

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1164 (Delegate McHale)
Commerce and Government Matters

State Procurement - Recipients of Proceeds of General Obligation Bonds - Requirements

This bill specifies that, except as otherwise expressly provided by law, the Maryland procurement laws apply to each expenditure or procurement by a person who receives any proceeds of a Maryland general obligation (GO) bond when utilizing the proceeds or any matching funds of the proceeds.

Fiscal Summary

State Effect: General fund expenditures could increase by at least \$118,800 in FY 1998; future year expenditures increase due to annualization and inflation. Revenues would not be affected.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	118,800	147,200	152,500	158,000	163,800
Net Effect	\$118,800	\$147,200	\$152,500	\$158,000	\$163,800

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Indeterminate effect on expenditures by political subdivisions that are recipients of general obligation bond proceeds; revenues would not be affected.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: The proposed fiscal 1998 capital budget contains \$253 million for grants and loans from general obligation (GO) bond proceeds. The grants and loans go to various local governments, nonprofit organizations, and other private organizations, and are administered through over ten departments and agencies, including the Office on Aging, the Department of

Business and Economic Development, the Maryland State Department of Education, the Maryland Department of the Environment (MDE), the Department Health and Mental Hygiene (DHMH), the Maryland Higher Education Commission, the Department of Housing and Community Development (DHCD), the Department of Juvenile Justice, the Department of Natural Resources, and the Interagency Committee on Public School Construction. (The fiscal 1998 capital budget contains another \$162 million in GO bond proceeds for State-owned facilities, which are assumed to be required to comply with State procurement laws.)

State Expenditures: Various departments and agencies that administer grants and loans from the proceeds of GO bonds could experience increased workload from providing grant and loan recipients with guidance concerning the State’s procurement procedures and from monitoring compliance. The extent to which an increase in workload would require additional personnel depends on the level of involvement of a particular agency.

For example, the Department of General Services’ (DGS) Grants and Loans group managed about \$80 million, roughly one-third of the total amount of GO bond proceeds to non-State owned facilities (based on the proposed fiscal 1998 capital budget), in additional grants and loans for 91 nonprofit organizations and local governments in 1996. Accordingly, general fund expenditures for DGS could increase by an estimated \$118,835 in fiscal 1998, which accounts for the bill’s October 1, 1997 effective date. The estimate reflects the cost of hiring two Project Managers and one Administrative Officer for functions related to providing grant recipients with guidance concerning the State’s procurement procedures and monitoring compliance. Grants and loan requests managed by DGS include legislative initiatives, and various other grants and loans for the University of Maryland Medical System, DHMH, and the Office on Aging. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$109,610
Equipment	9,000
Other Operating Expenses	<u>225</u>
Total FY 1998 State Expenditures	\$118,835

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

Local Expenditures: The State’s procurement laws (Division II of the State Finance and Procurement Article) specify various requirements including, but not limited to, methods of source selection for contracts; procedural requirements for the awarding of contracts, including advertising for bids; preferences, such as a priority for State Use Industries, Blind

Industries and Services of Maryland, and sheltered workshops, and small businesses and minority business preferences; and use of the prevailing wage.

To the extent that localities do not already comply with certain aspects of the State's procurement laws, localities that are not expressly exempted from the State's procurement laws would have to comply with these various requirements for each expenditure or procurement when using the proceeds of a GO bond or any matching funds of the proceeds. This could result in an increase in expenditures for local units both from expenditures associated with training personnel in the State's procurement laws and from increased contract costs. To the extent that compliance with State procurement laws results in more competition than the local units currently obtain, the increased administrative costs could be offset to some extent by savings.

Small Business Effect: It is assumed that many recipients of GO bond proceeds are small businesses. The bill could have a meaningful effect on these businesses to the extent that compliance with the State's procurement laws results in expenditure increases, as discussed above regarding local units. To the extent that compliance with State procurement laws results in more competition than the small businesses currently obtain, the increased costs could be offset to some extent by savings.

Small businesses in general could benefit from additional expenditures and procurements that would have to comply with the State's small business preference. Under the State's procurement laws, procurements by DGS, the Department of Transportation or the University of Maryland, may be designated for the small business preference program. For designated procurements, small businesses receive a 5% price preference.

Information Source(s): Board of Public Works; Canal Place Preservation and Development Authority; Department of Budget and Management; Department of Business and Economic Development; Department of General Services; Department of Health and Mental Hygiene; Department of Natural Resources; Cecil, Harford, Montgomery, Prince George's, Queen Anne's, and St. Mary's counties; Office on Aging; Maryland Higher Education Commission; Maryland State Department of Education; Public School Construction; State Treasurer's Office; University of Maryland at Baltimore; Department of Fiscal Services

Fiscal Note History: First Reader - March 10, 1997

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