

A00
Payments to Civil Divisions of the State

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$149,218	\$120,760	\$126,985	\$6,226	5.2%
Adjusted General Fund	\$149,218	\$120,760	\$126,985	\$6,226	5.2%
Adjusted Grand Total	\$149,218	\$120,760	\$126,985	\$6,226	5.2%

- Funding for the disparity grant increases by \$5.9 million (5.1%) to a level of \$121.4 million in the fiscal 2010 allowance. Funding is provided for the same jurisdictions, Baltimore City and seven counties, which received funding in fiscal 2009. Grants are provided to jurisdictions with per capita local income tax revenue below 75.0% of the statewide average.
- Retirement contributions for certain local employees increases by \$0.3 million (12.7%), totaling \$2.5 million in 2010. Growth is based on higher actuarial contribution rates, additional participants, and assumed salary growth of 5.5%.

Analysis in Brief

Issues

Fiscal Conditions Merit Reexamination of Aid Programs: A prolonged recession has curtailed general fund revenues, and despite numerous budget balancing actions, the State continues to face a structural deficit in excess of \$1.0 billion. The affordability of the three programs funded in the program is discussed. **The Department of Legislative Services recommends abolishing the disparity grant program, in lieu of redistribution of local income tax revenue. Growth of retirement contributions outpaces State revenue growth, thus the program should be funded by counties with participating employees. Deletion of the grant to Baltimore City is also recommended.**

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

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Recommended Actions

	<u>Funds</u>
1. Delete funding for grant to Baltimore City.	\$ 3,075,000
2. Delete funding for disparity grants.	121,436,013
3. Delete funding for retirement costs for certain local officials.	2,474,304
Total Reductions	\$ 126,985,317

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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 jurisdictions; retirement costs for certain local officials and employees; and a special grant to Baltimore City.

Proposed Budget

The Governor's allowance for Payments to Civil Divisions will total \$127.0 million in fiscal 2010, representing a \$6.2 million, or 5.2%, increase above the fiscal 2009 working appropriation. Disparity grants account for the largest share of the three programs within this budget, totaling \$121.4 million. This is a \$5.9 million, or 5.1%, increase over the prior year. State-paid retirement costs for participating locally paid officials and employees total \$2.5 million in fiscal 2010, a 12.7% increase. There is no increase for the \$3.1 million grant to Baltimore City, which represents a fixed amount established by Chapter 2 of the 2007 special session. **Exhibit 1** illustrates the change in funding between fiscal 2009 and 2010. **Exhibit 2** shows the funding amounts for each jurisdiction.

Exhibit 1
Proposed Budget
Payments to Civil Divisions of the State
(\$ in Thousands)

How Much It Grows:	General Fund	Total
2009 Working Appropriation	\$120,760	\$120,760
2010 Allowance	<u>126,985</u>	<u>126,985</u>
Amount Change	\$6,226	\$6,226
Percent Change	5.2%	5.2%

Where It Goes:

Grants

Increase in disparity grants	\$5,946
Increase in retirement contributions for certain local officials	279
Total	\$6,226

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

Exhibit 2
State Funding for Payments to Civil Divisions
Fiscal 2010
(\$ in Thousands)

County	Disparity Grants	Retirement Payments	Miscellaneous Grants	Total Aid FY 2010	Total Aid FY 2009	Difference	Percent Difference
Allegany	\$7,299	\$17	\$0	\$7,316	\$6,756	\$559	8.3%
Anne Arundel	0	39	0	39	39	0	0.0%
Baltimore City	79,052	2,172	3,075	84,299	80,535	3,763	4.7%
Baltimore	0	29	0	29	23	6	25.1%
Calvert	0	0	0	0	0	0	0.0%
Caroline	2,132	11	0	2,142	2,262	-119	-5.3%
Carroll	0	46	0	46	45	0	0.4%
Cecil	0	20	0	20	16	4	25.1%
Charles	0	0	0	0	0	0	0.0%
Dorchester	2,023	10	0	2,033	2,139	-106	-5.0%
Frederick	0	0	0	0	0	0	0.0%
Garrett	2,131	11	0	2,143	2,021	122	6.0%
Harford	0	0	0	0	0	0	0.0%
Howard	0	23	0	23	19	5	25.1%
Kent	0	0	0	0	0	0	0.0%
Montgomery	0	14	0	14	11	3	25.1%
Prince George's	21,695	13	0	21,708	21,725	-17	-0.1%
Queen Anne's	0	13	0	13	11	3	25.1%
St. Mary's	0	11	0	11	9	2	25.1%
Somerset	4,908	0	0	4,908	4,371	538	12.3%
Talbot	0	19	0	19	15	4	25.1%
Washington	0	0	0	0	0	0	0.0%
Wicomico	2,197	12	0	2,209	751	1,458	194.1%
Worcester	0	15	0	15	12	3	25.1%
Total	\$121,436	\$2,474	\$3,075	\$126,985	\$120,760	\$6,226	5.2%

Source: Department of Legislative Services

Disparity Grants

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 75.0% of the statewide average receive grants, unless a county has an income tax rate below 2.4%. Aid received by a county equals the dollar amount necessary to raise the county's per capita income tax revenues to 75.0% of the statewide average. In fiscal 2010, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) qualify for 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. The disparity in local tax capacities among counties in Maryland is illustrated in **Exhibit 3** which shows the per capita local wealth amounts for each county for fiscal 2010.

