

2013 CAUCUS WRAP-UP

ELIMINATING THE STRUCTURAL DEFICIT, FUNDING SCHOOLS AND JOBS

After years of struggling with recessionary budgets, the Legislature and the Governor have **all but erased the state's structural deficit**. Ongoing revenues now cover 99% of state spending and our state fund balance exceeds \$1 billion this year. **By FY 2017, the state is projected to have a budget surplus**. We accomplished this through a combination of difficult spending cuts and revenue increases. These actions have been implemented in a strategic manner that allow Maryland to remain **one of only 9 states with a AAA bond rating** and at the same time, to maintain a high quality of life for our citizens.

This year, the Governor and the Legislature set aside **\$100 million to hedge against the potential impact of federal sequestration cuts**. Growth in spending increases only 2.3% in the current budget, well under the 4.5% forecasted growth in state personal income. Overall, state spending has increased less under the current Administration than under each of our four previous Governors.

Once again, **education is the largest category of budgetary expense, accounting for nearly half of the state's general fund budget**. This investment has paid off. For the 5th year in a row Maryland's public school system is ranked first in the nation. While other states have experienced double-digit tuition increases at their public institutions of higher education, **tuition in Maryland has risen only three percent per year in each of the past three years following three years of zero tuition increase**.

BUILDING PRIVATE SECTOR CONFIDENCE IN MARYLAND'S ECONOMY

Over the past 12 months, Maryland has created 38,200 new jobs, with the private sector accounting for 95% of those jobs. This year, Speaker Busch created the House Business Climate Workgroup, a bipartisan cross-section of legislators to focus on business issues, engage the business community and advocate for legislation that supported the business community. Maryland's 526,663 small businesses account for 97% of the State's employers and 52% of private sector employment, so it is important that we continue to find ways to support them.

This year, the legislature looked to more innovative financing mechanisms to support investment and development in our State. By strategically partnering with the private sector instead of continuing to rely on more traditional budget line-items, we can have a more significant impact on the infrastructure development of our State. The creation and expansion of three innovative financing mechanisms are among this year's legislative achievements:

- **Public Private Partnership legislation (HB560)**- A priority of Lt. Governor Anthony Brown, legislation passed this year to expand the use of public-private partnerships in Maryland. P3s are an innovative financing tool that allows State budget dollars to leverage private sector investment, thereby jumpstarting infrastructure development and creating significant numbers of jobs. Legislation this year creates a streamlined public-private

partnership process that encourages private sector investment in infrastructure development in Maryland. Thirty-three states, which use P3s for projects like wastewater treatment plants, schools, and major transportation projects, have enacted laws authorizing and clarifying the P3 process for infrastructure development. This year's bill focuses on physical infrastructure and the delivery of assets rather than privatization or the contracting out of existing services. Maryland departments overseeing capital projects estimate that with an improved P3 framework, P3s could create as many as 4,000 jobs, and generate an estimated \$160 million to \$240 million annually that could be invested in Maryland transportation projects.

- **Expanding the use of Tax Increment Financing (HB613)** – Tax increment financing is a financing tool that allows the future anticipated property tax proceeds from new development to be dedicated to debt service on current infrastructure improvements. According to private sector experts, TIFs are very conservatively written bonds with minimal risk. HB613 permits local governments to use TIF funds in new ways, including historic preservation, environmental remediation and affordable/mixed-income housing, and allows local governments to use MEDCO to issue bonds.
- **Smart Growth Investment Fund Workgroup (HB1170)** – HB1170 creates a Workgroup to explore the creation of a \$35 million public-private revolving fund to invest in Maryland smart growth infrastructure projects each year. This has been a successful tool in Florida, Massachusetts and California.

The legislature also passed two new laws to help connect people with employment. The **Maryland Employment Advancement Right Now (EARN) Program**, established within the Department of Labor, Licensing, and Regulation, will create industry-led partnerships to advance the skills of the State's workforce and increase sustainable employment for working families. The legislation (HB 227/SB 278) establishes a competitive grant program that incorporates a regional, industry-led workforce development initiative. The EARN Program will connect Marylanders to jobs by closing critical skills gaps that prevent their employment and will ultimately grow sectors of the State's economy that are vital to our future economic competitiveness.

The Governor introduced and the General Assembly passed the **Veterans Full Employment Act of 2013** (HB 225/SB 273) to expedite the issuance of occupational and professional licenses, registrations, and certificates for active military personnel, veterans, and their spouses who relocate to Maryland from another state. The Veterans Full Employment Act also credits veterans for military training and other education and experience when they apply for occupational and professional licenses in Maryland and provides academic credit to veterans at state colleges for relevant military training and education.

