



REPORT FROM STATE CIRCLE

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Report on Special Session May 14-16, 2012

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GOVERNMENT

BUDGET AND TAXATION

Legislators returned to Annapolis on Monday, May 14 for a special session dealing with unfinished budget and taxation matters. It adjourned on May 16 having passed three bills – **SB1301 Budget Reconciliation and Financing Act of 2012 (BRFA)**, **SB1302 State and Local Revenue and Financing Act of 2012** and **SB1303 Creation of a State Debt – Qualified Zone Academy Bonds**. All of the bills were submitted by the Senate President at the request of the Administration with identical cross filed bills submitted to the House by the Speaker.

BRFA is an omnibus bill which covers a myriad of activities. Among its many provisions, perhaps most notable, are the requirement that local school boards share in the cost of teachers’ retirement by phasing in school board payments over four years, setting out the payment requirement for each school board for fiscal years 2013-2016; and setting out more stringent maintenance of effort school funding requirements for local jurisdictions. Local school boards are now authorized to spend funds received directly from the State Comptroller (from the local income tax) to meet the minimum funding amount if it is not provided by the county government. Local jurisdictions must appropriate, at a minimum, the same level of funding as the previous year in order to meet maintenance of effort requirements. Several Special Funds will be used to replace general funds, and a number of cost control measures were instituted including the requirement that the Governor abolish a total of 100 vacant positions as of January 2, 2013 and that rates paid to group homes and nonpublic placements are restricted to an increase of 1% of the rates in effect in 2012. The net effect of BRFA on state funding is expected to reduce expenditures in FY 2012 by \$80.6 million, by \$34.7 million in FY 2013 and between \$200 and \$300 million in future years.

SB1302 provides the additional funding required to meet some of the state’s fiscal needs that were reduced with passage of the “doomsday budget” at the end of the Regular Session. The bill adds a new tax rate to the state income tax – 5.75% for incomes in excess of \$300,000 for households. The previous highest rate was 5.5% on incomes in excess of \$500,000. The change in brackets and their associated rates start at the \$200,000 household income level and continue on up from there. For joint taxpayers, with incomes above \$150,000, standard deductions are reduced and finally completely eliminated for those with incomes in excess of \$200,000.

It also repeals the sales and use tax exemption for cylinder demurrage charges; increases the maximum fee from \$125 to \$150 for an appeal by the Motor Vehicle Administration to suspend or revoke a driver’s license; increases fees for certain death certificates, increases the “other tobacco products tax” and applies the recordation tax to an “indemnity mortgage.” The bill’s net effect is estimated to be an increase in state revenues of \$263.8 million and in local revenues by \$67.3 million in FY 2013.

SB1303 is actually a repassage of a bill that was found unconstitutional by the Attorney General’s office because these capital bonds were authorized during the regular session prior to adoption of the operating budget. This bill authorizes the issuance of up to \$15.3 million in FY2013 bonds for public school renovation and repair projects.

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