

Department of Legislative Services  
Maryland General Assembly  
1999 Session

**FISCAL NOTE**

Senate Bill 556 (Senator Hooper, *et al.*)

Finance

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**Prevailing Wage Rates**

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This bill (1) increases the threshold contract price that triggers the prevailing wage law for a public works contract from \$500,000 to \$1,000,000; (2) alters the calculation of the prevailing wage if fewer than 50% of the workers in the same classification in a locality receive the same the wage rate so that the rate is determined by a weighted average; (3) requires the Division of Labor and Industry, during its annual determination of the prevailing wage rate for a classification of workers in a locality, to determine whether there are any unpublished jurisdictional work rules that define the type of work that a worker in a particular job classification may perform and publish the work rules for the benefit of any public unit that seeks the performance of that work; (4) requires the division to give notice of the work rules applicable to each public works contract for each prevailing wage determination that the division makes that is based on a wage rate established by a collective bargaining agreement and for which there are unpublished jurisdictional work rules defining the type of work that a worker in the particular job classification may perform; and (5) provides that the provisions of law relating to liability for failure to pay the prevailing wage rate apply if the division has given proper notice of the wage determination applicable to workers in each classification who are expected to perform work on a project, including any previously unpublished jurisdictional work rules defining the type of work that workers in the particular job classification may perform.

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**Fiscal Summary**

**State Effect:** General fund expenditures could decrease by an estimated \$243,800 to \$1,462,500 in FY 2000 which reflects the bill's October 1, 1999 effective date, and \$325,000 to \$1,950,000 on an annual basis.

**Local Effect:** Local expenditures would decrease to the extent that construction costs are reduced by removing the application of the prevailing wage on contracts between \$500,000

and \$1,000,000.

**Small Business Effect:** Meaningful effect on small business.

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## Fiscal Analysis

**State Effect:** *Reduction in Construction Costs for Projects between \$500,000 and \$1,000,000:* This bill increases the threshold contract price that triggers the prevailing wage law for a public works contract from \$500,000 to \$1,000,000. The Division of Labor and Industry issues approximately 130 wage determinations each year on public works contracts of \$500,000 or more. It is estimated that 10% of those contracts were less than \$1,000,000. 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%. Accordingly, general fund expenditures could decline between \$325,000 and \$1,950,000. It should be noted that the bill is not expected to affect school construction costs because there are currently not any school construction projects between \$500,000 and \$1,000,000 to which the prevailing wage currently applies.

The bill also requires a prevailing wage rate to be calculated by a weighted average if fewer than 50% of the workers in the locality, working in the same classification, receive the same wage rate. Under current law, if fewer than 50% of the workers receive the same wage rate, the prevailing wage rate is the rate paid to at least 40% of the workers. If fewer than 40% receive the same wage rate, a weighted average is used. It is estimated that only 10% of the prevailing wage rates are currently determined by a rate paid to 40% of the workers in a locality. Using a weighted average rather than the rate paid to 40% of the workers could cause the rates to increase or decrease depending on the wage patterns in the locality.

The Division of Labor and Industry could handle the bill's requirements with existing budgeted resources.

**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.

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**Information Sources:** Department of Labor, Licensing, and Regulation; State Public School Construction Program; Department of General Services; Department of Budget and Management

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