MARYLAND Association of COUNTIES

March 2, 2021

The Honorable Maggie McIntosh
Chair, Appropriations Committee
Maryland House of Delegates
121 House Office Building
Annapolis, MD 21401

Re: Disparity Grant Funding

Dear Chair McIntosh,

As you consider the 2022 state budget, the Maryland Association of Counties (MACo) urges the Committee to address an anomaly regarding the Disparity Grant program. MACo requests that the Committee restore veto-driven cuts to the program.

The disparity grant is designed to promote equity across jurisdictions to overcome disparate tax bases. The program serves to ensure that counties, who rely on local income taxes for substantial revenue, are able to generate sufficient yield to fund schools, public health, public safety, roadway maintenance, and community services. Counties have made difficult tax rate decisions based on the state law governing these grants - to undermine them would be especially untoward amidst the pandemic.

House Bill 737 of 2020 altered the enhanced State funding by increasing the minimum grant amount from 67.5% to 75% of the 2010 grant and repealing the termination date for the enhanced funding. As a result, eligible jurisdictions would have been able to receive at least 75% of their formula allocation under the disparity grant program beginning in fiscal 2022.

However, citing budget weaknesses arising from the COVID-19 pandemic, the Governor vetoed the bill. The veto was subsequently overridden by the General Assembly during the 2021 session. Since the Administration cannot be required to fund the mandated appropriation in the current budget bill, six counties will remain subject to the 60% minimum grant in fiscal 2022.

As such, six low-wealth jurisdictions lost $15.2 million in needed disparity grant funding for the year ahead. They are building their budgets now, and need this certainty urgently.

Over the last three years, nine counties have raised their local income tax rates. Just last year, Dorchester and Washington raised their rates to the maximum rate of 3.2%. Somerset raised its rate to the maximum rate beginning in calendar year 2017. Caroline recently raised its rate to 3.2% in order to fund a new elementary school and sheriff's department.

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Recent years have seen State-imposed "caps" in this program that artificially lessen the effective revenue from such jurisdictions, including those who have exercised the maximum county income tax rate. Over the past five years, cap provisions have reduced state funding under the disparity grant program by approximately $233 million.

Cutting the disparity grant program will have a disproportionate effect on less affluent counties and exacerbating pressures at the local level by undermining county revenue structures and support for education, public health, public safety, and other essential services.

MACo and county leaders are prepared to work with state policymakers on this issue, and other considerations, as part of a responsible balanced budget plan. MACo hopes that state leaders recognize that burdens on county budgets are substantial, and these challenges would only be worsened by added cost shifts or disproportionate budget cutbacks on county programs.

Respectfully,

Wilbur Levengood
President, MACo
Commissioner, Caroline County

Michael Sanderson
Executive Director, MACo