Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 55 (Senator Hafer)
Economic and Environmental Affairs

State Construction Contracts - High Unemployment Regions - Preferences

This bill establishes a 5% price preference for bidders whose principal office is located in a "high unemployment county" and whose payroll consists of employees at least 65% of whom are domiciled in that county or an adjacent county. This applies to State construction contracts awarded under competitive sealed bidding. This preference would not apply when there is a conflict with federal law or the provisions of a federal grant.

Fiscal Summary

State Effect: Indeterminate effect on expenditures. Revenues would not be affected.

Local Effect: Potential indeterminate effect on revenues and expenditures.

Small Business Effect: Potential meaningful effect on a limited number of small businesses as discussed below.

Fiscal Analysis

State Expenditures: This bill could result in State construction contracts that are up to 5% more expensive than they would otherwise be. In addition, this 5% is a cumulative preference that is added on to any other preference awarded to the contractor. Any increase in expenditures depends upon the number of bidders this measure applies to and the dollar amount of the preference. While the impact cannot be reliably estimated at this time, it could be significant. For instance, based on the actual number of construction projects completed by the Department of General Services (DGS) in 1995 and 1996 and estimates for 1997 and 1998, about 152 projects each year could be affected by this legislation. Again based on 1995 and 1996 actuals and 1997 and 1998 estimates of the value of construction projects completed, the maximum potential impact on Department of General Services administered construction projects is approximately $3.6 million annually. The actual impact is expected to be significantly less because (1) in some cases there may be no bidders eligible for the preference; (2) an eligible bidder would not be awarded a contract in every case even with the preference; and (3) when the preference is used, it may be for some amount less than the 5% that is allowed. It is noted that this bill would have little effect on the State Highway Administration and the Mass Transit Administration since the bill only applies to State contracts and is not permitted on federal contracts.

In addition, administrative costs for various departments would likely increase, since the procurement officer would have to verify the eligibility of contractors.

To the extent that this legislation results in unemployed workers being hired, there could be a decrease in benefits paid from the Unemployment Insurance Trust Fund in some cases.

Local Revenues: By requiring a preference for contractors who employ a majority of workers who are domiciled in "high unemployment counties" or adjacent counties, this bill could increase tax revenues in those counties by increasing employment. However, there could be an offsetting tax loss for those counties from which contractors and employees would otherwise have come.

Local Expenditures: Local governments would only be affected if they follow State procurement guidelines.

Small Business Effect: The 5% price preference provided in this bill could result in a small business receiving a contract that they would not receive under current procurement practices. The only small businesses that could benefit from this bill are those that (1) have their principal offices in "high unemployment counties"; (2) employ a sufficient percentage of workers from those and adjacent counties; and (3) are awarded State construction contracts. Furthermore, there could be an offsetting negative effect on small businesses located in those counties that do not have "high unemployment."

Additional Comments: Using Department of Labor, Licensing, and Regulation unemployment figures for 1995, there were seven counties having unemployment rates of more than one and a half times the State average of 5.1:

Allegany	9.5	Garrett	11.3
Baltimore City	8.3	Somerset	11.0
Cecil	8.1	Worcester	9.7
Dorchester	10.0		

In addition there were seven counties adjacent to those counties, where employees may be domiciled and still count towards the 65% that must be domiciled in a "high unemployment county" or an adjacent county:

Anne Arundel	4.1	Talbot	4.0
Baltimore County	5.2	Washington	5.4
Caroline	5.9	Wicomico	6.0
Harford	5.5		

Information Source(s): Department of Budget and Management; Department of General Services; Department of Health and Mental Hygiene (General Services Administration); Department of Public Safety and Correctional Services (Division of Capital Construction and Facilities Maintenance); Department of Transportation (State Highway Administration, Mass Transit Administration); Public School Construction Program; University of Maryland System; Department of Labor, Licensing, and Regulation; Department of Fiscal Services

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