

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

Senate Bill 589 (Senator Lawlah. *et al.*)

Economic and Environmental Affairs

---

**Procurement State Construction Contracts - Preferences**

---

This bill specifies that when a State procurement unit uses competitive sealed bidding to award a construction contract, the unit must grant the contract to a “preferred bidder” if: (1) the preferred bidder submits the lowest responsive bid among preferred bidders; and (2) the bid, after subtracting the “preference,” does not exceed the lowest responsive bid. A preferred bidder is a person who submits a responsive bid or whose payroll consists of employees at least 65% of whom are permanent residents of the State. A preference is an amount equal to 5% of the lowest responsive bid received in response to an invitation for bids. The Board of Public Works must adopt regulations to implement the bill.

---

**Fiscal Summary**

**State Effect:** Indeterminate increase in expenditures. To the extent that the bill results in increased employment of Maryland residents, tax revenues would increase and expenditures on certain assistance programs could decrease.

**Local Effect:** Indeterminate increase in expenditures. To the extent that the bill results in increased employment of residents of certain jurisdictions, local tax revenues would increase.

**Small Business Effect:** Potential meaningful.

---

**Fiscal Analysis**

**State Expenditures:** It is assumed that a preferred bidder is intended to be a person who submits a responsive bid and whose payroll consists of employees at least 65% of whom are permanent residents of the State. Theoretically, the bill could result in an increase in State expenditures equal to 5% of construction contracts awarded by competitive sealed bidding. The actual impact is expected to be less than 5% of all construction procurements because an

eligible bidder would not be awarded a contract in each case even with the preference, and when the preference is used it may be for some amount less than 5%. In addition, the Department of General Services (DGS) advises that the actual effect would be minimal since few contracts are currently awarded to out-of-state bidders.

As a point of reference, it is noted that the State spent about \$907 million on construction and construction-related services in fiscal 1996, the latest year for which such information is available.

State expenditures could also increase from additional review time required for bids and any additional protests. DGS advises that expenditures could increase by an estimated \$62,300 annually reflecting the cost of hiring one Administrative Officer and one Contract Services Assistant to verify payroll records to determine eligibility for the preference. MDOT also advises that depending on the extent of effort needed to verify eligibility expenditures could increase by an estimated \$71,000 annually reflecting the cost of hiring one Administrator and one Office Secretary to verify qualification of bidders for the preference. Legislative Services advises that costs for verification of eligibility of bidders would depend on the regulations adopted by the Board of Public Works.

To the extent that the bill results in increased employment of Maryland residents, tax revenues would increase and expenditures on certain assistance programs could decrease.

**Local Effect:** To the extent that local governments follow State procurement guidelines, they would be affected as discussed above. In addition, to the extent that the bill results in increased employment of residents of certain jurisdictions, local tax revenues would increase.

**Small Business Effect:** Small businesses that are awarded State construction contracts as a result of the preference would benefit. Small businesses that are not awarded contracts because they do not qualify for the preference would be negatively affected.

---

**Information Source(s):** Board of Public Works, Department of General Services, University System of Maryland, Department of Health and Mental Hygiene, Department of Budget and Management

**Fiscal Note History:** First Reader - March 10, 1998

ncs

---

Analysis by: Sarah Dickerson

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710