



# The Legislative Wrap-Up

Library and Information Services, Department of Legislative Services

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2012 Special Session 1

May 14-16, 2012

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On Wednesday, May 9, 2012, under Article II, Section 16 of the Maryland Constitution, Governor Martin O'Malley issued Executive Order 01.01.2012.10. The executive order called for a special session of the General Assembly to begin on Monday, May 14, 2012 "for the purpose of passing legislation to address Maryland's fiscal year 2013 budget."

During the regular 2012 session, which ended on April 9, the General Assembly passed the operating Budget Bill ([SB 150](#), passed) but did not pass the two remaining revenue and budget reconciliation bills that constituted the 2012 fiscal package ([SB 152](#) and [SB 523](#), both failed), even though consensus had been reached by Senate and House conference committees on both bills.

The failure of [SB 152](#) (Budget Reconciliation and Financing Act of 2012) and [SB 523](#) (State and Local Revenue Financing Act of 2012) triggered more than \$436.3 million in reductions specified in the Budget Bill ([SB 150](#)) for fiscal 2013, which had been characterized earlier as the "doomsday" budget without the passage of the two remaining fiscal bills.

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## BILL INTRODUCTIONS

On May 14, the first day of the three-day special session, the Senate and House convened for organizational purposes and introduction of legislation. Bill introductions in the Senate numbered 13, and in the House nine bills were introduced. The legislature focused on and passed two fiscal measures: the Budget Reconciliation and Financing Act of 2012 (BRFA) ([SB 1301](#), passed) and the State and Local Revenue and Financing Act of 2012 (Revenue Act) ([SB 1302](#), passed). These bills contain nearly the same provisions as agreed to by the conference committees for the two failed fiscal bills from the regular session. A third measure ([SB 1303](#) passed), related to bonds for schools and passed during the regular session, was approved during the special session to correct a technical error.

Each of the three passed bills ([SB 1301](#), [SB 1302](#), and [SB 1303](#)) was introduced with a crossfiled House bill ([HB 1801](#), [HB 1802](#), and [HB 1803](#), respectively), but the

Senate bills were the measures that were approved. It should be noted that the bill numbers applied to the special session legislation were necessitated by the fact that the regular session is technically not completed until the last bill signing on May 22. Therefore, the electronic database could not number the special session legislation sequentially beginning with SB 1 and HB 1, as would be the normal practice.

Additionally, Rule 23(b) of the Senate and House Rules requires that in a special session a bill or resolution be numbered in the order of introduction, beginning with a number determined appropriate by the Secretary of the Senate and the Chief Clerk of the House for their respective chambers.

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## COMMITTEE AND FLOOR ACTIONS

Following the Monday floor sessions, the Senate Budget and Tax Committee held a hearing on the Senate bills, and the House Appropriations Committee heard commentary on the House bills except for the Revenue Act ([SB 1302](#)), which the House Ways and Means Committee considered because tax measures fall within that committee's jurisdiction. Subsequently, the Senate gave preliminary approval and final passage to the three bills ([SB 1301](#), [SB 1302](#), and [SB 1303](#)), and the House followed with preliminary approval and final passage of the three measures.

The BRFA and the Revenue Act spawned considerable debate among the members on the Senate and House floors but were ultimately passed. The Senate vote on the BRFA ([SB 1301](#)) was 33-13 and on the Revenue Act ([SB 1302](#)) 27-19. The House vote on the BRFA was 86-51 and on the Revenue Act was 77-60. After final passage, both chambers adjourned *sine die* on Wednesday, May 16, the third and final day of the special session.

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## BUDGET RECONCILIATION AND FINANCING ACT OF 2012 (BRFA)

The BRFA ([SB 1301](#), passed) changes mandated spending formulas, transfers money to the general fund, increases revenues, and transfers employer costs for school employee pensions to the counties.

