

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 56 (Senator Hafer)
Economic and Environmental Affairs

**State Construction Contracts - High Unemployment Regions -
Use of Local Workers**

This bill requires any contractor or subcontractor awarded a State construction contract in a county with sufficiently high unemployment to establish a hiring preference for individuals who live in either that county or an adjacent one. This requirement would not apply if there is a conflict with federal law or a federal grant. A procurement officer may waive these requirements should the contractor have sufficient evidence that workers possessing needed skills are unavailable in the specified region.

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 minimal effect on a limited number of small businesses as discussed below.

Fiscal Analysis

State Expenditures: The State spent about \$970 million on about 1,700 construction contracts in fiscal 1995, the latest year for which such information is available. Data is not readily available on how many of those contracts were awarded in counties with sufficiently high unemployment that they would have been affected by this bill. In any event, increased costs to contractors of administering this hiring preference may result in increased costs of contracts that are covered under the bill's provisions. Any increased contract costs would depend on the current hiring practices of contractors and the extent to which increases in cost are passed along to the State through higher bids. Any increase in State expenditures would

depend on the number of contracts affected. In addition, State expenditures could also increase if competition is reduced because prospective bidders are discouraged from pursuing business with the State because of this requirement. It is noted that this bill will have little effect on the State Highway Administration or the Mass Transit Administration since the bill applies only to State projects and is not permitted on federal projects.

Administrative costs for various departments would likely increase, since the procurement officer would have to verify the eligibility of personnel. These costs, however, should be able to be absorbed within existing resources.

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 hiring preference for persons domiciled in certain counties, this bill could increase the tax revenues in those counties by increasing employment. However, there could be an offsetting tax loss for those counties from which contractors' employees would otherwise have come.

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

Small Business Effect: To the extent that additional administrative costs are borne by the contractors rather than passed on to the State through higher contract prices, this bill could have a negative effect on those small businesses affected. It is expected that the costs of administering the preference would be minimal. The only small businesses affected would be those that (1) are awarded State construction contracts in counties with "high unemployment"; and (2) have to alter their hiring practices in order to comply with the requirements of the contract.

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, which is 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:

Anne Arundel	4.1		Talbot	4.0	
Baltimore County	5.2		Washington	5.4	
Caroline		5.9		Wicomico	6
Harford		5.5			

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

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