

A00
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$144,794	\$149,512	\$120,760	-\$28,753	-19.2%
Total Funds	\$144,794	\$149,512	\$120,760	-\$28,753	-19.2%

- Payments to Civil Divisions account for 1.8% of total State aid to local governments and 14.7% of total State aid to counties and municipalities.
- Income disparities across Maryland were reduced in tax year 2006 resulting in a slight increase in the Disparity Grant Program in fiscal 2009. Eight jurisdictions are eligible to receive disparity grants in fiscal 2009.
- State-paid retirement costs for certain locally paid officials and employees increase slightly. Baltimore City sheriff deputies account for most of these individuals, followed by master judges, orphan's court judges, State's Attorneys, and sheriffs.
- Electric utility generating equipment property tax grants (electric utility grants) were eliminated by legislation passed at the 2007 special session. Baltimore City and 10 counties were scheduled to receive these grants totaling \$30.6 million.
- Legislative action at the 2007 special session provided a new grant to Baltimore City totaling \$3.1 million; however, the city will no longer receive a share of security interest filing fee revenue.

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

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Analysis in Brief

Major Trends

Growth in State Aid Slowed in Fiscal 2009: After several years of significant increases in State aid, local governments will only realize a slight increase in State funding in fiscal 2009, with counties and municipalities actually receiving a decrease in State aid (**Exhibit 1**). State aid to local governments is projected to increase by 1.5% in fiscal 2009, with public schools receiving a 3.5% increase, libraries receiving an 8.9% increase, and community colleges receiving a 12.0% increase. In comparison, local health departments will receive a 2.6% increase in State funding; whereas, counties and municipalities will realize a 13.0% decrease in State aid.

Exhibit 1
Change in State Aid by Governmental Entity
State Funds
(\$ in Millions)

	<u>FY 2009</u> <u>Aid Difference</u>	<u>Percent</u> <u>Difference</u>
Public Schools	\$181.8	3.5%
Libraries	5.5	8.9%
Community Colleges	29.1	12.0%
Local Health Departments	1.8	2.6%
Counties/Municipalities	-122.4	-13.0%
Total	\$95.8	1.5%

Source: Department of Legislative Services

Even with the slight increase in State support, local governments continue to benefit from the sizeable investments made by the State over the last seven years (**Exhibit 2**). Since fiscal 2002, State aid has increased at an average annual rate of 7.8%. State aid for public schools has increased by \$2.5 billion, a 9.2% average annual increase; whereas, State aid for counties and municipalities has increased by \$108.8 million, a 2.1% increase. State aid accounts for approximately 40% of general fund expenditures and 29% of State funded expenditures.

Exhibit 2
Increase in State Aid by Governmental Entity
State Funds
(\$ in Millions)

	<u>FY 2002</u>	<u>FY 2009</u>	<u>Difference</u>	<u>Average Annual Increase</u>
Public Schools	\$2,885.9	\$5,349.9	\$2,464.0	9.2%
Libraries	44.3	67.2	22.9	6.1%
Community Colleges	178.5	270.8	92.3	6.1%
Local Health Departments	57.3	68.8	11.4	2.6%
Counties/Municipalities	711.3	820.1	108.8	2.1%
Total	\$3,877.3	\$6,576.7	\$2,699.4	7.8%

Source: Department of Legislative Services

Local Government Revenues Remain Positive: Local revenue growth remains positive in fiscal 2008 due to continued strong increases in property assessments and moderate increases in net taxable income. County assessable base increased by 19.7% in fiscal 2008, continuing a five-year period of strong assessment growth. Likewise, net taxable income also increased but at a lower rate than the prior year. Net taxable income increased by 5.8% in tax year 2006 compared to 6.0% in tax year 2005 and 8.4% in tax year 2004.

On the downside, recordation and transfer tax revenues are projected to decline in fiscal 2008. County governments collected \$482.4 million in local recordation taxes in fiscal 2007. This amount is significantly lower than the amounts collected in fiscal 2005 and 2006 when the soaring real estate market yielded recordation taxes totaling \$525.4 million in fiscal 2005 and \$619.0 million in fiscal 2006. If the current downward trend in the real estate market continues, local recordation taxes could reach a five-year low in fiscal 2008.