The bill also creates the Budget Restoration Fund with \$433.5 million in revenues and grants, including \$247.3 million in individual income tax revenue. The fund will restore the reductions in the fiscal 2013 budget as it was enacted during the regular session, including restored funding for local law enforcement grants (\$20.8 million), State universities and colleges (\$38.5 million), community colleges (\$19.9 million), community provider rate increases for the Developmental Disabilities Administration, Mental Hygiene Administration, foster care, and non-public placements (\$15.2 million), Sustainable Communities Tax Credit (\$7 million), Biotechnology Investment Tax Credit (\$8 million), Maryland Stem Cell Research Fund (\$10.4 million), and the State employees' cost-of-living-adjustment (\$33.8 million).

The BRFA transfers the employer's normal share of the pension costs for public school board employees from the State to the school boards over four years, with the counties' required maintenance of effort (MOE) amount increasing each year by the additional pension costs during the phase-in period. The State will continue to maintain responsibility for unfunded liabilities and for the employer's share of pension costs for libraries and community colleges.

The local share for fiscal 2013 will be 50%, at a cost to the local school boards of \$136.6 million. The local costs are partially offset by \$27.7 million to specified counties in "Teachers' Retirement Supplemental Grants," by increased revenue from additional local income tax revenues and revenue from a recordation tax on indemnity mortgages, and by other relief in costs and State aid totaling \$131.5 million, for a net cost to local governments for fiscal 2013 of \$5.2 million.

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### **STATE AND LOCAL REVENUE AND FINANCING ACT OF 2012 (REVENUE ACT)**

The Revenue Act ([SB 1302](#), passed) increases the income tax rate from 4.75 % to 5.00% on individuals with Maryland taxable income greater than \$100,000, and on married couples filing jointly with Maryland taxable income greater than \$150,000. Rates are increased on higher income amounts to a maximum rate of 5.75% on Maryland taxable incomes of more than \$250,000 on individuals and of more than \$300,000 on married couples filing jointly. The rate increases will

raise \$195.6 million for the State in fiscal 2013 and \$143.3 million in fiscal 2014.

The bill also phases out the personal income exemption for individuals with a federal adjusted gross income greater than \$100,000 and for married couples filing jointly with a federal adjusted gross income greater than \$150,000. Individuals with a federal adjusted gross income greater than \$100,000 and married couples filing jointly with a federal adjusted gross income greater than \$150,000 will have personal exemptions of \$1,600 per person, instead of the current \$2,400. Individuals with a federal adjusted gross income greater than \$150,000 and married couples filing jointly with a federal adjusted gross income greater than \$200,000 will have personal exemptions of zero dollars. The reduction in the personal exemptions raises \$51.7 million for the State in fiscal 2013 and \$35.6 million in fiscal 2014.

The bill also increases the other tobacco products tax rate on moist snuff and smokeless tobacco from 15% to 30% of the wholesale price and the tax rate for cigars other than premium cigars from 15% to 70% of the wholesale price, raising \$5 million in fiscal 2013. Additionally, the recordation tax will be applied to an "indemnity mortgage," raising \$35.7 million for the counties and Baltimore City in fiscal 2013.

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### **QUALIFIED ZONE ACADEMY BONDS (QZABs)**

The third bill passed during the special session, [SB 1303](#), passed during the regular session but before the operating Budget Bill ([SB 150](#)) was finalized. The Maryland Constitution prohibits bond bill passage until the Budget Bill is passed. [SB 1303](#) corrects this timing deficiency and the same timing deficiency that occurred in prior sessions.

[SB 1303](#) authorizes \$15.3 million in federal QZABs to be issued to finance education projects, which are competitively awarded grants to eligible school systems for qualified academies, and targeted grants to eligible school systems for qualified academies, under the Breakthrough Center Program. Charter schools are eligible for the funds.

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### **BILL SIGNINGS**

The three special session bills ([SB 1301](#), [SB 1302](#), and [SB 1303](#)) were signed during the last signing of regular session legislation on May 22, 2012, at 10:30 a.m. in the State House.