$0	\$131,793
Fiscal 2007					
Legislative Appropriation	\$145,034	\$0	\$0	\$0	\$145,034
Budget Amendments	0	0	0	0	0
Working Appropriation	\$145,034	\$0	\$0	\$0	\$145,034

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

Fiscal Summary
Payments to Civil Divisions of the State

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07 - FY08 % Change</u>
01 Disparity Grants	\$ 96,578,133	\$ 109,450,400	\$ 114,783,852	\$ 5,333,452	4.9%
01 Security Interest Filing Fees	2,906,705	3,125,000	2,925,000	-200,000	-6.4%
01 Retirement Contribution – Certain Local Employees	1,692,545	1,843,023	2,020,801	177,778	9.6%
01 Electricity Generating Equipment Property Tax Grant	30,615,201	30,615,201	30,615,201	0	0%
Total Expenditures	\$ 131,792,584	\$ 145,033,624	\$ 150,344,854	\$ 5,311,230	3.7%
General Fund	\$ 131,792,584	\$ 145,033,624	\$ 150,344,854	\$ 5,311,230	3.7%
Total Appropriations	\$ 131,792,584	\$ 145,033,624	\$ 150,344,854	\$ 5,311,230	3.7%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.