

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 414
Economic Matters

(Delegates Marriott and Grosfeld)

Procurement - State Contractors - Living Wage to Employees

This bill requires contractors and sub-contractors to pay their employees a living wage under all State procurement contracts, excluding supply contracts. 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 Board of Public Works is required to set the living wage rate before October 1 of each year.

Fiscal Summary

State Effect: Potential significant increase in State expenditures for procurement contracts.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill requires State procurement contracts to contain a living wage clause. The living wage clause must: (1) require the contractor to pay all employees working under the contract at least a living wage; (2) require the contractor to include a similar clause in every subcontract; and (3) provide that if the prevailing wage applies to a procurement contract and the prevailing wage rate exceeds the living wage, the prevailing wage rate applies. The bill does not apply to State procurement contracts or subcontracts for supplies.

The bill defines living wage to mean the minimum hourly wage, based on a 40-hour workweek, required to exceed the most recent U.S. Department of Health and Human Services poverty guidelines for a family of four. The living wage must be determined by the Board of Public Works no later than October 1 of each year. The bill applies to State procurement contracts for which an invitation for bids or request for proposals is issued on or after October 1, 2001, the effective date of the bill.

Current Law: There is no requirement under current law for a living wage provision in State procurement contracts. Contracts for cleaning the World Trade Center Building in Baltimore City are subject to the city's living wage provisions.

Background: Procurement means leasing, buying, or otherwise obtaining supplies, and certain professional, construction, architectural, engineering, or energy performance contract services, by a unit of the Executive Branch of State government. A procurement contract does not include a collective bargaining agreement with an employee organization, an agreement with a contractual employee, or a Medicaid or similar reimbursement contract under certain circumstances.

According to the most recent U.S. Department of Health and Human Services data, the poverty guideline for a family of four is \$17,650. Calculated based on 50 work weeks per year at 40 hours per week, the living wage is \$8.83 per hour. Calculated based on 52 work weeks per year at 40 hours per week, the living wage is \$8.49 per hour. The current federal minimum wage, which Maryland adopts as its minimum wage, is \$5.15 per hour. Effective July 1, 2000, Baltimore City's living wage rate is \$8.03 per hour.

An increasing number of jurisdictions around the nation are adopting some form of living wage requirements for government procurement contracts. According to the information available at the American Federation of State, County and Municipal Employees website, 50 jurisdictions across the country have living wage requirements for contractors. No state has a living wage requirement.

State Fiscal Effect: State expenditures would increase depending on the number of employees of State contractors and sub-contractors earning less than the living wage, and the ability of the contractors to pass the increase in costs on to the State.

A recent study on the impact of the living wage law in Baltimore City concluded that the living wage increased contract costs for the city by 1.2%. The study concluded that, for the 26 contracts reviewed, four had a decrease in costs, five had no change in costs, and 17 had an increase in costs of 0.7% to 54.6%. Three contracts comprised 85.7% of the total contract costs and had a large influence on the total change in costs.

The overall impact of the bill's provision on State expenditures cannot be reliably estimated at this time. The mix of contracts by size and purpose for the State will be different from those in the Baltimore City study. Because some of the contracts in the Baltimore City sample had cost increases up to 54.6%, there is a potential for a significant increase in State expenditures for procurement contracts.

For illustrative purposes, the Department of Health and Mental Hygiene (DHMH) advises that the bill would increase its contractual costs by \$18.2 million in fiscal 2001 reflecting the October 1, 2000, effective date, and by \$24.3 million on an annualized basis. Because some of the programs with contracts affected by the bill's provisions have federal matches, there would be an increase in federal revenues of \$4.8 million in fiscal 2002 (\$6.5 million on an annualized basis). This results in a net increase in general fund expenditures of \$13.4 million in fiscal 2001 (\$17.8 million on an annualized basis).

To the extent that the living wage increases the taxable income of employees of State contractors there would be an increase in revenues from the personal income tax, including a possible reduction in the earned income credit. Also, to the extent that the increase in income affects the eligibility and level of benefits a family would receive for certain programs such as Medicaid, there would be a reduction in expenditures.

Small Business Effect: All businesses with State contracts will have to pay the living wage. However, if demand for the services of certain types of firms is low, they will be unable to pass all of the increased costs on to the State. Because of their size, small businesses are often unable to take advantage of some of the economies of scale that large businesses can use to reduce costs. Often they also do not have a large client base over which to spread any increase in costs. Without the ability to reduce or recover their costs, small businesses will be at a competitive disadvantage compared to large businesses and have a loss of income as a result.

Additional Information

Prior Introductions: This bill was introduced as HB 761 and HB 686 in the 2000 and 1999 sessions respectively. Both bills received an unfavorable report by the House Economic Matters Committee.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene; Department of Labor, Licensing, and Regulation; Department of Budget and Management; Board of Public Works; American Federation of State, County and Municipal Employees; "The

Effects of the Living Wage in Baltimore” Christopher Niedt, *et al.*; Working Paper No. 119, Johns Hopkins University; Department of Legislative Services

Fiscal Note History: First Reader – March 8, 2001
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