Recommended Actions

1. Concur with Governor’s allowance.

A00
Payments to Civil Divisions of the State

Operating Budget Analysis

Program Description

Several State grant programs providing funds to Maryland's counties are budgeted under Payments to Civil Divisions of the State: disparity grants to low-wealth counties; retirement costs for certain local officials and employees; and a special grant to Baltimore City.

Governor's Proposed Budget

Payments to Civil Divisions will total \$120.8 million in fiscal 2009, representing a \$28.8 million, or 19.2%, decrease below the prior year. These payments account for approximately 1.8% of total State aid to local governments and 14.7% of total State aid to counties and municipalities. Disparity grants account for the largest share of these payments totaling \$115.5 million in fiscal 2009, a 0.6% increase over the prior year. State-paid retirement costs for locally paid officials and employees total \$2.2 million in fiscal 2009, a 0.3% increase. Legislative action at the 2007 special session repealed the electric utility grants. Baltimore City and 10 counties were scheduled to receive these grants totaling \$30.6 million. Also at the 2007 special session, legislation to provide Baltimore City with a \$3.1 million grant was adopted; however, the city will no longer receive a share of security interest filing fee revenue. **Exhibit 3** shows the funding amounts for these programs in fiscal 2008 and 2009. **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
2008 Working Appropriation	\$149,512	\$149,512
2009 Governor’s Allowance	<u>120,760</u>	<u>120,760</u>
Amount Change	-\$28,753	-\$28,753
Percent Change	-19.2%	-19.2%

Where It Goes:

Grants

Increase in Disparity Grants	\$706
Increase in Baltimore City grant.....	150
Increase in retirement contributions for certain local officials	6
Repeal of the Electric Utility Grants.....	-29,615
Total	-\$28,753

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

Exhibit 4
State Funding for Payments to Civil Divisions in Fiscal 2009
(\$ in Thousands)

County	Disparity Grants	Retirement Payments	Miscellaneous Grants	Total Aid FY 2009	Total Aid FY 2008	Difference	Percent Difference
Allegany	\$6,743	\$15	\$0	\$6,758	\$6,990	-\$232	-3.3%
Anne Arundel	0	35	0	35	7,602	-7,567	-99.5%
Baltimore City	75,524	1,856	3,075	80,455	83,320	-2,865	-3.4%
Baltimore	0	23	0	23	1,766	-1,742	-98.7%
Calvert	0	0	0	0	5,897	-5,897	-100.0%
Caroline	2,253	9	0	2,262	1,924	338	17.6%
Carroll	0	40	0	40	44	-3	-7.5%
Cecil	0	17	0	17	21	-4	-20.6%
Charles	0	0	0	0	2,440	-2,440	-100.0%
Dorchester	2,131	33	0	2,164	2,304	-140	-6.1%
Frederick	0	0	0	0	0	0	n/a
Garrett	2,012	10	0	2,022	2,113	-91	-4.3%
Harford	0	0	0	0	833	-833	-100.0%
Howard	0	30	0	30	38	-8	-20.6%
Kent	0	0	0	0	0	0	n/a
Montgomery	0	11	0	11	2,690	-2,678	-99.6%
Prince George's	21,714	37	0	21,751	26,642	-4,891	-18.4%
Queen Anne's	0	31	0	31	33	-1	-4.1%
St. Mary's	0	10	0	10	12	-3	-20.6%
Somerset	4,371	0	0	4,371	4,451	-80	-1.8%
Talbot	0	16	0	16	20	-4	-20.6%
Washington	0	0	0	0	345	-345	-100.0%
Wicomico	742	10	0	751	12	739	6006.0%
Worcester	0	12	0	12	15	-3	-20.6%
Total	\$115,490	\$2,195	\$3,075	\$120,760	\$149,512	-\$28,753	-19.2%

A00 – Payments to Civil Divisions of the State

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 for most counties is the third largest revenue source 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 2009, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) qualify for disparity grants.

The disparity grant program provides noncategorical State aid to low-wealth 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, thereby alleviating potential fiscal stress. The disparity in local tax capacities among counties in Maryland is illustrated in **Exhibit 5** which shows the per capita local wealth amounts for each county for fiscal 2009.

