MARYLAND Association of COUNTIES

Senate Bill 870

Prevailing Wage - Tax Increment Financing Developments - Application

MACo Position: **OPPOSE**

To: Finance Committee

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From: Barbara Zektick

The Maryland Association of Counties (MACo) **OPPOSES** SB 870. This bill requires payment of prevailing wages on construction contracts receiving any funds from tax increment financing (TIF) bond proceeds.

Counties are concerned that this bill will drive up costs of public infrastructure projects, stifle use of a demonstrably successful economic development tool, and squeeze out small businesses from participating in infrastructure construction projects. In addition, it unfairly applies prevailing wage requirements to certain projects receiving TIF bond proceeds when those projects would not otherwise have to comply even if financed with other public funds.

Prevailing Wage Laws Raise Public Costs

Requiring payment of prevailing wages on public construction increases contract costs and therefore, costs to taxpayers. For example, changes to school construction prevailing wage laws in Maryland in 2014 caused an increase in school construction costs. According to the Interagency Committee on School Construction's Report to the capital Debt Affordability Committee in September 2015:

> *Based on a sample of 262 side-by-side bids (i.e., both with and without prevailing wage rates) between January 2012 and March 2015, the average cost increase attributable to prevailing wage rates was 11.65%.*

Requiring prevailing wage payments on TIF construction contracts will significantly raise costs for public projects that eliminate blight and target economic development where counties need it most.

SB 870 Stifles Economic Development

TIFs are a demonstrably successful economic development tool that enables counties to finance public infrastructure improvements using future property tax revenues associated with the new development. These are revenues which the county would not receive at all unless the development came to fruition. Creating a viable TIF district and development plan requires careful financial planning and forecasting to ensure that the future tax revenues received from the project more than cover expenditures on the infrastructure required to support that development. In general, counties will only use this tool if the development is not financially viable without the benefit of the TIF; in other words, if the numbers do not add up, the county does not issue the TIF bond, and the development never happens.

As already stated, this bill will significantly raise costs for development projects funded with TIF bonds. If costs are raised over and above what the development will return in future tax revenues, the county will not issue the TIF because it is not economically viable. This generally prevents the development from occurring, sacrificing blight elimination, job creation, targeted economic development, and growth to the taxable base.

SB 870 Limits Small Business Participation

This bill squeezes out small business participation because prevailing wage laws favor larger contractors who can afford to pay higher wages. Small businesses may not have the capacity to afford to pay higher-than-market wages or the overhead needed to comply with burdensome reporting requirements. As such, the restrictions in this bill inhibit the ability for small businesses to compete on public infrastructure contracts.

Scope of SB 870 is Unfairly Broad

Under existing law, prevailing wages are required on public works contracts valued at $500,000 or more. However, the only threshold in SB 870 is the amount of the TIF bond, applying the wage requirements to any contract funded with a TIF bond valued at $500,000 or higher. It is extremely unlikely that a local government would issue a TIF bond of less than this amount. Therefore, the bill would require payment of prevailing wages for virtually any construction project receiving TIF funds, regardless of the size of the contract or scope of the project. This extremely broad scope unfairly applies higher-than-market wage requirements to projects in TIF districts where these terms would not apply to public works contracts in any other situations.

SB 870 restricts counties' abilities to use a successful economic development tool to finance needed developments. For these reasons, MACo **OPPOSES** SB 870 and recommends the Committee issue an **UNFAVORABLE** report.