Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 404 (Delegate Baldwin, *et al.*)
Economic Matters

Prevailing Wage Law - Repeal

This bill repeals the State's prevailing wage law for public works contracts.

Fiscal Summary

State Effect: General fund revenues would decrease by about $42,000 annually. General and special fund expenditures would decrease by an estimated $28.2 to $84.7 million in FY 2000, which reflects the bill's October 1, 1999 effective date, and $37.6 to $112.9 million on an annualized basis. Future year expenditure decreases are indeterminate at this time but could be substantial.

Local Effect: In aggregate, local expenditures could decrease by $9.4 to $28.2 million in FY 2000, which reflects the bill's effective date. Local revenues would not be affected.
Small Business Effect: Meaningful impact on small business.

Fiscal Analysis

State Revenues: Under current law the Commissioner of Labor and Industry can assess liquidation damages against any employer who fails to pay the prevailing wage or fails to provide timely disclosure of payroll records. If the prevailing wage law is repealed, it is estimated that general fund revenue would decline by about $42,000 annually, which reflects the average annual amount of a 5-year forecast for liquidation damages collected by the commissioner.

State Expenditures: State expenditures could decrease in fiscal 2000 due to: (1) the elimination of the Prevailing Wage Unit of the Division of Labor and Industry; and (2) the reduction in construction costs for contracts which are no longer subject to the State's prevailing wage.

(1) Elimination of the Prevailing Wage Unit

Repealing the prevailing wage law would eliminate the need for the Prevailing Wage Unit and reduce general fund expenditures accordingly. Based on the unit's fiscal 2000 budget allowance, expenditures would decrease by $282,176. This amount reflects salaries, fringe benefits, ongoing operating expenses, and an October 1, 1999 effective date.

(2) Reduction in Construction Costs

In 1995 the Department of Fiscal Services conducted research on the fiscal implications of prevailing wage laws. Based on this research, the Department of Legislative Services (DLS) estimates that repealing the State's prevailing wage laws would reduce construction costs on affected projects by 5% to 15%.

The State's proposed capital program for fiscal 2000 is approximately $2.3 billion, including transportation projects. Approximately two-thirds of the capital program is paid by the State and one-third of the capital program is paid by local jurisdictions. However, only one-third of the capital program would be affected by repealing the State's prevailing wage law because the following items are exempt or otherwise included: (1) any portion of a project funded with federal money; (2) grants to private entities; (3) land, design, and equipment; and (4) projects below $500,000.

Therefore, repealing the State's prevailing wage law as of October 1, 1999 would affect approximately $753 million in the State's 2000 capital program and would reduce construction expenditures by $28.2 to $84.7 million ($37.6 to $112.9 million on an annualized basis). Out-year expenditure reductions would depend upon the State's capital program in any given year and cannot be reliably projected.

Any savings realized in construction costs could be used to fund additional capital projects or to reduce the State's debt authorization. If debt authorization is reduced, the State would realize an additional savings related to the cost of servicing the debt. However, any such savings cannot be projected at this time.

Local Effect: Local expenditures would decrease to the extent that repealing the State's prevailing wage law would reduce construction costs and debt service. Based on the State's 2000 capital program and the research conducted in 1995, local expenditures would decrease by $9.4 to $28.2 million ($12.5 to $37.6 million on an annualized basis) in fiscal 2000, which reflects the October 1, 1999 effective date.

Small Business Effect: The majority of the contractors and subcontractors in the State are small businesses. It is assumed that the majority of the businesses hired for State projects that require prevailing wages are also small businesses. This bill could have a meaningful effect on these businesses to the extent that their expenditures for wages paid in the performance of State contracts are reduced. Businesses that do not regularly pay wages as high as those required by prevailing wage law would be able to bid lower on State contracts than those businesses that pay wages similar to prevailing wage on all contracts. The businesses that pay lower than prevailing wage would have a competitive advantage over those that do not and may be awarded a greater number of State contracts as a result.

Additional Comments: In fiscal 1998 the Prevailing Wage Unit recovered $204,435 in restitution for employees who were paid less than the prevailing wage.

It should be noted that various studies have been conducted in other states that conclude that the prevailing wage law actually reduces government expenditures on construction projects. However, prevailing wage laws differ significantly among states. Furthermore, there are various studies that show that the prevailing wage law increases State expenditures.

Information Source(s): Department of General Services; Department of Labor, Licensing, and Regulation; Department of Transportation; Department of Public Safety and Correctional Services; University of Maryland; Department of Legislative Services

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