Funding History

State funding for the Disparity Grant Program began in fiscal 1992 when grants were provided to counties where 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 which totaled \$8.5 million in fiscal 1992. Legislation enacted in 1992 placed the disparity grant formula in statute for fiscal 1993 and subsequent years. The program was enhanced in 1996 when legislation was enacted to provide disparity grants to counties where per capita local income tax revenues were less than 75% of the statewide average, rather than 70%. The enhancement became effective in fiscal 1998 and made Washington and Wicomico counties eligible to receive disparity grants. State funding for disparity grants increased considerably in fiscal 2001 when Prince George's County became eligible for the program.

The growth in local income tax receipts in recent years has made two counties ineligible to receive disparity grant funding for certain fiscal years due to the fact that their per capita local income tax receipts exceeded 75% of the statewide average. Both counties have consistently been on the "edge" of qualifying for the program. Washington County became ineligible to receive disparity grants in fiscal 2001 but qualified for funding in the following year only to become ineligible again in fiscal 2005. Wicomico County became ineligible to receive disparity grants in fiscal 2007 but will qualify for funding in fiscal 2009. **Exhibit 6** shows State funding for the disparity grant program since it was established in fiscal 1992.

Exhibit 5
Local Wealth Calculation
Fiscal 2009

County	Per Capita Property Base	Per Capita Income Base	Per Capita Total Wealth	Percent of State Avg.	Per Capita Ranking	Local Wealth Base	
						% Property	% Income
Allegany	\$17,426	\$11,303	\$28,729	43.0%	24	60.7%	39.3%
Anne Arundel	57,015	23,297	80,312	120.1%	6	71.0%	29.0%
Baltimore City	19,067	10,500	29,568	44.2%	23	64.5%	35.5%
Baltimore	37,027	20,762	57,789	86.4%	15	64.1%	35.9%
Calvert	53,848	21,141	74,989	112.1%	7	71.8%	28.2%
Caroline	30,679	12,323	43,002	64.3%	20	71.3%	28.7%
Carroll	42,517	20,233	62,750	93.8%	12	67.8%	32.2%
Cecil	37,610	15,428	53,038	79.3%	16	70.9%	29.1%
Charles	46,227	17,884	64,111	95.8%	11	72.1%	27.9%
Dorchester	36,373	12,511	48,884	73.1%	19	74.4%	25.6%
Frederick	47,898	21,550	69,448	103.8%	8	69.0%	31.0%
Garrett	52,804	12,332	65,136	97.4%	10	81.1%	18.9%
Harford	38,689	19,731	58,420	87.3%	13	66.2%	33.8%
Howard	62,247	28,427	90,674	135.6%	4	68.6%	31.4%
Kent	51,161	17,338	68,499	102.4%	9	74.7%	25.3%
Montgomery	79,525	28,899	108,424	162.1%	3	73.3%	26.7%
Prince George's	35,692	13,993	49,685	74.3%	17	71.8%	28.2%
Queen Anne's	63,946	21,423	85,369	127.6%	5	74.9%	25.1%
St. Mary's	40,010	17,890	57,900	86.6%	14	69.1%	30.9%
Somerset	22,066	8,324	30,390	45.4%	22	72.6%	27.4%
Talbot	88,231	24,564	112,795	168.6%	2	78.2%	21.8%
Washington	33,734	15,480	49,214	73.6%	18	68.5%	31.5%
Wicomico	28,072	14,775	42,847	64.1%	21	65.5%	34.5%
Worcester	142,742	18,715	161,457	241.4%	1	88.4%	11.6%
Total	\$47,137	\$19,753	\$66,890	100.0%		70.5%	29.5%