Funding History

State funding targeted to the disparity in local income tax capacity was first enacted via Chapter 525 of 1991, which repealed the sales and use tax exemption for cigarettes and dedicated the revenue to the six jurisdictions whose local income tax was below 67% 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. This program was repealed and reenacted by Chapter 2 of the First Special Session of 1992 to establish a mandated annual grant to counties where per capita local income tax revenues were less than 70% of the statewide average.

Chapter 173 of 1996 enhanced the program to provide disparity grants to jurisdictions where per capita local income tax revenues were less than 75% of the statewide average, rather than 70%. It became effective in fiscal 1998, and the result of this change was that Washington and Wicomico counties became eligible to receive disparity grants. In fiscal 2001, Prince George's County became eligible for the program. **Appendix 2** shows funding for the disparity grant program for each county since its inception.

Funding in Fiscal 2010

Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) qualified for disparity grant funding in fiscal 2009 and continue to qualify in fiscal 2010. State funding under current law totals \$115.5 million in fiscal 2009 and \$121.4 million in fiscal 2010. This represents a \$5.9 million, or 5.1%, increase over the prior year. The fiscal 2010 grant under statute is based on population estimates for July 2007 and calendar 2007 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%. **Exhibit 4** shows the calculation of the fiscal 2010 disparity grant.

**Exhibit 3
Local Wealth Calculations
Fiscal 2010**

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	\$18,613	\$11,980	\$30,593	41.7%	24	60.8%	39.2%
Anne Arundel	64,758	24,664	89,422	121.8%	6	72.4%	27.6%
Baltimore City	21,904	11,311	33,215	45.2%	23	65.9%	34.1%
Baltimore	41,995	22,275	64,269	87.5%	15	65.3%	34.7%
Calvert	59,288	22,027	81,315	110.7%	7	72.9%	27.1%
Caroline	35,374	13,484	48,857	66.5%	20	72.4%	27.6%
Carroll	48,435	21,821	70,256	95.7%	12	68.9%	31.1%
Cecil	42,609	16,992	59,601	81.2%	16	71.5%	28.5%
Charles	53,716	18,827	72,543	98.8%	11	74.0%	26.0%
Dorchester	41,240	13,672	54,912	74.8%	19	75.1%	24.9%
Frederick	53,872	22,825	76,697	104.5%	8	70.2%	29.8%
Garrett	59,739	13,171	72,910	99.3%	10	81.9%	18.1%
Harford	44,224	21,064	65,288	88.9%	13	67.7%	32.3%
Howard	70,273	30,299	100,572	137.0%	4	69.9%	30.1%
Kent	58,791	18,398	77,188	105.1%	9	76.2%	23.8%
Montgomery	80,866	30,743	111,609	152.0%	3	72.5%	27.5%
Prince George's	43,154	14,923	58,077	79.1%	17	74.3%	25.7%
Queen Anne's	72,611	22,264	94,875	129.2%	5	76.5%	23.5%
St. Mary's	46,556	19,244	65,800	89.6%	14	70.8%	29.2%
Somerset	25,471	8,561	34,033	46.3%	22	74.8%	25.2%
Talbot	101,474	26,949	128,423	174.9%	2	79.0%	21.0%
Washington	38,427	16,041	54,467	74.2%	18	70.5%	29.5%
Wicomico	31,063	15,145	46,207	62.9%	21	67.2%	32.8%
Worcester	166,173	19,267	185,440	252.5%	1	89.6%	10.4%
Total	\$52,385	\$21,042	\$73,427	100.0%		71.3%	28.7%

Note: Local wealth equals the sum of 40% of the fiscal 2009 real property assessable base, 50% of the fiscal 2009 personal property assessable base, and 100% of net taxable income in tax year 2007. Population is for July 1, 2007.

