

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1155 (Chairman, Commerce and Government Matters Committee)
(Departmental - General Services)
Commerce and Government Matters

Procurement Law - Security on Construction Contracts

This departmental bill provides that the unencumbered portion of real property located in Maryland can be pledged as payment security or performance security on a construction contract.

Fiscal Summary

State Effect: Indeterminate effect on expenditures; potential decrease in revenues.

Local Effect: Potential indeterminate effect on expenditures; potential decrease in revenues.

Small Business Effect: The Department of General Services has determined that this bill has minimal or no impact on small business (attached). Fiscal Services concurs with this assessment.

Fiscal Analysis

State Effect: The Department of General Services (DGS) advises that expenditures on construction contracts could decrease since the cost of surety bonds (up to 3% of the value of the bond) are passed on in the bid price for a contract. Pledging the unencumbered portion of property in lieu of a bond will save the price of the fee; this savings could be passed onto the State through the bid price.

It is assumed that the value of the property pledged will be based on the adjusted assessed value according to the Department of Assessments and Taxation. Some expenditures could be incurred if the agency bidding the contract chooses to dispute the value of the property submitted. In addition, if the contractor did default, there would be expenditures associated

with liquidating the property. If the assessed value of the property did not reflect the actual market value of the property (for instance if the property had a hidden problem such as pollution), then revenues accruing to the State in the event of a default would decrease.

Local Effect: To the extent that local jurisdictions follow State procurement guidelines, expenditures and revenues could be affected as discussed above.

Information Source(s): Department of General Services, University of Maryland System, Department of Transportation, Department of Fiscal Services

Fiscal Note History: First Reader - March 11, 1996
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