

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 430  
Finance

(Senator Kittleman, *et al.*)

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Carroll County - Prevailing Wage - Exemption

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This bill exempts school construction, modernization, and systemic renovation projects in Carroll County from having to pay prevailing wages unless the State share of construction costs is higher than 70%.

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Fiscal Summary

**State Effect:** None. The State would realize marginal savings from school construction projects in Carroll County only if actual project costs were below projected costs, which rarely occurs. It is assumed that any savings would be reallocated to other projects and would not result in a net decrease in school construction expenditures.

**Local Effect:** Carroll County expenditures on school construction and renovation projects could decrease between 4% and 7% annually because no school construction projects would be subject to higher prevailing wages. Any savings generated could reduce overall capital expenditures for the county, or could be applied to other capital projects in the county.

**Small Business Effect:** Minimal. School construction contractors that are required to pay prevailing wages pass along those higher costs to the State and local school systems.

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Analysis

**Current Law:** School construction projects are subject to the prevailing wage law if the project cost exceeds \$500,000 and if 50% or more of total construction costs are paid by

the State. In fiscal 2007 and 2008, the State share of eligible school construction costs is 65% in Carroll County.

Prevailing wages are defined in Maryland statute as the wages paid to 50% of workers in a given locality who perform the same or similar work on projects that resemble the proposed public work project. If fewer than 50% of workers in a job category earn the same wage, the prevailing wage is the rate paid to at least 40% of those workers. If fewer than 40% receive the same wage rate, the prevailing wage is calculated using a weighted average of local pay rates. The Commissioner of Labor and Industry is responsible for determining prevailing wages for each public work project and job category.

**Background:** The purpose of the prevailing wage provision is to prevent bidders on public works contracts from bringing in lower-wage labor from other areas to work on local construction projects, thereby underbidding local contractors.

Maryland adopted a prevailing wage law in 1945 (Chapter 999), but it only applied to road projects in Allegany, Garrett, and Washington counties. In 1969 the statute was amended to include State public works contracts exceeding \$500,000. There have been periodic changes to the law and the definition of prevailing wage. In 1983 the law was broadened to include public works projects in which the State funds 50% or more of the total project costs and 75% or more in the case of public schools. Chapter 208 of 2000 reduced the prevailing wage threshold for public schools from 75% to 50% of construction costs, thereby bringing school construction projects in line with prevailing wage requirements for other public works projects.

Several Maryland jurisdictions (Allegany County, Baltimore City) have local prevailing wage laws requiring all public work projects in the jurisdiction to pay prevailing wages, including school construction.

The Task Force to Study Public School Facilities, which was established by Chapter 288 of 2002 and submitted a final report in February 2004, recommended a new methodology for determining State and local shares of school construction funding. The method uses numerous local factors including local wealth, local needs, and past local effort. In general, the State share is the highest in jurisdictions that have the least financial capacity to pay for school construction projects.

**Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2006 through 2008.

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**Exhibit 1**  
**State Share of Eligible School Construction Costs,**  
**Fiscal 2006 to 2008**

50%	Anne Arundel, Baltimore, Kent, Montgomery, Talbot, Worcester
58%	Howard
65%	Carroll, Harford, Washington
69%	Calvert
70%	Cecil, Charles, Garrett, Queen Anne's
72%	Frederick, St. Mary's
75%	Prince George's*
77%	Dorchester
81%	Wicomico
89%	Caroline
90%	Allegany
97%	Baltimore City, Somerset

\*For fiscal 2006-08, the State match for Prince George's County is 75% for funding allocated up to \$35 million, and 69% for funding allocated in excess of \$35 million.

Source: Public School Construction Program

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A school construction project is subject to the prevailing wage provision if the State's share of total construction costs, including both eligible and ineligible costs, exceeds 50%. Costs that are ineligible for State funding include items like movable objects (*e.g.*, bookcases) and planning and design fees. Since total construction costs are higher than eligible construction costs, the State share of total costs is less than the State share of eligible costs. Therefore, the State share of total costs in Carroll County is less than 65% for most school construction and renovation projects. If the difference between total costs and eligible costs is sufficiently large on a given project, the State share of total costs would drop below 50% and the prevailing wage law would not apply. However, the prevailing wage could apply to certain projects for which the State share remained above 50% of total cost.

**Local Fiscal Effect:** Under the terms of this bill, none of the projects would be subject to the prevailing wage.

Determining the fiscal impact of the prevailing wage requirement has been complicated by recent dramatic increases in construction costs, including labor rates. Research conducted in 2004 by Dr. Yale Stenzler, former executive director of the State's Public School Construction Program, concluded that from fiscal 2001 to 2003, prevailing wage rates increased school construction costs by 5% to 10%. Since then, the prices of fuel, building supplies, and construction labor have risen steeply, adding between 12% and 20% to the cost of school construction. Although the rate of increased construction costs has slowed, the demand for building supplies and labor could remain high as the Gulf region continues rebuilding after Hurricane Katrina. These increased costs have clouded the gap between market wage rates and prevailing wage rates. PSCP advises that current estimates of the difference between market wages and prevailing wages is between 4% and 7% of project costs.

The Governor's fiscal 2008 capital budget includes two school construction projects in Carroll County with total project costs of \$24.1 million. However, the State share of total costs is below 50% for both projects (44% and 40% respectively). In these cases, the prevailing wage law would not apply to those projects under current law, so there would be no savings to Carroll County. In the future, however, Carroll County would realize savings of between 4% and 7% of total project cost for projects with State shares above 50%. That savings could be applied to reducing the county's capital budget, or it could be applied to other capital projects.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Carroll County, Public School Construction Program, Department of Legislative Services

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