Source: Department of Legislative Services

Exhibit 6
Disparity Grant Program – Funding History
Fiscal 1992-2000

County	1992	1993	1994	1995	1996	1997	1998	1999	2000
Allegany	\$370,000	\$1,281,750	\$1,637,429	\$1,987,382	\$2,032,596	\$2,375,837	\$3,592,611	\$3,885,677	\$4,206,580
Anne Arundel	0	0	0	0	0	0	0	0	0
Baltimore City	7,396,000	18,344,250	29,695,890	34,822,600	37,027,987	37,608,294	50,506,101	51,473,147	56,517,265
Baltimore	0	0	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0	0	0
Caroline	109,000	381,750	612,812	852,456	818,556	901,235	1,493,402	1,625,590	1,834,748
Carroll	0	0	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0	0	0
Charles	0	0	0	0	0	0	0	0	0
Dorchester	86,000	406,500	647,687	881,526	843,047	957,817	1,290,582	1,357,021	1,462,155
Frederick	0	0	0	0	0	0	0	0	0
Garrett	243,000	882,750	1,413,266	1,420,854	1,428,125	1,458,779	2,029,289	2,177,813	2,326,328
Harford	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0	0	0
Prince George's	0	0	0	0	0	0	0	0	0
Queen Anne's	0	0	0	0	0	0	0	0	0
St. Mary's	0	0	0	0	0	0	0	0	0
Somerset	344,000	1,203,000	2,067,096	2,272,400	2,097,023	2,211,700	2,734,070	2,954,585	3,246,259
Talbot	0	0	0	0	0	0	0	0	0
Washington	0	0	0	0	0	0	229,353	195,976	207,670
Wicomico	0	0	0	0	0	0	150,295	446,216	577,823
Worcester	0	0	0	0	0	0	0	0	0
Total	\$8,548,000	\$22,500,000	\$36,074,180	\$42,237,218	\$44,247,334	\$45,513,662	\$62,025,703	\$64,116,025	\$70,378,828

Exhibit 6 (Continued)
Disparity Grant Program – Funding History
Fiscal 2001-2009

County	2001	2002	2003	2004	2005	2006	2007	2008	2009
Allegany	\$5,099,138	\$5,264,420	\$7,590,374	\$7,505,173	\$5,901,718	\$6,100,040	\$7,345,435	\$6,971,337	\$6,742,870
Anne Arundel	0	0	0	0	0	0	0	0	0
Baltimore City	61,013,229	64,361,931	76,035,628	75,060,702	69,559,286	69,695,420	76,002,034	78,160,604	75,524,256
Baltimore	0	0	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0	0	0
Caroline	2,170,977	2,316,232	2,456,358	2,149,120	1,814,313	1,889,377	1,838,418	1,912,848	2,253,325
Carroll	0	0	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0	0	0
Charles	0	0	0	0	0	0	0	0	0
Dorchester	1,668,683	1,928,463	1,854,882	2,344,457	1,890,562	2,032,786	1,493,893	2,088,839	2,130,708
Frederick	0	0	0	0	0	0	0	0	0
Garrett	2,585,412	2,999,791	3,010,417	4,589,226	2,716,755	2,039,677	2,307,278	2,089,259	2,012,030
Harford	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0	0	0
Prince George's	4,775,506	6,879,315	14,753,100	6,792,727	5,509,803	9,762,389	15,962,593	19,110,236	21,714,314
Queen Anne's	0	0	0	0	0	0	0	0	0
St. Mary's	0	0	0	0	0	0	0	0	0
Somerset	3,524,771	3,754,928	4,288,581	4,347,556	3,752,653	3,732,513	4,500,748	4,450,729	4,370,509
Talbot	0	0	0	0	0	0	0	0	0
Washington	0	676,132	1,987,118	213,559	0	0	0	0	0
Wicomico	788,963	1,108,345	3,203,426	2,828,900	1,957,309	1,325,931	0	0	741,624
Worcester	0	0	0	0	0	0	0	0	0
Total	\$81,626,679	\$89,289,557	\$115,179,884	\$105,831,420	\$93,102,399	\$96,578,133	\$109,450,399	\$114,783,852	\$115,489,636

Source: Department of Legislative Services; October 2007

Funding in Fiscal 2009

Baltimore City and six counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, and Somerset) qualified for disparity grant funding in fiscal 2008; Wicomico County will add to this list and qualify for funding in fiscal 2009. State funding for disparity grants under current law will total \$114.8 million in fiscal 2008 and \$115.5 million in fiscal 2009. This represents a \$0.7 million, or 0.6%, increase over the prior year. The fiscal 2009 grant under statute is based on population estimates for July 2006 and calendar 2006 local income tax revenues raised from a 2.54% local income tax rate. **Exhibit 7** shows the calculation of the fiscal 2009 disparity grant. The slight increase in disparity grant funding in fiscal 2009 is due to the reduction in the disparity in local income wealth among the counties, as shown in **Exhibit 8**.