Source: Department of Legislative Services

**Exhibit 4
Disparity Grant Calculation
Fiscal 2010**

County	TY 2007		Per Capita Tax Yield	Per Capita Grant	Total Grant	Prior Year Grant	Difference	Percent Difference
	Population July 2007	Adjusted Income Tax Revenues						
Allegany	72,594	\$21,232,521	\$292.48	\$100.54	\$7,298,505	\$6,742,870	\$555,635	8.2%
Anne Arundel	512,154	316,835,374	618.63	0.00	0	0	0	
Baltimore City	637,455	171,481,933	269.01	124.01	79,051,790	75,524,256	3,527,534	4.7%
Baltimore	788,994	438,202,683	555.39	0.00	0	0	0	
Calvert	88,223	48,682,462	551.81	0.00	0	0	0	
Caroline	32,910	10,802,566	328.25	64.78	2,131,782	2,253,325	-121,542	-5.4%
Carroll	169,220	92,631,661	547.40	0.00	0	0	0	
Cecil	99,695	42,087,401	422.16	0.00	0	0	0	
Charles	140,444	65,934,724	469.47	0.00	0	0	0	
Dorchester	31,846	10,493,483	329.51	63.51	2,022,690	2,130,708	-108,018	-5.1%
Frederick	224,705	128,572,707	572.18	0.00	0	0	0	
Garrett	29,627	9,512,786	321.09	71.94	2,131,271	2,012,030	119,241	5.9%
Harford	239,993	126,400,958	526.69	0.00	0	0	0	
Howard	273,669	208,896,739	763.32	0.00	0	0	0	
Kent	19,987	9,121,916	456.39	0.00	0	0	0	
Montgomery	930,813	719,747,571	773.25	0.00	0	0	0	
Prince George's	828,770	304,029,925	366.84	26.18	21,694,767	21,714,314	-19,547	-0.1%
Queen Anne's	46,571	25,966,526	557.57	0.00	0	0	0	
St. Mary's	100,378	48,213,262	480.32	0.00	0	0	0	
Somerset	26,016	5,316,689	204.36	188.66	4,908,167	4,370,509	537,658	12.3%
Talbot	36,193	24,395,252	674.03	0.00	0	0	0	
Washington	145,113	57,496,241	396.22	0.00	0	0	0	
Wicomico	93,600	34,589,802	369.55	23.47	2,197,041	741,624	1,455,416	196.2%
Worcester	49,374	23,530,515	476.58	0.00	0	0	0	
Total	5,618,344	\$2,944,175,695	\$524.03	\$0.00	\$121,436,013	\$115,489,636	\$5,946,377	5.1%
		<i>Target (75%)</i>	<i>\$393.02</i>					

TY: tax year

Source: Department of Legislative Services

Exhibit 5 compares year-over-year changes in income tax revenues and population by county, which represent the components that drive the disparity grant formula. Grant amounts in fiscal 2010 decrease in Caroline, Dorchester, and Prince George’s counties as a combination of either declining or level population coupled with wealth growth increased the wealth per capita in those jurisdictions. Moderate growth in grant levels is seen in Baltimore City, Allegany, and Garrett counties. Allegany and Garrett experience small declines in population with below average growth in wealth, while in Baltimore City a 9% increase in income tax revenues is tempered by 1% population growth. Finally, higher grant increases are seen in Somerset and Wicomico counties due to nominal population growth and below average income tax revenue increases.

Baltimore City Grant

Chapter 6 of the 2007 special session established a new mandated general fund grant of \$3,075,000 for Baltimore City, replacing an existing grant program that was based on a share of security interest filing fee revenue. Since fiscal 1998, Baltimore City has received a grant equal to \$5 of each security interest filing fee collected by the Motor Vehicle Administration pursuant to Chapter 163 of 1996 that revised the allocation of highway user revenues between Baltimore City and the other subdivisions.

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. Over the years, judicial decisions and Attorney General opinions have interpreted these provisions to include the following officials:

- County Treasurers;
- County Commissioners;
- Orphans’ Court Judges;
- Bingo Board members; and
- Liquor and License Board members.

The fiscal 2010 budget includes \$2.5 million for employer retirement costs associated with these locally paid officials and employees. The amount is based on the June 30, 2008 salary base for these employees, increased by 5.5%. No growth factor is applied to the salary base for Master Judges. Per Chapter 779 of 1989, the State only pays for Master Judge salaries as of January 1, 1989, and the local jurisdictions pay for the difference between current salaries and the salaries as of January 1, 1989. Funding for fiscal 2010 is lower because there is one less Master Judge in Prince George’s County. Ultimately, the State’s contributions will be reduced to zero as Master Judges hired prior to January 1, 1989, either retire or otherwise leave State service.

