Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 720 (Delegate Baldwin*, et al.*)
Economic Matters

Prevailing Wage Law - Repeal

This bill repeals the State's prevailing wage law for public works contracts.

Fiscal Summary

State Effect: General fund revenues would decrease by about $72,000 annually. General and special fund expenditures would decrease by an estimated $15 to $45 million in FY 1998. Future year expenditure reductions are indeterminate but would be substantial.

Local Effect: In aggregate, local expenditures could decrease by $7.3 to $21.8 million in FY 1998. Revenues would not be affected.

Small Business Effect: Meaningful effect on small business as discussed below.

Fiscal Analysis

State Revenues: Under current law the Commissioner of Labor and Industry can assess liquidation damages against any employer who fails to pay the prevailing wage or fails to provide timely disclosure of payroll records. If the prevailing wage law is repealed, it is estimated that general fund revenues would decline by about $72,000 annually, which reflects the average yearly liquidation damages collected by the Commissioner.

State Expenditures: State expenditures could decrease in fiscal 1998 due to: (1) the elimination of the Prevailing Wage Unit of the Division of Labor and Industry; and (2) the reduction in construction costs for contracts which are no longer subject to the State's prevailing wage law.

(1) Elimination of the Prevailing Wage Unit

Repealing the prevailing wage law would presumably eliminate the need for the Prevailing Wage Unit and reduce general fund expenditures accordingly. Based on the unit's fiscal 1998 budget allowance, expenditures would decrease by $156,542. This amount reflects salaries, fringe benefits, ongoing operating expenses, and an October 1, 1997 effective date.

As a matter of reference, the unit employs five full-time employees.

(2) Reduction in Construction Costs

In 1995, the Department of Fiscal Services (DFS) conducted research on the fiscal implications of prevailing wage laws. Based on this research, DFS estimates that repealing the State's prevailing wage laws would reduce construction costs on affected projects by 5% to 15%.

The State's proposed capital program for fiscal 1998 is approximately $1.88 billion, including transportation projects. Approximately two-thirds of the capital program is paid by the State and one-third is paid by local jurisdictions. However, less than half of the capital program would be affected by repealing the State's prevailing wage law because the following items are exempt or otherwise excluded: (1) any portion of a project funded with federal money; (2) grants to private entities; (3) land, design, and equipment; and (4) projects below $500,000.

Based on historical experience, it is estimated that approximately 32% of the capital program is subject to prevailing wage laws. Therefore, repealing the State's prevailing wage law as of October 1, 1997 would affect approximately $602 million in the State's 1998 capital program and would reduce construction expenditures by $15 to $45 million ($20.1 to $60.5 million on an annualized basis). Out-year expenditure reductions would depend upon the State's capital program in any given year and cannot be reliably projected.

Any savings realized in construction costs could be used to fund additional capital projects or to reduce the State's debt authorization. If debt authorization is reduced, the State would realize an additional savings related to the cost of servicing debt. However, any such savings cannot be projected at this time.

Local Expenditures: Local expenditures would decrease to the extent that repealing the State's prevailing wage law would reduce construction costs and debt service. Based on the State's 1998 capital program and the assumptions provided above, local expenditures would decrease by $7.5 to $22.4 million in fiscal 1998, which reflects the October 1, 1997 effective date.

Small Business Effect: The majority of the contractors and subcontractors in the State are small businesses. It is assumed that the majority of the businesses hired for State projects that require prevailing wages are also small businesses. This bill could have a meaningful effect on these businesses to the extent that their expenditures for wages paid in the performance of State contracts are reduced. Businesses that do not regularly pay wages as high as those required by prevailing wage law would be able to bid lower on State contracts than those businesses that pay wages similar to prevailing wage on all contracts. The businesses that pay lower than prevailing wage would have a competitive advantage over those that do not and may be awarded a greater number of State contracts as a result.

Additional Comments: In fiscal 1996, the Prevailing Wage Unit recovered $621,866 in restitution for employees who were paid less than the prevailing wage.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; Department of Transportation (State Highway Administration, Mass Transit Administration); Department of General Services; University of Maryland System; Department of Fiscal Services

Fiscal Note History: First Reader - February 14, 1997
nrd

Analysis by: Shelley Finlayson
Reviewed by: John Rixey
Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710