Baltimore City Grant

Legislation adopted at the 2007 special session (Chapter 6) established a new grant to Baltimore City totaling \$3.1 million. This grant replaces an existing grant based on a share of security interest filing fee revenue that was repealed at the special session. Since fiscal 1998, Baltimore City has received a grant equal to \$5 of each security interest-filing fee collected by the Motor Vehicle Administration which was pursuant to legislation enacted in 1996 that revised the allocation of highway user revenues between Baltimore City and the other subdivisions.

**Exhibit 7
Disparity Grant Calculation
Fiscal 2009**

County	Population July 2006	TY 2006 Adjusted Income Tax Revenues	Per Capita Tax Yield	Per Capita Grant	Total Grant	Prior Year Grant	Difference	Percent Difference
Allegany	72,831	\$20,118,657	\$276.24	\$92.58	\$6,742,870	\$6,971,337	-\$228,467	-3.3%
Anne Arundel	509,300	297,651,819	584.43	0.00	0	0	0	
Baltimore City	631,366	157,336,128	249.20	119.62	75,524,256	78,160,604	-2,636,347	-3.4%
Baltimore	787,384	407,515,159	517.56	0.00	0	0	0	
Calvert	88,804	47,091,246	530.28	0.00	0	0	0	
Caroline	32,617	9,776,476	299.74	69.08	2,253,325	1,912,848	340,477	17.8%
Carroll	170,260	86,438,212	507.68	0.00	0	0	0	
Cecil	99,506	38,127,828	383.17	0.00	0	0	0	
Charles	140,416	62,660,915	446.25	0.00	0	0	0	
Dorchester	31,631	9,535,436	301.46	67.36	2,130,708	2,088,839	41,869	2.0%
Frederick	222,938	120,426,194	540.18	0.00	0	0	0	
Garrett	29,859	9,000,565	301.44	67.38	2,012,030	2,089,259	-77,229	-3.7%
Harford	241,402	119,153,097	493.59	0.00	0	0	0	
Howard	272,452	195,118,977	716.16	0.00	0	0	0	
Kent	19,983	8,598,065	430.27	0.00	0	0	0	
Montgomery	932,131	677,306,890	726.62	0.00	0	0	0	
Prince George's	841,315	288,579,452	343.01	25.81	21,714,314	19,110,236	2,604,078	13.6%
Queen Anne's	46,241	24,815,275	536.65	0.00	0	0	0	
St. Mary's	98,854	44,141,903	446.54	0.00	0	0	0	
Somerset	25,774	5,135,457	199.25	169.57	4,370,509	4,450,729	-80,220	-1.8%
Talbot	36,062	22,132,728	613.74	0.00	0	0	0	
Washington	143,748	55,075,535	383.14	0.00	0	0	0	
Wicomico	91,987	33,185,017	360.76	8.06	741,624	0	741,624	
Worcester	48,866	22,668,592	463.89	0.00	0	0	0	
Total	5,615,727	\$2,761,589,623	\$491.76	\$0.00	\$115,489,636	\$114,783,851	\$705,785	0.6%
		<i>Target (75%)</i>	<i>\$368.82</i>					

