
February 10, 2022

The Honorable Delores G. Kelley
Chair, Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, MD 21401

Re: Letter of Information – Senate Bill 259 – Procurement – Prevailing Wage – Applicability

Dear Chair Kelley and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on Senate Bill 259 but offers the following information for the Committee's consideration.

Senate Bill 259 expands the definition of construction for purposes of the prevailing wage requirements on public works projects to include mechanical systems service contracts. The bill will require prevailing wages on all contracts providing any kind or degree of service to a building mechanical or electrical system, including but not limited to: HVAC, refrigeration, plumbing, electrical, or elevator services. Furthermore, the bill will apply at a low contract level of only \$2,500, the threshold specified by the McNamara-O'Hara Service Contract Act. This threshold is significantly lower than the \$250,000 threshold for application of the Prevailing Wage Act to construction. By requiring prevailing wages on mechanical systems service contracts, the MDOT could face an undue burden that would increase costs and efficiency of projects.

The MDOT State Highway Administration (SHA) has several districtwide HVAC service contracts, which is included under mechanical systems, that would be impacted by Senate Bill 259. If subjected to prevailing wage requirements, there could be cost increases over the lifespan of the contracts in the range of 10-50% of labor bid prices. Overall, MDOT SHA would see statewide annual increases in mechanical systems contracts by \$200,000 annually, as a conservative estimate.

The MDOT Maryland Port Administration (MPA) has several mechanical systems service contracts that would be impacted by Senate Bill 259. These service contracts include but are not limited to: fire protection system inspection and repairs, IT cabling, installation of security cameras, maintenance of electronic locking systems, elevator maintenance, and boiler maintenance. The MPA is responsible for several state-owned marine terminals and facilities and the World Trade Center in Baltimore. If subject to prevailing wage requirements, the total administrative cost for contractors, subcontractors, and state agencies could represent a large percentage of the total cost of the work to be performed, whereby the administrative burden could exceed the cost of the work itself.

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The MDOT Maryland Aviation Administration (MAA) will likely see an impact to their service contracts for HVAC, plumbing, electrical, and elevator maintenance. MAA is unique in that they have large on-call maintenance contracts for elevators, escalators, and moving walkways. It is difficult to calculate an impact, as MAA is not aware of what the wage rates will be for bids of these contracts compared to future prevailing wages; however, it is anticipated that any forced increase in labor costs will be reflected in the bids received for these contracts.

The Maryland Department of Transportation respectfully requests that the Committee consider this information when deliberating Senate Bill 259.

Respectfully submitted,

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Maryland Department of Transportation
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