**Exhibit 5
Disparity Grant Components
Fiscal 2010**

County	Adjusted Local Tax Revenues			Population			Per Capita Tax Revenues		
	TY 2006	TY 2007	% Chg.	July 2006	July 2007	% Chg.	TY 2006	TY 2007	% Chg.
Allegany	\$20,118,657	\$21,232,521	5.5%	72,831	72,594	-0.3%	\$276.24	\$292.48	5.9%
Anne Arundel	297,651,819	316,835,374	6.4%	509,300	512,154	0.6%	584.43	618.63	5.9%
Baltimore City	157,336,128	171,481,933	9.0%	631,366	637,455	1.0%	249.20	269.01	7.9%
Baltimore	407,515,159	438,202,683	7.5%	787,384	788,994	0.2%	517.56	555.39	7.3%
Calvert	47,091,246	48,682,462	3.4%	88,804	88,223	-0.7%	530.28	551.81	4.1%
Caroline	9,776,476	10,802,566	10.5%	32,617	32,910	0.9%	299.74	328.25	9.5%
Carroll	86,438,212	92,631,661	7.2%	170,260	169,220	-0.6%	507.68	547.40	7.8%
Cecil	38,127,828	42,087,401	10.4%	99,506	99,695	0.2%	383.17	422.16	10.2%
Charles	62,660,915	65,934,724	5.2%	140,416	140,444	0.0%	446.25	469.47	5.2%
Dorchester	9,535,436	10,493,483	10.0%	31,631	31,846	0.7%	301.46	329.51	9.3%
Frederick	120,426,194	128,572,707	6.8%	222,938	224,705	0.8%	540.18	572.18	5.9%
Garrett	9,000,565	9,512,786	5.7%	29,859	29,627	-0.8%	301.44	321.09	6.5%
Harford	119,153,097	126,400,958	6.1%	241,402	239,993	-0.6%	493.59	526.69	6.7%
Howard	195,118,977	208,896,739	7.1%	272,452	273,669	0.4%	716.16	763.32	6.6%
Kent	8,598,065	9,121,916	6.1%	19,983	19,987	0.0%	430.27	456.39	6.1%
Montgomery	677,306,890	719,747,571	6.3%	932,131	930,813	-0.1%	726.62	773.25	6.4%
Prince George's	288,579,452	304,029,925	5.4%	841,315	828,770	-1.5%	343.01	366.84	6.9%
Queen Anne's	24,815,275	25,966,526	4.6%	46,241	46,571	0.7%	536.65	557.57	3.9%
St. Mary's	44,141,903	48,213,262	9.2%	98,854	100,378	1.5%	446.54	480.32	7.6%
Somerset	5,135,457	5,316,689	3.5%	25,774	26,016	0.9%	199.25	204.36	2.6%
Talbot	22,132,728	24,395,252	10.2%	36,062	36,193	0.4%	613.74	674.03	9.8%
Washington	55,075,535	57,496,241	4.4%	143,748	145,113	0.9%	383.14	396.22	3.4%
Wicomico	33,185,017	34,589,802	4.2%	91,987	93,600	1.8%	360.76	369.55	2.4%
Worcester	22,668,592	23,530,515	3.8%	48,866	49,374	1.0%	463.89	476.58	2.7%
Total	\$2,761,589,623	\$2,944,175,695	6.6%	5,615,727	5,618,344	0.0%	\$491.76	\$524.03	6.6%

TY: tax year

Source: Department of Legislative Services

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Exhibit 6 shows the calculation with the updated retirement contribution rates for fiscal 2010. This is similar to the approach used to determine the State’s retirement payments for local teachers, community college faculty, and librarians. **Exhibit 7** shows the employer contributions allocated on a county-by-county basis in fiscal 2010. Baltimore City accounts for nearly 79% of the individuals eligible to receive State paid retirement benefits under this program.

Exhibit 6
Computations of Retirement Costs in Fiscal 2010

<u>Retirement System</u>	<u>Salary Base June 30, 2008</u>	<u>Increased by 5.5%</u>	<u>Contribution Rate</u>	<u>Total Cost</u>
Employees Retirement/Pension	\$4,585,757	\$5,259,974	9.93%	\$522,315
Law Enforcement Officers Retirement/Pension	4,450,191	4,694,952	38.63%	1,813,660
State Share of Master Judges ¹	282,934	282,934	48.89%	138,326
Total	\$9,718,882	\$10,237,859		\$2,474,304

¹Fiscal 2008 salary base for Master Judges is capped at salary amounts, effective January 1, 1989.

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

Source: State Retirement Agency

Exhibit 7
State Paid Retirement Costs for Locally Paid Officials and Employees in Fiscal 2010

County	Number of Individuals	Percent of Total	Allocation of State Aid	Type of Position
Allegany	2	1.0%	\$17,040	Sheriff, State's Attorney
Anne Arundel	2	1.0%	39,265	Sheriff, Master Judge
Baltimore City	162	78.6%	2,171,743	Sheriff Deputies (155), Master Judges (7)
Baltimore	3	1.5%	28,734	Sheriff, State's Attorney, Master Judge
Calvert	0	0.0%	0	None
Caroline	1	0.5%	10,665	State's Attorney
Carroll	5	2.4%	45,587	State's Attorney, Orphans' Court Judges (3), Master Judge
Cecil	2	1.0%	20,260	State's Attorney, County Treasurer
Charles	0	0.0%	0	None
Dorchester	1	0.5%	10,288	State's Attorney
Frederick	0	0.0%	0	None
Garrett	4	1.9%	11,451	State's Attorney, License and Liquor Board (2), County Commissioner
Harford	0	0.0%	0	None
Howard	4	1.9%	23,214	Sheriff, State's Attorney, Orphans' Court Judges (2), Master Judge
Kent	0	0.0%	0	None
Montgomery	1	0.5%	13,523	Sheriff
Prince George's	1	0.5%	13,147	State's Attorney
Queen Anne's	4	1.9%	13,459	State's Attorney, Orphans' Court Judges (3)
St. Mary's	1	0.5%	11,173	State's Attorney
Somerset	0	0.0%	0	None
Talbot	2	1.0%	18,679	Sheriff, State's Attorney
Washington	0	0.0%	0	None
Wicomico	1	0.5%	11,574	State's Attorney
Worcester	10	4.9%	14,502	State's Attorney, Orphans' Court Judges (2), Misc. Boards (7)
Total	206	100.0%	\$2,474,304	