Source: Department of Legislative Services

Exhibit 8
Disparity Grant Components
Fiscal 2009

County	Adjusted Local Tax Revenues			Population			Per Capita Tax Revenues		
	TY 2005	TY 2006	% Chg.	July 2005	July 2006	% Chg.	TY 2005	TY 2006	% Chg.
Allegany	\$18,938,960	\$20,118,657	6.2%	73,639	72,831	-1.1%	\$257.19	\$276.24	7.4%
Anne Arundel	283,274,944	297,651,819	5.1%	510,878	509,300	-0.3%	554.49	584.43	5.4%
Baltimore City	145,554,484	157,336,128	8.1%	635,815	631,366	-0.7%	228.93	249.20	8.9%
Baltimore	394,636,763	407,515,159	3.3%	786,113	787,384	0.2%	502.01	517.56	3.1%
Calvert	44,089,720	47,091,246	6.8%	87,925	88,804	1.0%	501.45	530.28	5.8%
Caroline	9,283,902	9,776,476	5.3%	31,822	32,617	2.5%	291.74	299.74	2.7%
Carroll	82,625,923	86,438,212	4.6%	168,541	170,260	1.0%	490.24	507.68	3.6%
Cecil	36,383,309	38,127,828	4.8%	97,796	99,506	1.7%	372.03	383.17	3.0%
Charles	60,633,269	62,660,915	3.3%	138,822	140,416	1.1%	436.77	446.25	2.2%
Dorchester	8,959,780	9,535,436	6.4%	31,401	31,631	0.7%	285.33	301.46	5.7%
Frederick	113,646,621	120,426,194	6.0%	220,701	222,938	1.0%	514.93	540.18	4.9%
Garrett	8,434,391	9,000,565	6.7%	29,909	29,859	-0.2%	282.00	301.44	6.9%
Harford	113,299,753	119,153,097	5.2%	239,259	241,402	0.9%	473.54	493.59	4.2%
Howard	185,343,437	195,118,977	5.3%	269,457	272,452	1.1%	687.84	716.16	4.1%
Kent	7,563,266	8,598,065	13.7%	19,899	19,983	0.4%	380.08	430.27	13.2%
Montgomery	638,226,443	677,306,890	6.1%	927,583	932,131	0.5%	688.05	726.62	5.6%
Prince George's	278,602,906	288,579,452	3.6%	846,123	841,315	-0.6%	329.27	343.01	4.2%
Queen Anne's	24,178,027	24,815,275	2.6%	45,612	46,241	1.4%	530.08	536.65	1.2%
St. Mary's	41,499,383	44,141,903	6.4%	96,518	98,854	2.4%	429.97	446.54	3.9%
Somerset	4,642,980	5,135,457	10.6%	25,845	25,774	-0.3%	179.65	199.25	10.9%
Talbot	20,960,388	22,132,728	5.6%	35,683	36,062	1.1%	587.41	613.74	4.5%
Washington	52,082,430	55,075,535	5.7%	141,895	143,748	1.3%	367.05	383.14	4.4%
Wicomico	31,875,863	33,185,017	4.1%	90,402	91,987	1.8%	352.60	360.76	2.3%
Worcester	22,633,795	22,668,592	0.2%	48,750	48,866	0.2%	464.28	463.89	-0.1%
Total	\$2,627,370,738	\$2,761,589,623	5.1%	5,600,388	5,615,727	0.3%	\$469.14	\$491.76	4.8%

Source: Department of Legislative Service

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 fiscal 2009 budget includes \$2.2 million for employer retirement costs associated with these locally paid officials and employees. The amount is based on the June 30, 2007, salary base for these employees increased by 5%. No growth factor is applied to the salary base for judges. **Exhibit 9** shows the calculation with the updated retirement contribution rates for fiscal 2009. This is similar to the approach used to determine the State retirement payments for local teachers, community college faculty, and librarians. **Exhibit 10** shows the employer contributions allocated on a county-by-county basis in fiscal 2009. Baltimore City accounts for 75% of the individuals eligible to receive State paid retirement benefits under this program.

Exhibit 9 Computations of Retirement Costs in Fiscal 2009

<u>Retirement System</u>	<u>Salary Base June 30, 2007</u>	<u>Increased by 5%</u>	<u>Contribution Rate</u>	<u>Total Cost</u>
Employees Retirement/Pension	\$4,555,686	\$4,783,470	8.73%	\$417,597
Law Enforcement Officers Retirement/Pension	4,193,062	4,402,715	36.99%	1,628,564
Orphans’ Court Judges ¹	341,065	341,065	43.61%	148,738
Total	\$9,089,813	\$9,527,250		\$2,194,900

¹ Fiscal 2007 amount for orphans’ court judges is not increased by 5%.

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

Source: State Retirement Agency

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 10
State Paid Retirement Costs for Locally Paid Officials and Employees in Fiscal 2009

