

# Disparity Grant Program – Funding Overview

## Fiscal 2027

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### Program Overview

- The disparity grant program currently provides State funding to nine jurisdictions statewide where per capita revenue collection from the local income tax is below 75% of the statewide average. Under the program, eligible jurisdictions receive a grant that enables the per capita local income tax revenues to reach 75% of the statewide average.
- Disparity grant jurisdictions are located in Western Maryland (Allegany, Garrett, and Washington counties), the Eastern Shore (Caroline, Dorchester, Somerset, and Wicomico counties), and within the Baltimore-Washington corridor (Baltimore City and Prince George’s County).
- The program is designed to improve the fiscal equity among counties across the State by providing additional State funding to low-wealth jurisdictions. This support enhances the jurisdiction’s ability to provide essential services to local residents, including local funding for public schools, which is required under the maintenance of effort provision.
- At present, the local income tax is the third largest source of revenue for county governments, accounting for 18.3% of total revenue. Maryland is one of the few states in the nation that allow local governments to impose a local income tax.
- Due to the varying social and economic conditions throughout Maryland, the ability to generate revenues from the local income tax can be challenging for many jurisdictions. For example, in fiscal 2026, the per capita revenues from the local income tax range from \$471 in Allegany County to \$2,101 in Montgomery County, even though both jurisdictions impose a 3.2% local income tax rate.
- Local income tax collections remain relatively low for disparity grant jurisdictions, even though they tend to have the highest local income tax rates in the State. All but two counties have at least a 3.2% local income tax rate with Dorchester County imposing a 3.3% rate, the maximum rate that can be imposed by a local government.

### Funding History

- State funding for the disparity grant program began in fiscal 1992, when Baltimore City and five counties (Allegany, Caroline, Dorchester, Garrett, and Somerset) received \$8.5 million in funding. The grants were provided to jurisdictions where local income tax revenues were below 67% of the statewide average.

- State funding for the program was enhanced in both fiscal 1993 and 1998, when the per capita funding targets were raised to 70% and then 75% of the statewide average income tax yield, respectively.
- Due to these enhancements, State funding for the disparity grant program increased from \$8.5 million in fiscal 1992 to \$62.0 million in fiscal 1998.
- Over the next 10 years, State funding for the disparity grant program steadily increased, reaching \$121.4 million in fiscal 2010.

### **Funding Cap and Minimal Funding Level**

- Due to the significant growth in the mandated funding level for the program, the General Assembly approved legislation in 2009 to cap annual funding to the amount that each jurisdiction received in fiscal 2010. At that time, disparity grant funding totaled \$79.1 million in Baltimore City (65.1% of total funding), and \$21.7 million in Prince George's County (17.9% of total funding).
- While this provision restrained the growth in mandated funding, it failed to recognize changes in local wealth among jurisdictions due to the varying economic and social conditions across the State.
- For example, in tax year 2007, which forms the basis for the fiscal 2010 funding amount, the per capita income tax yield in Baltimore City was at 51.3% of the statewide average, which was the second lowest ranking among the 24 jurisdictions. Only Somerset County had a lower per capita income tax yield at 39.0% of the statewide average.
- Since that time, the underlying economic and fiscal conditions confronting local governments have changed dramatically for many disparity grant eligible jurisdictions.
- For example, between tax year 2007 (fiscal 2010 funding level) and tax year 2024 (fiscal 2027 funding level), the overall income tax base has improved significantly in both Baltimore City and Garrett County, with Baltimore City having the highest average annual change in the per capita income tax yield over this period, while Garrett County had the third highest increase.
- As a result, the steady increase in Baltimore City's income tax yield in recent years has generally restrained the growth in the city's funding under the program's formula calculation. For fiscal 2027, the city's formula amount (absent the cap provision) totals \$81.6 million, which is only 3.2% higher than the city's funding amount in fiscal 2010, which serves as the cap amount.