Source: Department of Budget and Management; State Retirement Agency

Issues

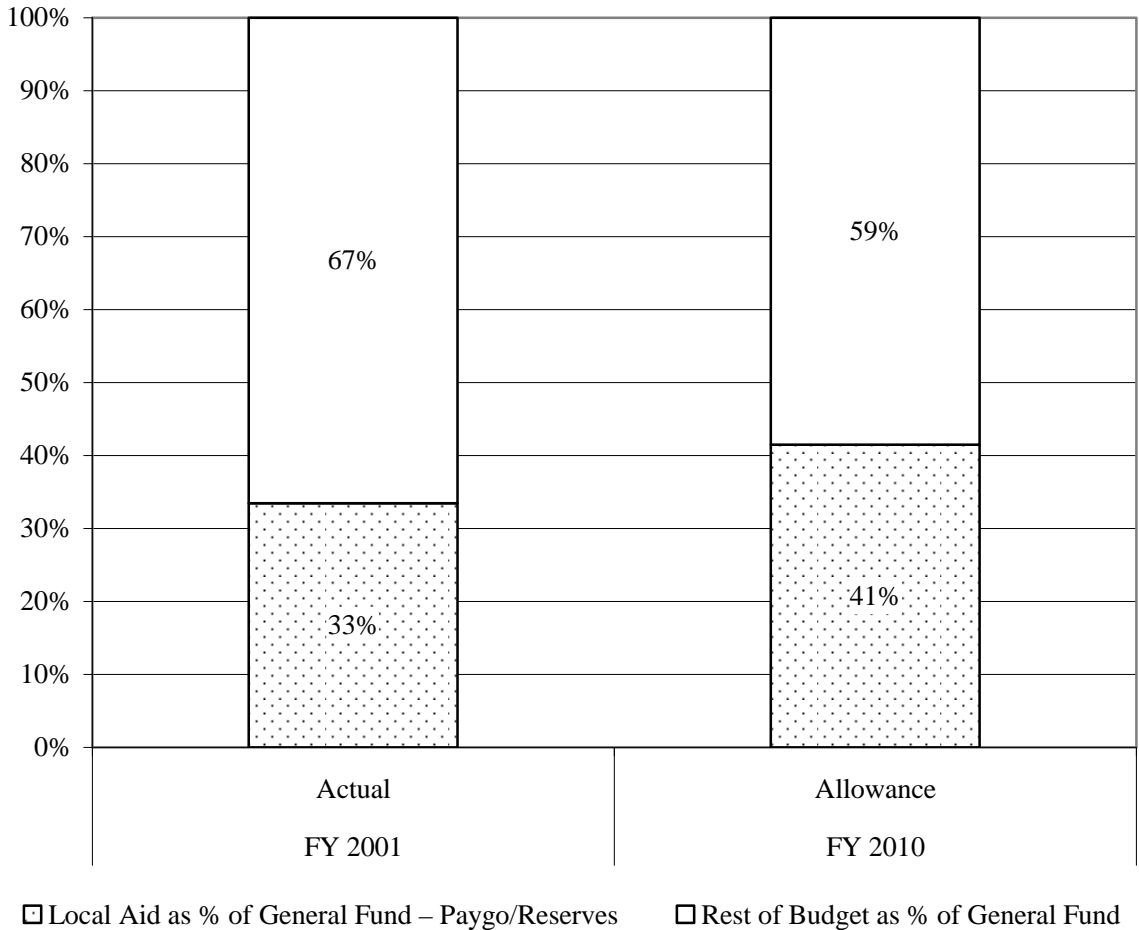
1. Fiscal Conditions Merit Reexamination of Aid Programs

The U.S. economy has been in recession since the end of calendar 2007, and a sizeable general fund structural deficit persists. The share of the general fund budget dedicated to local aid has increased significantly since 2001. To the extent that current and future budget solutions focus on State agency operations and entitlements, this upward trend will increase and make future budget balancing efforts more difficult. These events call into question the affordability of the three programs appropriated through the Payments to Civil Divisions of the State budget.

Economic Downturn Erodes Revenues: Between September and December 2008, the Board of Revenue Estimates revised its fiscal 2010 general fund revenue estimate downward by nearly \$1.0 billion. While the fiscal 2010 budget contains a number of budget balancing measures and there is the potential for significant federal aid, much of these actions are one-time or short-term in nature. The Department of Legislative Services estimates that the general fund structural deficit continues to exceed \$1.0 billion in fiscal 2010. The Department of Budget and Management's out-year forecast suggests that a cash shortfall of \$713 million is expected in fiscal 2011.

Local Aid Increases Its Share of General Fund Spending: Exhibit 8 illustrates the share of the general fund budget allocated to local aid programs and the remaining budget exclusive of the State Reserve Fund. Due chiefly to enhancements in education funding from Chapter 288 of 2002 (the Bridge to Excellence in Public Schools Act of 2002), the share of the budget allocated to local aid has grown from 33% of the general fund budget in fiscal 2001 to 41% in the fiscal 2010 allowance. The local aid share was 40% of the general fund budget but increases by one percentage point due to reductions implemented in fiscal 2009 and 2010, largely to State agency operations.

