

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 957

(Delegate Wilson, *et al.*)

Health and Government Operations and
Economic Matters

Rules

State Procurement - Worker Residency Requirements

This bill requires that contractors on specified State public work contracts ensure that at least 35% of apprenticeship hours are performed by State residents. The Maryland Department of Labor (MD Labor) is responsible for enforcing the bill's requirements, and any costs incurred to administer the bill must be paid from the State Apprenticeship and Training Fund (SATF). Contractors found in violation of the bill's requirements are subject to financial penalties (paid to SATF or to registered apprenticeship programs that operate and train apprentices in the State) and debarment.

Fiscal Summary

State Effect: Special and/or general fund expenditures increase by *at least* \$186,109 in FY 2026 for staffing and one-time information technology (IT) costs; out-year expenditures reflect annualization and inflation and termination of one-time costs. Special fund revenues increase due to direct payments and penalties, but a reliable estimate is not feasible, as discussed below.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
SF Revenue	-	-	-	-	-
GF/SF Exp.	\$186,100	\$102,500	\$107,000	\$111,800	\$116,500
Net Effect	(\$186,100)	(\$102,500)	(\$107,000)	(\$111,800)	(\$116,500)

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

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Scope

The bill applies to contractors awarded a State public work contract valued at \$5.0 million or more and located in Baltimore City or Anne Arundel, Baltimore, Howard, Montgomery, or Prince George's counties. The bill does not apply to a State contract for which the federal government provides money.

Residency Requirements

As a condition of receiving a contract, a contractor must provide a statement to MD Labor and the procurement unit that the contractor will meet the applicable requirements for covered small and large projects.

The Secretary of Labor may adopt regulations authorizing a contractor to elect to make a contribution to SATF or a registered apprenticeship program operating and training apprentices in the State as an alternative to fulfilling the bill's State residency requirements. Furthermore, a contractor that exceeds the 35% residency threshold may apply the excess apprenticeship hours to another contract subject to the bill that is entered into by the contractor within 2 years after the completion of the first contract.

Enforcement

A contractor that fails to meet the bill's requirements is liable for an amount equal to twice the number of apprentice hours at the apprentice rate by which the contractor failed to meet the applicable requirement. A person who is found to have violated the requirements of the bill five times in a five-year period may be debarred from entering into a State contract for up to five years.

The Secretary of Labor must adopt regulations to establish administrative procedures for the collection and distribution of penalty payments.

Current Law:

Debarring Contractors

A debarred contractor may not be considered for the award of, be awarded, or perform, directly or indirectly, a contract with the State during the time of debarment. Debarment may be imposed for a number of reasons including, but not limited to, conviction for a

variety of specified federal and State offenses, previous failure to perform procurement contracts, and persistent failure to meet certain Minority Business Enterprise contract goals in the absence of mitigating factors.

While a person who is convicted of certain crimes related to bribery is debarred by operation of law, debarment for any other reason occurs as a result of the Attorney General initiating a proceeding against a contractor by filing an administrative complaint with the Board of Public Works (BPW). The board is required to notify a person of the proceedings and that the person is entitled to a hearing before the board if requested within 30 days after receiving the notice. If a person does not make a request within the 30 days, the person waives the right to a hearing and is automatically debarred. The board may place a person or business on suspension while the debarment proceeding is pending. Suspension means that a person may not be considered for the award of, be awarded, or perform, directly or indirectly, a contract with the State.

A suspension or debarment terminates automatically if the underlying conviction is reversed or voided. The board also may grant a petition for removal of the debarment after specified time periods have elapsed. A list of presently debarred contractors and their term of debarment can be found on the BPW's website.

State Apprenticeship and Training Fund

Chapter 644 of 2009 created SATF and required contractors on covered public work contracts (those valued at \$500,000 or more) and subcontractors with contracts worth at least \$100,000 to either participate in an apprenticeship training program, make payments to a registered apprenticeship program or to an organization that operates registered programs, or contribute to SATF. Chapter 782 of 2017 extended virtually identical requirements to contracts with a value of at least \$500,000 for capital construction projects that receive at least \$1.0 million from the State's capital budget (which, as noted above, are not considered public work projects).

The purpose of SATF is to promote preapprenticeship programs and other workforce development programs in the State's public secondary schools and community colleges and to cover the cost of implementing and enforcing apprenticeship laws. The programs should prepare students to enter apprenticeship training programs. The fund's revenues consist of payments made by contractors and penalties collected due to violations.

State Revenues: Special fund revenues for SATF likely increase from direct payments from contractors that do not or cannot meet the bill's apprentice residency requirements (if authorized by regulations), and from penalty payments from contractors found to not be in compliance with the bill. A reliable estimate is not feasible in the absence of experience under the bill, particularly since it is not known (1) whether the Secretary of Labor adopts

regulations allowing for alternative payments to SATF; (2) how many contractors opt to make payments to SATF instead of meeting the apprentice residency requirements, if authorized by the Secretary; or (3) how many contractors found in violation of the bill opt to pay penalties to a registered apprenticeship program instead of to SATF.

State Expenditures: MD Labor requires *at least* one staff member to coordinate provisions of the law and oversee enforcement of apprentice residency requirements on applicable contracts. Additionally, updates to the department's existing IT infrastructure are necessary to improve the functioning and reporting capabilities of the existing system, which is expected to cost a minimum of \$100,000. Accordingly, special and/or general fund expenditures increase by *at least* \$186,109 in fiscal 2026, which accounts for the bill's October 1, 2025 effective date. This estimate reflects the cost of hiring one administrator to oversee the apprentice residency program, as well as operating costs for updates to MD Labor IT systems. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$78,740
Information Technology Costs	100,000
Other Operating Expenses	<u>7,369</u>
Total FY 2026 State Expenditures	\$186,109

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

The bill requires that SATF cover the cost of enforcing the bill. SATF ended fiscal 2024 with a fund balance of \$1.7 million, but so far in fiscal 2025 has revenues of \$180,800 and expenditures of \$855,400, leaving a fund balance of about \$1.0 million as of the writing of this fiscal and policy note. In recent years, the fund has average revenues of less than \$200,000. However, given the current rate of revenues and expenditures, MD Labor advises that SATF funds may not be available to cover all of the expenditures required by the bill. To the extent that SATF funds are exhausted, general funds are assumed to be needed to maintain adequate enforcement of the bill's requirements. To the extent that SATF revenues increase from direct payments and penalties described above, the need for general funds may be mitigated.

Small Business Effect: The bill creates additional barriers to the participation of small businesses in State public work projects, as small businesses may lack resources to ensure compliance with the bill's apprentice residency requirements. Alternatively, they have to make payments to SATF or apprenticeship programs, which affects their profitability.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Department of General Services; Maryland Department of Labor; Board of Public Works; Department of Legislative Services

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