HB 687

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 687 (Delegate Grosfeld, *et al.*)
Economic Matters

State Procurement and Financing - Investment and Accountability Act

This bill generally requires employers to pay a "living wage" rate if the employer: (1) has a State contract valued greater than $100,000; (2) has a subcontract valued greater than $25,000; (3) is a health care provider that receives 50% or more of its annual gross revenues through the State's Medical Assistance Program; or (4) is a recipient of State financial assistance. The term "living wage" is defined as the minimum hour wage rate, based on a 40-hour workweek, that would provide an employee with an annual income that is at least 130% of the most recent U.S. Census Bureau poverty figures for a family of four. If the Maryland Prevailing Wage Law applies to a procurement contract, and the prevailing wage rate exceeds the living wage rate, the prevailing wage applies. The bill requires the Division of Labor and Industry to set the living wage rate, investigate complaints, hold hearings, and assess fines and collect penalties for non-compliance. The bill authorizes an employee to sue for treble damages when an employer fails to pay the living wage.

Fiscal Summary

State Effect: Indeterminate but significant increase in general fund expenditures. To the extent that employees covered by the bill currently earn less than the "living wage," this bill could cause payroll costs and consequently State procurement contract costs to increase. General fund expenditures would also increase to administer the bill's provisions. General fund revenue would increase from liquidated damages and penalties imposed by the Division of Labor and Industry. The following table shows only the administrative costs and revenues associated with the bill.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$20,000	$40,000	$40,000	$40,000	$40,000
GF Expenditures	$144,400	$173,500	$179,200	$185,400	$191,600

Net Effect	($124,400)	($133,500)	($139,200)	($145,400)	($151,600)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful. To the extent that the bill applies to small business employees who currently earn less than the "living wage," payroll costs would increase. These businesses would likely pass these payroll costs onto the State in the form of higher contract prices.

Fiscal Analysis

State Effect: This bill would cause an increase in general fund expenditures as a result of increased contract costs and administrative costs.

Contract Costs: The bill creates a "living wage" rate for employers that have State contracts exceeding $100,000 or subcontracts exceeding $25,000, health care providers that receive 50% or more of their revenues under the State's Medical Assistance program, and employers that receive State financial assistance. The term "living wage" is defined as the minimum hour wage rate, based on a 40-hour workweek, that would provide an employee with an annual income that is at least 130% of the most recent U.S. Census Bureau poverty figures for a family of four. The last published poverty rate for a family of four was $16,400. Therefore, the "living wage" is approximately $10.25/hour for a 2,080 hour/year job. The State minimum wage rate is currently $5.15 per hour.

Although the total number of State contracts affected by the bill is not known, it is assumed that fewer than 15% of Maryland businesses would be subject to the living wage rate. For illustrative purposes, the Department of General Services advises that the bill would cause its costs for janitorial services contracts and uniformed guard services contracts to increase by 42%. Additionally, the Department of Health and Mental Hygiene (DHMH) advises that the bill would cause its payroll costs for nursing home providers enrolled in the Medicaid program to increase by 9%. As a result, DHMH expects the bill to result in a $25 million annual increase in its general fund expenditures.

Administrative Costs: General fund expenditures could increase by an estimated $144,400 in fiscal 2000, which accounts for the bill's October 1, 1999 effective date. The Division of Labor and Industry expects to handle 1,000 complaints each year resulting from the failure of employers to pay the living wage. Based on the Division of Labor and Industry's experience with the investigations conducted by the Employment Standards Service, the division would need to hire an administrative officer, two wage and hour investigators, and a data device operator in the Division of Labor and Industry. The Board of Public Works would need an additional administrative officer. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$ 122,600
Operating Expenses	21,800
Total FY 2000 State Expenditures	**$144,400**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Based on similar language concerning liquidated damages in the Prevailing Wage Law, it is estimated that the division would collect approximately $20,000 in liquidated damages and penalties in fiscal 2000 and about $40,000 annually thereafter.

Information Source(s): Department of Labor, Licensing, and Regulation

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