County	Number of Individuals	Percent of Total	Allocation of State Aid	Type of Position
Allegany	2	1.0%	\$14,818	Sheriff, State's Attorney
Anne Arundel	2	1.0%	34,568	Sheriff, Master Judge
Baltimore City	152	75.6%	1,855,561	Sheriff Deputies (145), Master Judges (7)
Baltimore	3	1.5%	23,377	Sheriff, State's Attorney, Master Judge
Calvert	0	0.0%	0	None
Caroline	1	0.5%	9,002	State's Attorney
Carroll	5	2.5%	40,441	State's Attorney, Orphans' Ct. Judges (3), Master Judge
Cecil	2	1.0%	16,762	State's Attorney, County Treasurer
Charles	0	0.0%	0	None
Dorchester	2	1.0%	33,353	Sheriff, State's Attorney
Frederick	0	0.0%	0	None
Garrett	4	2.0%	9,689	State's Attorney, License and Liquor Board (2), County Commissioner
Harford	0	0.0%	0	None
Howard	5	2.5%	30,287	Sheriff, State's Attorney, Orphans' Ct. Judges (2), Master Judge
Kent	0	0.0%	0	None
Montgomery	1	0.5%	11,458	Sheriff
Prince George's	2	1.0%	36,855	State's Attorney, Master Judge
Queen Anne's	5	2.5%	31,434	Sheriff, State's Attorney, Orphans' Ct. Judges (3)
St. Mary's	1	0.5%	9,776	State's Attorney
Somerset	0	0.0%	0	None
Talbot	2	1.0%	15,877	Sheriff, State's Attorney
Washington	0	0.0%	0	None
Wicomico	1	0.5%	9,776	State's Attorney
Worcester	11	5.5%	11,866	State's Attorney, Orphans' Ct. Judges (2), Misc. Boards (8)
Total	201	100.0%	\$2,194,900	

Source: Department of Budget and Management; State Retirement Agency

Electric Utility Grants

Legislation adopted at the 2007 special session (Chapter 2) repealed a State grant designed to partially offset the loss of local revenue resulting from a statewide 50% personal property tax exemption for machinery and equipment used to generate electricity. The legislation, however, authorizes counties to increase the percent of the equipment and machinery that is subject to taxation to 65% in fiscal 2009. This percent decreases five percentage points per year until it returns to 50% in fiscal 2012. Counties are also authorized to enter into agreements with the owners of electricity-generating facilities for payments in lieu of taxes. The legislation also allows a county to exclude property tax revenues equal to the amount the county would have received under the State grant from the calculation of the county's property tax revenues for property tax limit purposes.

Legislation enacted in 1999 restructured Maryland's electric utility tax system. As part of the legislation, a personal property tax exemption for electricity-generating equipment was phased in at 25% in fiscal 2001 and 50% in fiscal 2002 and thereafter, and State grants were provided to counties to partially offset the loss of local revenue that would result from the exemption. **Exhibit 11** shows the grant amounts as specified in statute. Numerous proposals to eliminate the State grants have been considered since 2002 but have been unsuccessful. The grants have, however, been reduced for cost containment purposes by the Board of Public Works; grants were cut by \$4.4 million in fiscal 2004 and by \$1.0 million in fiscal 2008.

Exhibit 11
Electric Utility Generating Equipment Property Tax Grants
Scheduled Grant Amounts

<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

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 2007					
Legislative Appropriation	\$145,034	\$0	\$0	\$0	\$145,034
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	-239	0	0	0	-239
Actual Expenditures	\$144,794	\$0	\$0	\$0	\$144,794
Fiscal 2008					
Legislative Appropriation	\$150,512	\$0	\$0	\$0	\$150,512
Cost Containment	-1,000	0	0	0	-1,000
Budget Amendments	0	0	0	0	0
Working Appropriation	\$149,512	\$0	\$0	\$0	\$149,512

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

Fiscal Summary
Payments to Civil Divisions of the State

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
1K Payments to Civil Divisions of the State	\$ 0	\$ 0	\$ 3,075,000	\$ 3,075,000	0%
5O Payments to Civil Divisions of the State	109,450,400	114,783,852	115,489,636	705,784	0.6%
8R Payments to Civil Divisions of the State	2,885,858	2,925,000	0	-2,925,000	-100.0%
9S Payments to Civil Divisions of the State	1,843,023	2,188,307	2,194,900	6,593	0.3%
0T Payments to Civil Divisions of the State	30,615,201	29,615,201	0	-29,615,201	-100.0%
Total Expenditures	\$ 144,794,482	\$ 149,512,360	\$ 120,759,536	-\$ 28,752,824	-19.2%
General Fund	\$ 144,794,482	\$ 149,512,360	\$ 120,759,536	-\$ 28,752,824	-19.2%
Total Appropriations	\$ 144,794,482	\$ 149,512,360	\$ 120,759,536	-\$ 28,752,824	-19.2%

Note: The fiscal 2008 appropriation does not include deficiencies.