- In Garrett County, the county’s formula amount in fiscal 2027 (absent the cap provision) totals \$2.45 million, which is only 15.1% higher than the county’s funding amount in fiscal 2010.
- However, this improvement in the overall income tax base in relation to the statewide average did not occur in the other disparity grant eligible counties.
- For example, the per capita income tax yield in Wicomico County went from 70.5% of the statewide average in tax year 2007 to 57.9% of the statewide average in tax year 2024, the largest drop-off in the State. Washington County had the third largest drop-off, going from 75.6% of the statewide average in tax year 2007 to 66.2% in tax year 2024.
- For most disparity grant eligible counties, their income tax base in relation to the statewide average did not improve but remained at a relatively low level.
- For example, Somerset County continues to be ranked last in terms of its per capita income tax yield (39.0% of the statewide average in tax year 2007 and 33.7% of the statewide average in tax year 2024). This low ranking holds true for Allegany, Caroline, and Dorchester counties.
- As a result of the rising income disparities among Maryland counties, the formula calculation for several counties has increased significantly since fiscal 2010, when the cap provision was put in place.
- For example, the fiscal 2027 formula amount for Prince George’s County is 357.3% higher than the county’s funding amount in fiscal 2010. In Wicomico County, the fiscal 2027 formula amount is 750% higher than the county’s funding amount in fiscal 2010.
- To address this concern, the General Assembly approved legislation in 2013 that established a minimum funding level based on a jurisdiction’s local income tax rate.
- The minimum funding level was set at 20% for jurisdictions with at least a 2.8% local income tax rate, 40% for jurisdictions with at least a 3% rate, and 60% for jurisdictions with at least a 3.2% rate. Subsequent legislation increased the minimum funding amount for jurisdictions with at least a 3.2% local income tax rate to 75%.

## **Local Tax Policy**

- Another factor affecting disparity grant funding is local tax policy. Changes in local income tax rates can impact the level of State funding provided under the disparity grant program as the minimum funding amount is based on local tax effort.

- When the minimum funding level was established in 2013, only four counties qualified for additional funding: Cecil, Prince George’s, Washington, and Wicomico. Since that time, several counties have increased their local income tax rates to take advantage of the enhanced funding due to the local tax effort provision. These counties include Allegany, Caroline, Dorchester, and Somerset.
- Currently, seven of the nine disparity grant jurisdictions impose at least a 3.2% local income tax rate, with Dorchester County imposing the maximum 3.3% tax rate.
- However recent tax actions by two counties have resulted in a reduction in funding under the disparity grant program. Cecil County has reduced its local income tax rate multiple times since 2022, resulting in the county being ineligible for State funding under the program since fiscal 2025. Washington County has also lowered its local income tax rate multiple times since 2021, resulting in the county only receiving 20% of its formula calculation instead of 75%.
- In contrast, Allegany County increased its local income tax rate in 2026 from 3.03% to 3.2% in order to take advantage of the program’s higher minimum funding level. This tax action has resulted in the county’s formula calculation under the disparity grant program increasing by \$6.4 million in fiscal 2027.

### **Fiscal 2027 Funding Level**

- The proposed State budget included \$176.6 million in funding under the disparity grant program in fiscal 2027. This represented a \$17.1 million, or 8.8%, decrease from the prior year. This decrease in disparity grant funding was due to two key factors:
  - The Governor’s proposal in the Budget Reconciliation and Financing Act (BRFA) that level funded the disparity grant program at the fiscal 2026 formula amount through fiscal 2029. This policy decision reduced the statutory funding level for the program by \$27.0 million in fiscal 2027.
  - The elimination of one-time funding enhancements approved by the General Assembly last year at the 2025 session that provided \$17.1 million for the five counties with at least a 3.2% local income tax rate.
- The General Assembly rejected the Governor’s BRFA proposal and decided to fully fund the disparity grant program at the statutorily required amount of \$203.6 million in fiscal 2027. This represents a \$9.9 million or 5.1% increase from the prior year.

### **State Aid Overview Report**

- Detailed exhibits that illustrate the level of State funding for the disparity grant program in recent years and the formula calculation under current law for fiscal 2027 are provided in the [Overview of State Aid to Local Governments Report](#) (beginning on page 33). A copy of the report is available on the Department of Legislative Services [website](#).