Exhibit 8
The Local Aid Share of the General Fund Budget Grew from 33% to 41% in 10 Years
Local Aid as a Percent of the Total State General Fund Budget



Source: Department of Legislative Services

Disparity Grant

Since fiscal 1992, the disparity grant program has been funded in an effort to mitigate the income differential of counties. Funding has grown from \$8.5 million at the program’s inception to \$121.4 million in fiscal 2010. Part of this growth is due to the enhancement enacted in 1996 to raise the eligibility of counties from 70 to 75% of the statewide average per capita income tax revenue. A variety of options exist for modifying or deleting this funding mandate. This may range from rolling back the statewide average to 70%, reducing each jurisdiction’s share by a set percentage, eliminating the State mandate, or eliminating State funding in lieu of a reallocation of local income tax revenue between the wealthier and less affluent jurisdictions.

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Option 1: Reduce the Grant to 70% of the Statewide Average: As seen in **Exhibit 9**, this option repeals the 1996 enhancement, reducing funding by \$45.7 million. While each jurisdiction would be affected, the result of this change would be that Prince George’s and Wicomico counties would receive no funding in fiscal 2010. These two counties would lose \$21.7 million and \$2.2 million, respectively.

Exhibit 9
Disparity Grant Reduction Option
Roll Back Enhancement to 70% of Statewide Average

	<u>Revised Grant</u>	<u>Reduction</u>
Allegany	\$5,396,436	\$1,902,068
Baltimore City	62,349,542	16,702,248
Caroline	1,269,493	862,290
Dorchester	1,188,279	834,412
Garrett	1,355,001	776,270
Prince George’s	0	21,694,767
Somerset	4,226,510	681,657
Wicomico	0	2,197,041
Total	\$75,785,260	\$45,650,753

Source: Department of Legislative Services

Option 2: Reduce the Grant to Each County Equally: Exhibit 10 illustrates the effect if an across-the-board reduction were adopted. In this example, a reduction of 25% in the program would save \$30.3 million.

Exhibit 10
Disparity Grant Reduction Option
Across-the-board 25% Reduction

	<u>Revised Grant</u>	<u>Reduction</u>
Allegany	\$5,473,879	\$1,824,626
Baltimore City	59,288,843	19,762,948
Caroline	1,598,837	532,946
Dorchester	1,517,018	505,673
Garrett	1,598,453	532,818
Prince George's	16,271,075	5,423,692
Somerset	3,681,125	1,227,042
Wicomico	1,647,780	549,260
Total	\$91,077,010	\$30,359,003

Source: Department of Legislative Services

Option 3: Eliminate State Mandate: Options to eliminate or modify the State mandate for this program may range from outright repeal of the program to elimination of the funding mandate. For example the intent to achieve a funding goal could be expressed but leave the funding amount up to the Governor as provided for in the allowance. Elimination of the program would relieve the State of an annual mandate in excess of \$100 million.

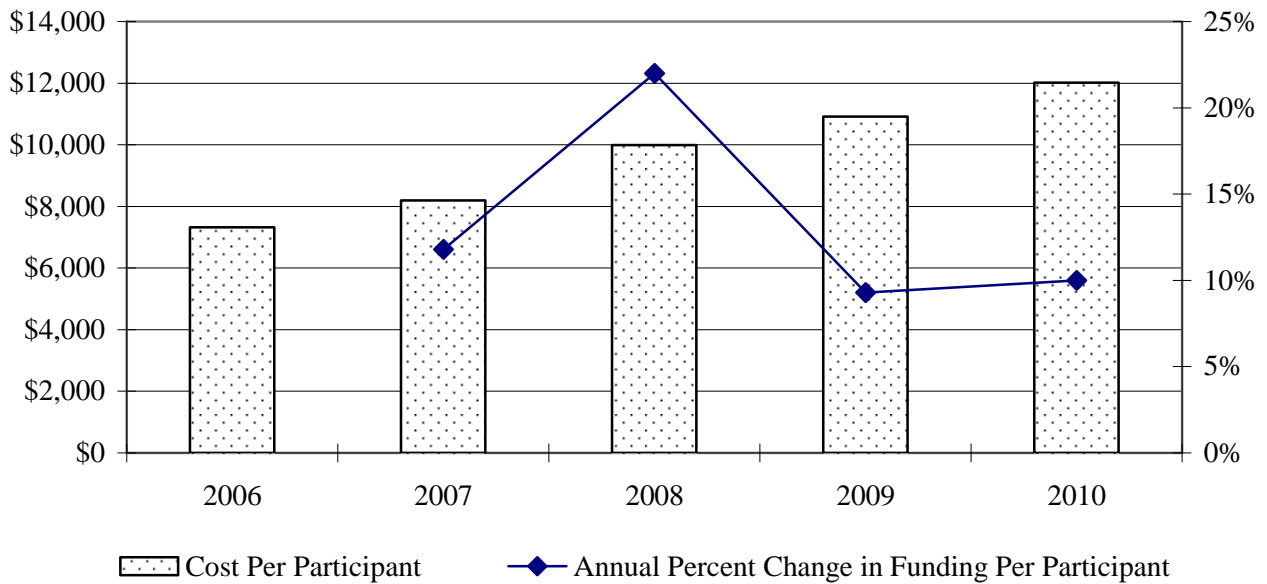
Option 4: Replace State Funding with Redistributed Local Income Tax Revenue: The disparity grant program could be maintained to mitigate the income tax resource differentials of the local jurisdictions without supplementary State funding. Under this option, local income tax revenues, which are collected by the State, could be redistributed to the current grant recipients before the remaining income tax revenues are distributed to the counties. To account for differential local income tax rates, the amount of each county's share could be based on the disparity grant formula which adjusts each county's tax revenues to an equivalent 2.54%. **Exhibit 11** shows the amount of funding that would come from each county and re-distributed to the participating disparity grant jurisdictions.