We also focused this year on creating and enhancing tax credits and making changes to tax law to bolster emerging industries in Maryland. In addition to the capital budget, the public sector's biggest driver of construction jobs, a number of smaller initiatives were included in this year's budget to provide technical support and new programming for the business community. The U.S. Chamber has ranked Maryland #1 for entrepreneurship and innovation, while the Information Technology and Innovation Foundation says Maryland is among the five states best positioned to succeed in the new economy. We must invest in sectors that will support Maryland's economy in the future.

- **New and Expanded Tax Credits**
 - Supported by business groups throughout the State, the General Assembly passed legislation (HB 386/SB 203) that increases the existing **Research and Development Tax Credit** by 33% to \$8.0 million per year. The legislation will encourage additional investments in the State and provides a refundable tax credit for small businesses that meet certain criteria.
 - The Governor proposed and the General Assembly passed legislation that will spur strategic investments to increase cybersecurity innovation in the State. HB 803 establishes the **Cybersecurity Investment Incentive Tax Credit** for qualified investments in Maryland cybersecurity companies and authorizes DBED to award up to \$2.0 million of tax credits per year. Cybersecurity is an emerging industry in the military intelligence field that
 - Legislation passed that also increases the amount of **Film Production Activity Tax Credits** that may be awarded from \$7.5 million to \$25 million in fiscal 2014 and extends the credit's termination date by two years to July 1, 2016.
 - In addition, the legislature included \$10 million in **Biotechnology Investment Tax Credits**, a 25% increase over fiscal 2013 amounts.
- **Budget Support for the Private Sector**
 - Funding for expansions of the TEDCO **Rural Business Initiative** to support technology entrepreneurs with mentoring and business technical experience in technology commercialization for incubator-stage companies in Western Maryland, Southern Maryland, Northeastern Maryland and the Eastern Shore.
 - Funding for the creation of an **Innovation Portal**, an online one-stop marketplace to connect emerging businesses and entrepreneurs with potential investors.
- **Changes in existing Tax Law**
 - Legislation passed (HB 1209/SB 436) that amended provisions of law governing **indemnity mortgages** that will ultimately increase small business lending, mortgage refinancing and commercial real estate development throughout the State. The legislation also allows commercial mortgages, including indemnity mortgages, to be refinanced without incurring recordation tax in the same manner as residential mortgages.
 - **Extended Homestead Property Tax Credit Application Deadline** – Legislation passed during the 2007 session required homeowners, by December 31, 2012, to file a one-time application with the State Department of Assessments and Taxation (SDAT) to verify eligibility for the Homestead Property Tax Credit. Emergency legislation that passed this session extends the application filing deadline an additional year to December 30, 2013 (HB128). For questions pertaining to the Homestead Tax Credit application and eligibility, SDAT may be reached at (410) 767-2165. The application can also be printed from their website: http://www.dat.state.md.us/sdatweb/homestead_application.pdf.
 - Maryland is home to the Chesapeake Bay, yet Maryland boat dealers and marinas continue to report declining employment since 2007. As a result of declining sales, the Department of Natural Resources has seen revenue in the Waterway Improvement Fund drop significantly since 2007. SB90 takes a two-fold approach: redirects 0.5% of motor fuel tax revenue (approximately \$3M) to **fund the Waterway Improvement Fund**, while **capping the vessel excise tax** for the purchase of new boats at \$15,000 for three years to determine whether we can

encourage more purchases, registrations and repair of boats in Maryland to rejuvenate the boating industry. Many states along the East Coast have a cap, including Virginia, Delaware, Florida and North Carolina, and this legislation supports the 35,000 boating-related jobs, and the boating industry in Maryland.

INVESTING IN OUR TRANSPORTATION NETWORK

The Governor proposed and the General Assembly passed a comprehensive transportation funding bill (HB 1515) that will maintain our economic competitiveness with surrounding states, create thousands of new jobs, and ease congestion by investing in our transportation infrastructure. The State's fixed-rate gasoline tax is currently 23.5 cents-per-gallon, was last raised in 1992, and has not kept pace with inflation and rising construction costs. Today, the D.C. and Baltimore metropolitan areas are the 1st and 5th most congested in the nation. By 2017, Maryland will not have enough transportation funding for anything except maintenance of its existing infrastructure.

