

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 658 (Senator Bromwell, *et al.*)

Finance

Procurement - Prevailing Wage - School Construction

This bill repeals provisions of law that require 75% or more of an elementary or secondary school construction project to be funded by the State in order for the prevailing wage law to apply.

Fiscal Summary

State Effect: State general fund expenditures could increase to the extent that additional school construction programs fall within the requirements of the State's prevailing wage law.

Local Effect: Local expenditures could increase to the extent that additional school construction projects fall within the requirements of the State's prevailing wage law.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Background: Title 17, Subtitle 2, of the State Finance and Procurement Article outlines the definitions, procedures, and requirements of Maryland's prevailing wage law. The prevailing wage law extends to any public works contract when State public funds are used to finance at least 50% of the construction costs of a particular project. Public school projects are subject to prevailing wages if the State funding contribution is at least 75% of total project funding.

State Effect: The bill expands the number of construction projects subject to the prevailing wage law by repealing the provision of law that subjects elementary or secondary school construction projects to the prevailing wage law if the State funding contribution is at least 75% of total project funding. As a result, general fund expenditures will increase by an indeterminate amount to reflect the increased wages on State construction projects. Currently, most school construction projects are less than \$500,000 and would therefore remain exempt from the prevailing wage law.

However, the State's share of any given construction contract varies from 50% to 80% as indicated in **Exhibit 1**. As a result, contracts greater than \$500,000 would likely trigger the prevailing wage law.

In 1995, the Department of Legislative Services (DLS) conducted research on the fiscal implications of prevailing wage laws. Based on this research, DLS estimated that prevailing wage law requirements increase the costs of construction on affected contracts by 5% to 15%. The State's proposed capital program for fiscal 1999 includes \$250 million to fund elementary and secondary schools.

Any increased activity for the Prevailing Wage Unit within the Department of Labor, Licensing, and Regulation could be handled with existing budgeted resources.

Small Business Effect: The majority of 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 is increased. Businesses that currently do not pay wages as high as those required by prevailing wage law are able to bid lower on State contracts than those businesses that pay wages similar to prevailing wage on all contracts. The bill would require these businesses to pay their employees the prevailing wage. The businesses that currently pay employees less than the prevailing wage would no longer have a competitive advantage over those that currently do not.

Information Source(s): Department of Labor, Licensing, and Regulation; Public School Construction Program; Department of Legislative Services

Fiscal Note History: First Reader - March 17, 1999

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Exhibit 1
Public School Construction
State/Local Share Cost Share Amounts

<u>50/50</u>	<u>55/45</u>	<u>60/40</u>	<u>65/35</u>	<u>70/30</u>	<u>75/25</u>	<u>80/20</u>
Anne Arundel	Calvert	Prince George's ¹	Carroll	Cecil	Allegany	Somerset
Baltimore County	Queen Anne's		Charles	Dorchester	Baltimore City ²	
Howard			Frederick	Garrett	Caroline	
Kent			Harford	St. Mary's		
Montgomery			Washington	Wicomico		
Talbot						
Worcester						

¹For fiscal 1999 through 2002, Prince George's County must provide at least \$32 million for school construction projects; the State will be responsible for 75% of eligible costs for the first \$35 million, and 60% for funding above \$35 million. At least \$20 million of the State funds must be spend on neighborhood schools.

²For fiscal 1998 through 2002, Baltimore City's match will be 10% for the first \$10 million allocated by the State and 75% on any State funds in excess of \$10 million.

Source: Interagency Committee on Public School Construction