To maintain the goal of addressing income tax revenue disparities between local jurisdictions, while easing the State’s long-term structural general fund imbalance, it is recommended that the disparity grant program funding be provided through local income tax revenues.

Retirement Contributions for Certain Local Employees

State funding for retirement contributions for this program have increased nearly 200% between fiscal 2001 and the fiscal 2010 allowance, growing on average by approximately 10% per year since 2006. The number of participants has remained somewhat stable from a low of 176 in fiscal 2001 to a high of 231 in fiscal 2006. In fiscal 2010, funding is provided for 206 local employees. **Exhibit 12** illustrates the increasing cost per participant and the annual percentage change since fiscal 2006.

Exhibit 12
Growth in Funding for Retirement Contributions for Certain Local Employees
Fiscal 2006-2010



Source: Department of Legislative Services

State funding has grown from about \$7,300 per participant in fiscal 2006 to just over \$12,000 in the fiscal 2010 allowance. The spike in contributions seen in fiscal 2008 is due to legislation that enhanced the State pension system. Contributions to this program have outpaced revenue growth, as general fund revenues have grown on average by less than 3% per year since fiscal 2006. **It is recommended that State funding for this program be deleted via budget reconciliation legislation, and that the contributions to the State pension system on behalf of these employees become the responsibility of the local jurisdictions.**

Grant to Baltimore City

The fiscal 2010 allowance includes a mandated \$3.1 million general fund grant to Baltimore City, per Chapter 6 of the 2007 special session. Funding was originally provided in 1996 as part of a larger proposal to mitigate the effects of legislation to redistribute highway user revenues between Baltimore City and the other 23 jurisdictions through a portion of security interest filing fees. This mandate was changed during the 2007 special session to a flat general fund mandate, so that the security interest filing fee could be directed to enhance transportation funding. **The repeal of this grant via budget reconciliation legislation is recommended to help address the State's long-term general fund structural deficit.**

Conclusion and Recommendations

General fund revenues continue to erode resulting from an economic downturn that began in late 2007. Despite budget balancing actions proposed by the Administration in balancing the fiscal 2010 budget, a general fund budget deficit in excess of \$1.0 billion continues to exist. The promise of federal aid can provide short-term relief but will not erase the State's longer term general fund imbalance. Budget balancing actions that focus largely on State agency operations and entitlement programs exacerbate a growing share of the general fund budget allotted to local jurisdictions. This combination of events calls into question the affordability of the three programs provided through this budget. **Specific recommendations include:**

- **Delete State funding for the disparity grant program which mitigates the differences in the abilities of counties to raise revenues from the local income tax. The adoption of an amendment to budget reconciliation legislation is recommended to fund the program exclusively through local income tax revenue.**
- **Delete State funding for retirement contributions for certain local officials and county employees. Funding for the program has outstripped growth in general fund revenues. Amendments to budget reconciliation legislation are recommended to require the local jurisdictions to assume responsibility for contributions to the State pension system for these employees.**
- **Delete funding for the grant to Baltimore City. The abolition of this \$3.1 million general fund grant removes a State mandate on the general fund and represents part of a larger overall effort to achieve structural balance.**

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete the grant to Baltimore City in recognition of the State’s fiscal condition. This mandate was created at the 2007 special session to replace \$5 in revenue from the Security Interest Filing Fee that was dedicated to Baltimore City as part of a larger deal to restructure highway user revenues in 1996. Repeal of the mandate via budget reconciliation legislation is also recommended.	\$ 3,075,000	GF
2. Delete funding for disparity grants due to the fiscal condition of the State. Adoption of a statutory change in budget reconciliation legislation is recommended to maintain a program under which low-wealth jurisdictions receive supplementary funding. Funding would be redistributed based on the prorated share of the adjusted local income tax revenues of jurisdictions in an amount equal to the 2010 grant.	121,436,013	GF
3. Delete funding for retirement costs for certain local officials. Repeal of this mandate via budget reconciliation legislation is also recommended. Current fiscal conditions require the State to fund its obligations, whereas local obligations such as retirement for local employees ought to be funded by the local jurisdictions.	2,474,304	GF
Total General Fund Reductions	\$ 126,985,317	

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 2008					
Legislative Appropriation	\$150,512	\$0	\$0	\$0	\$150,512
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	-1,000	0	0	0	-1,000
Reversions and Cancellations	-295	0	0	0	-295
Actual Expenditures	\$149,218	\$0	\$0	\$0	\$149,218
Fiscal 2009					
Legislative Appropriation	\$120,760	\$0	\$0	\$0	\$120,760
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$120,760	\$0	\$0	\$0	\$120,760

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

Fiscal 2008

Actual fiscal 2008 spending for this program was \$149.2 million; \$1.3 million below the legislative appropriation. There are two reasons for the lower level of spending. First the Board of Public Works (BPW) withdrew \$1.0 million from the Electric Utility Generating Equipment Property Tax Grant program in July 2007, which equated to a 3.3% cut in the program. This withdrawal was part of a larger package of cost containment reductions adopted by BPW. There was also a reversion of \$294,752 in the Security Interest Filing Fee grant, based on actual revenue attainment. The legislative appropriation was based on estimated revenue from the \$20 security interest filing fee, of which \$5 was allocated through this program to Baltimore City.