Eighteen states – including our neighbors Pennsylvania and Virginia – are considering (or have recently passed) legislation that would increase their gas tax rates. HB 1515 imposes a 1% sales tax on gasoline starting on July 1, 2013. The rate increases to 2% on January 1, 2015 and to 3% on July 1, 2015. If Congress passes federal Internet sales tax legislation by December 1, 2015 those sales tax revenues are dedicated to transportation. This legislation provides critical additional funding that will allow new transportation projects to move forward.

Constitutional Amendment – Transportation Trust Fund Lockbox – To reassure State residents that Transportation Trust Fund (TTF) revenues will be used solely for their intended purpose, the General Assembly overwhelmingly approved legislation (SB 829) that asks voters to approve a transportation “lockbox” during the next general election. Under the proposed amendment to the State Constitution, funds may not be transferred from the TTF for any non-transportation purpose unless (1) the Governor, by executive order, declares that a fiscal emergency exists; and (2) a three-fifths majority of all members of the General Assembly approve of the use or transfer of funds.

SUPPORTING CLEAN ENERGY AND A CLEAN ENVIRONMENT

The General Assembly made a significant investment in Maryland's energy future and economic development with the passage of the **Maryland Offshore Wind Energy Act of 2013** (HB226). As a part of our effort to make renewable energy account for at least 20% of the State's total energy generation, we passed legislation to incentivize the construction of a major wind energy project off of Maryland's coast and ultimately create over 1,000 jobs in construction and ongoing operations.

Beyond renewable energy, the legislature continued its meaningful work in cleaning up and protecting the Chesapeake Bay and its waterways. This work includes establishing a voluntary **Maryland Agricultural Certainty Program** (SB1029) to certify farms that meet State agricultural nitrogen, phosphorus, and sediment reduction goals; and passing a tax credit to help grow the Chesapeake Bay's oyster population by **recycling used oyster shells** (HB184). The legislature also created the **Maryland Pesticide Reporting and Information Workgroup** (HB775) to study and make recommendations regarding the establishment of a pesticides use database. Pesticides are a pollutant of concern in the Bay since they tend to run off lawns and fields and end up in the tributaries leading to the Bay.

REPEALING THE DEATH PENALTY

Maryland became the 18th state in the nation to eliminate the use of capital punishment, along with 141 other countries across the globe. This legislation had bipartisan support, because of the concern that one innocent person could be put to death. In 2008, the Maryland Commission on Capital Punishment recommended the repeal of the death penalty. The Commission specifically found that for every 8.7 Americans sentenced to death, one innocent person has been exonerated; the cost to taxpayers for a capital case is 3 times higher than non-death penalty homicide convictions; and racial and jurisdictional disparities exist in Maryland's capital sentencing system. In a 2013 Washington Post poll, 61 percent of voters say life without parole is an acceptable alternative to the death penalty, while only 33 percent say it is not.

STRENGTHENING PUBLIC SAFETY LAWS

Following the massacre of 20 children and 6 adults in Newtown, CT this past December, **gun safety not only took center stage nationally but also at the state level**. Appropriately, the tragedy in Newtown prompted us to take a closer look our gun laws to ensure that we are doing all we can to protect our citizens from preventable gun violence. As a result, the Governor proposed and the General Assembly passed the **Firearms Safety Act of 2013 (SB281)** that puts Maryland among the states with the toughest gun laws in the country. These common sense reforms and budgetary support make sense against a backdrop of statistics that highlight the need for meaningful firearms safety laws: (1) the United States has more guns per capita than any other country in the world, and has approximately 283 million guns in civilian hands; (2) the average number of guns has increased from 4.1 in 1994 to 6.4 in 2004, while the number of gun owning households has steadily declined over the past four decades; (3) in 2008, there were over 12,000 gun homicides in the U.S. compared to 11 in Japan, and (4) in 2011, for the first time in 14 years, firearms were the leading cause of death for police officers in the line of duty.

The Firearms Safety Act includes not only a **ban on military-style assault weapons and high capacity magazine clips** like those that killed the children in Newtown, but also a **new licensing system for handguns**, which account for the majority of gun deaths in our state, **required gun safety training courses** for first time handgun purchasers, and important new restrictions on access to firearms for those suffering from serious mental illness. In addition, the bill **targets straw purchasers** (those who buy weapons for individuals prohibited from owning them or unwilling to be the owner of record) by requiring mandatory reporting of lost and stolen firearms. It creates an **additional penalty for the use of "cop killer" ammunition** in the commission of a crime and it prohibits gun ownership by those given probation before judgment for serious criminal offenses including domestic violence.

