

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 424 (Senator Young)
Economic and Environmental Affairs

State Procurement - Preferences - Employment Enhancement Business

The bill requires the Board of Public Works (BPW), in consultation with the Department of Labor, Licensing, and Regulation (DLLR), to adopt regulations for a program requiring designated units of State government to provide a share of procurement contracts to certified “employment enhancement businesses” (EEB). The bill defines employment enhancement business as a business that (1) employs and trains individuals who have been terminated from a state or federal government assistance program, have been honorably discharged from the United States Armed Forces, or reside in an empowerment zone or enterprise community; and (2) provides a minimum starting salary of \$7.50 an hour. BPW will certify EEBs that meet criteria to be established by regulation and provide them with assistance locating and obtaining funds for employee training and development. The bill establishes that a person who violates the provisions regarding fraudulent certifications or obstructing an investigation of an applicant’s qualifications is guilty of a misdemeanor and on conviction is subject to a fine not exceeding \$2,500 or imprisonment not exceeding one year, or both.

Fiscal Summary

State Effect: Indeterminate effect on expenditures due to the EEB program. Potential indeterminate increase in general fund revenues and expenditures due to the bill’s penalty provision.

Local Effect: Indeterminate effect on revenues due to the EEB program. Potential indeterminate increase in revenues and expenditures due to the bill’s penalty provision.

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

Fiscal Analysis

State Effect: The bill requires the Board of Public Works (BPW) to adopt regulations for a

program requiring certain State procurement units to provide a share of procurement contracts to certified EEBs. The actual effect of the bill on procurement expenditures depends on the specifics of the regulations to be adopted by BPW, such as (1) which primary procurement units are designated units; (2) the standards and procedures for certification; (3) what types of procurements would be included under the program; (4) guidelines for identifying procurement contracts for certified EEBs; and (5) the minimum percentage of procurements that each designated entity must make directly or indirectly from certified EEBs. As a point of reference, the State spends about \$3 billion annually on procurements in all categories.

The bill requires BPW to certify EEBs and, in conjunction with DLLR, to provide assistance locating or obtaining grants, subsidies or other funds available through local, state, or federal government for employee training and development. The costs depend on how many businesses would apply, which cannot be reliably estimated at this time. BPW advises that a staff of four, including one Administrator V, one Administrator III, one Management Specialist III, and one Office Secretary III, would be needed at a total cost of about \$200,000 per year, including salaries, fringe benefits, and operating expenses. There would also be some additional administrative costs for each designated unit in order to comply with the requirements of the program. For illustrative purposes only, the Maryland Department of Transportation spends about \$1 million per year as the State certification authority for the Minority Business Enterprise (MBE) Program. The goal of the MBE program is for 14% of a unit's total dollar value of procurement contracts to be made directly or indirectly from certified MBEs.

Costs of State procurements by designated units could be affected as a result of the definition of an EEB as a business that provides a minimum starting salary of at least \$7.50 per hour. Again, the actual effect depends on what types of projects the program would apply to. For instance, if the program applies to contracts that typically pay employees less than \$7.50 an hour, contract bids could increase. If the program only applies to contracts where wages are generally \$7.50 or higher, there would be little effect.

To the extent that this legislation encourages businesses to hire and train individuals who (1) have been terminated from a governmental assistance program within the last year; (2) have been honorably discharged from the U.S. Armed Forces; or (3) currently reside in an empowerment zone or enterprise community, the bill could result in unemployed workers being hired. Thus, there could be a decrease in benefits paid from the Unemployment Insurance Trust Fund. In addition, the bill could result in a reduction in the public assistance rolls and thus a decrease in benefits paid by the State's public assistance programs.

General fund revenues could increase under the bill's monetary penalty provision for those

cases heard in the District Court, depending upon the number of convictions and fines imposed. At the same time, general fund expenditures could increase as a result of the bill's incarceration penalty due to increased payments to counties for reimbursement of inmate costs, depending upon the number of convictions and sentences imposed.

Local Effect: By establishing a program that requires certain State procurement units to provide a share of contracts to businesses who train and employ certain individuals, including those who live in empowerment zones or enterprise communities, this bill could increase tax revenues in those communities by increasing employment. However, there could be an offsetting tax loss for those communities from which employees would otherwise have come.

Revenues could increase under the bill's monetary penalty provision for those cases heard in the circuit courts, depending upon the number of convictions and fines imposed. At the same time, expenditures could increase as a result of the bill's incarceration penalty depending on the number of convictions and sentences imposed. Counties pay the full cost of incarceration for the first 90 days of the sentence, plus part of the per diem cost after 90 days. Per diem operating costs of local detention facilities are expected to range from \$23 to \$83 per inmate in fiscal 1998.

Small Business Effect: A program requiring designated units of State government to provide a share of procurement contracts to certified EEBs could result in a small business receiving a contract that it would not receive under current procurement practices. There could be an offsetting negative effect on small businesses that are not eligible for certification as EEBs.

Information Source(s): Board of Public Works; Department of Budget and Management; Department of General Services; Department of Housing and Community Development; Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; Department of Transportation (State Highway Administration, Port Administration); Morgan State University; Office of the Attorney General; State Treasurer's Office; University of Maryland System; Department of Fiscal Services

Fiscal Note History: First Reader - February 26, 1997

ncs

Analysis by: Sarah Dickerson

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710