Fiscal 2009

There have been no changes to the fiscal 2009 working appropriation.

**Disparity Grant Program – Funding History
Fiscal 1992-2001**

County	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
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	\$5,099,138
Anne Arundel	0	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	61,013,229
Baltimore	0	0	0	0	0	0	0	0	0	0
Calvert	0	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	2,170,977
Carroll	0	0	0	0	0	0	0	0	0	0
Cecil	0	0	0	0	0	0	0	0	0	0
Charles	0	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	1,668,683
Frederick	0	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	2,585,412
Harford	0	0	0	0	0	0	0	0	0	0
Howard	0	0	0	0	0	0	0	0	0	0
Kent	0	0	0	0	0	0	0	0	0	0
Montgomery	0	0	0	0	0	0	0	0	0	0
Prince George's	0	0	0	0	0	0	0	0	0	4,775,506
Queen Anne's	0	0	0	0	0	0	0	0	0	0
St. Mary's	0	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	3,524,771
Talbot	0	0	0	0	0	0	0	0	0	0
Washington	0	0	0	0	0	0	229,353	195,976	207,670	0
Wicomico	0	0	0	0	0	0	150,295	446,216	577,823	788,963
Worcester	0	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	\$81,626,679

Source: Department of Legislative Services

23 Analysis of the FY 2010 Maryland Executive Budget, 2009

A00 – Payments to Civil Divisions of the State

Appendix 2

**Disparity Grant Program – Funding History
Fiscal 2002-2010**

County	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Allegany	\$5,264,420	\$7,590,374	\$7,505,173	\$5,901,718	\$6,100,040	\$7,345,435	\$6,971,337	\$6,742,870	\$7,298,505
Anne Arundel	0	0	0	0	0	0	0	0	0
Baltimore City	64,361,931	76,035,628	75,060,702	69,559,286	69,695,420	76,002,034	78,160,604	75,524,256	79,051,790
Baltimore	0	0	0	0	0	0	0	0	0
Calvert	0	0	0	0	0	0	0	0	0
Caroline	2,316,232	2,456,358	2,149,120	1,814,313	1,889,377	1,838,418	1,912,848	2,253,325	2,131,782
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	1,928,463	1,854,882	2,344,457	1,890,562	2,032,786	1,493,893	2,088,839	2,130,708	2,022,690
Frederick	0	0	0	0	0	0	0	0	0
Garrett	2,999,791	3,010,417	4,589,226	2,716,755	2,039,677	2,307,278	2,089,259	2,012,030	2,131,271
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	6,879,315	14,753,100	6,792,727	5,509,803	9,762,389	15,962,593	19,110,236	21,714,314	21,694,767
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	3,754,928	4,288,581	4,347,556	3,752,653	3,732,513	4,500,748	4,450,729	4,370,509	4,908,167
Talbot	0	0	0	0	0	0	0	0	0
Washington	676,132	1,987,118	213,559	0	0	0	0	0	0
Wicomico	1,108,345	3,203,426	2,828,900	1,957,309	1,325,931	0	0	741,624	2,197,041
Worcester	0	0	0	0	0	0	0	0	0
Total	\$89,289,557	\$115,179,884	\$105,831,420	\$93,102,399	\$96,578,133	\$109,450,399	\$114,783,852	\$115,489,636	\$121,436,013

Source: Department of Legislative Services

Fiscal Summary
Payments to Civil Divisions of the State

<u>Program/Unit</u>	<u>FY08</u> <u>Actual</u>	<u>FY09</u> <u>Wrk. Approp.</u>	<u>FY10</u> <u>Allowance</u>	<u>Change</u>	<u>FY09-FY10</u> <u>% Change</u>
01 Miscellaneous Grants	\$ 0	\$ 3,075,000	\$ 3,075,000	\$ 0	0%
01 Disparity Grants	114,783,852	115,489,636	121,436,013	5,946,377	5.1%
01 Security Interest Filing Fees	2,630,249	0	0	0	0%
01 Retirement Contribution – Certain Local Employees	2,188,307	2,194,900	2,474,304	279,404	12.7%
01 Electricity Generating Equipment Property Tax Grant	29,615,201	0	0	0	0%
Total Expenditures	\$ 149,217,609	\$ 120,759,536	\$ 126,985,317	\$ 6,225,781	5.2%
General Fund	\$ 149,217,609	\$ 120,759,536	\$ 126,985,317	\$ 6,225,781	5.2%
Total Appropriations	\$ 149,217,609	\$ 120,759,536	\$ 126,985,317	\$ 6,225,781	5.2%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.