While the requirements contained in the legislation are stringent and designed to protect public safety, **the bill was drafted prospectively so as not to place undue burden on or criminalize current gun owners**. No Maryland gun owners are required to register their firearms with law enforcement. Licensure requirements apply only to the purchase of weapons after the law takes effect and gun safety training is required only for new gun owners. Law enforcement and active duty military are exempt.

While tough gun laws are important, they are only part of a comprehensive strategy to combat gun violence. In addition to the legislation passed this year, the FY 2014 budget contains over \$37 million aimed at increasing public safety. Highlights include funding for: safety improvements at

schools and the creation of a new School Safety center; the Maryland State Police Gun Center, a new unit that is the hub for gun crime investigation and funding for licensing and background checks; community-based mental health services and crisis intervention teams.

Strengthening Human Trafficking Laws - Two bills passed this year that will toughen Maryland's laws on human traffickers: an asset forfeiture law (HB713) to seize real property, vehicles and cash from defendants convicted of human trafficking; and eliminating a defendant's ability to claim "mistake of age" in cases that involve sex trafficking of a minor (HB933).

Continuing DNA Collection from Criminals - Law enforcement will continue to be able to collect DNA from suspects arrested for crimes of violence. The law was scheduled to sunset this year if the legislature didn't act. (HB292) Since the law was initially passed, 149 cases have been closed as a result of DNA collection from arrestees, including 43 convictions for crimes including rape, robbery and burglary. The law is working. The Attorney General has argued for Maryland's law in front of the Supreme Court, with the support of the Obama Administration and 49 other states. The decision is still pending.

Keeping our Children Safe – Two bills to improve the background check process for child care providers passed this year, including a new requirement for the State to cross-check child care providers with the sex offender registry (HB442 & HB443).

IMPROVING MARYLAND'S HEALTHCARE SYSTEM

Required under the Federal Affordable Care Act (ACA), **the Maryland Health Progress Act of 2013** will prepare Maryland to fully implement the ACA. The legislation (HB228) ensures Maryland is a leader in providing access to health care by expanding Medicaid, fully funding the Maryland Health Benefit Exchange, moving enrollees out of the Maryland Health Insurance Plan and into the exchange while protecting against "rate-shock", and other necessary changes to be fully compliant with the ACA. The Exchange will be **a fair, transparent marketplace that provides individuals and small businesses one-stop comparison-shopping for affordable insurance options.** Private insurers will offer competitive plans, allowing consumers to compare rates, benefits, and quality to find coverage that best suits their needs. The Exchange will help low-income Marylanders determine their eligibility for Medicaid or federal subsidies to buy private plans, and it will support small business access to affordable coverage. The FY2014 budget assumes \$349M in new federal funds to cover an additional 109,000 Marylanders.

The legislature also created a **medical marijuana pilot program** to help provide palliative support for ailing Marylanders. The bill creates a Medical Marijuana Commission to identify five academic centers across Maryland that may distribute and prescribe medical marijuana for investigational purposes. An academic medical center operating a program under this law may only use marijuana obtained from the federal government or a medical marijuana grower licensed under the law. HB1101 includes strict controls and regulation by the Maryland Department of Health and Mental Hygiene for the cultivation, prescription and distribution of medical marijuana in medical research, in consultation with medical experts. Seventeen states and the District of Columbia have medical marijuana programs.

TIGHTENING CAMPAIGN FINANCE

In 2012, we saw long lines at many polling places, particularly in large jurisdictions. This session the Governor introduced and the legislature passed the **Improving Access to Voting Act** which **reauthorizes early voting** which is set to sunset, **expands early voting dates, times and locations**, and **increases penalties for voter fraud**. Additionally, the law authorizes same day voter registration, with proof of residency, during early voting.

In 2011, the legislature established the Commission to Study Campaign Finance Law, and in December 2012 the Commission released its final recommendations. Based on those recommendations the legislature passed, **The Campaign Finance Reform Act of 2013**. The bill **closes the loophole that treated limited liability companies** owned by the same person as entirely separate entities. This loophole gave the owners of LLCs, such as developers and casino owners, the ability to spend hundreds of thousands of dollars in an election, far beyond the limits applied to any other individual or corporation. Maryland **now has among the strongest reporting requirements in the nation** for money spent during an election by entities operating independently from campaigns. The Supreme Court in its decision in *Citizens United* removed the limits on this type of spending, called independent expenditures or electioneering communications, leading to a staggering \$6 billion spent in the 2012 election cycle. Additionally the bill includes reforms that will require reporting of donors to entities that make independent expenditures; **establish civil penalties for violations of campaign laws**; and increase the reporting of potential conflicts of interest in the procurement process. In addition, the legislation greatly strengthens regulations surrounding lump sum reporting.