Impact of the Maryland Living Wage

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DEPARTMENT OF LEGISLATIVE SERVICES

OFFICE OF POLICY ANALYSIS
MARYLAND GENERAL ASSEMBLY

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December 2008

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Members of the Maryland General Assembly

Ladies and Gentlemen:

In accordance with Section 2 of Chapter 284 of 2007, the Department of Legislative Services (DLS) submits the enclosed study of the economic and fiscal effects of the State's living wage on the public and private sectors. Chapter 284 made Maryland the first state to require its service contractors to pay their employees a living wage, subject to certain exemptions. The law established a two-tiered wage structure, with a Tier 1 rate of $11.30 per hour for State contractors providing services in six jurisdictions in the Baltimore-Washington corridor and a Tier 2 rate of $8.50 for contractors providing services in all other jurisdictions. These wage rates are subject to annual inflation adjustments by the Commissioner of Labor and Industry to ensure that they keep pace with the rising cost of living.

Our analysis finds that the living wage mandate is affecting about two-thirds of State service contracts due to exemptions provided for in the law and to certain contractors paying wages to their employees that already exceed the living wage. As a result, the living wage mandate is affecting the contracts for which it was designed – those that require low-wage, low-skilled labor. Based on our examination of eight contracts, the living wage mandate has resulted in wage rates for State service contracts rising from between $9.00 and $10.00 an hour to $11.30 in Tier 1 locations, an increase of between 13.0 and 25.6 percent. The living wage has not had a discernable negative effect on the competitiveness of State procurements, and may even have increased competitiveness by attracting vendors who believe that the mandate has evened the playing field with regards to labor costs. Further, vendors do not report any undue burden on them resulting from the law's reporting and enforcement requirements.

Two concerns emerged from interviews with vendors that could erode vendors' willingness to participate in State procurements subject to the living wage. First, many vendors believe that they are being undercut by competitors who either are not aware of the living wage requirement or purposely underbid to win the contract. This perception is borne out by several examples encountered of successful bidders withdrawing from a procurement because they could not accommodate paying a living wage. Second, vendors are concerned that any attempt to build annual increases to the living wage into their bids will render them noncompetitive. To address these concerns, DLS recommends several adjustments to the procurement process for living

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wage contracts to aid in the enforcement of the living wage mandate and to allow vendors to more accurately project their labor costs.

Michael Rubenstein coordinated the evaluation and authored the report. Erik Timme and Suzanne Potts collected and organized the contract data used for the analysis. David Smulski offered guidance during the early conceptualization of the evaluation. Tamela Burt reviewed the report, and Maureen Merzlak prepared the manuscript.

Sincerely,

Warren G. Deschenaux
Director

WGD/mrm

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Impact of the Maryland Living Wage

Chapter 284 of 2007 made Maryland the first state to require State service contractors to pay their employees a "living wage," subject to exemptions for specified employers and employees. To account for regional differences in the cost of living, the legislation established a two-tiered system. For Tier 1, consisting of Montgomery, Prince George's, Howard, Anne Arundel, and Baltimore counties and Baltimore City, the fiscal 2008 living wage was set at $11.30 per hour. For Tier 2, consisting of all other counties in the State, the living wage was set at $8.50 per hour. By contrast, Maryland's minimum wage at the time Chapter 284 was enacted was $6.15, and the federal minimum wage was $5.15. For fiscal 2009, using authority granted by Chapter 284, the Commissioner of Labor and Industry adjusted the two living wage rates for inflation. The federal minimum wage is scheduled to increase beginning July 24, 2009. **Exhibit 1** compares the various wage rates.

Exhibit 1
Federal and State Minimum and Living Wage Rates
Fiscal 2007-2009

	FY 2007	FY 2008	FY 2009
State Minimum	$6.15	$6.55	$7.25
State Tier 1	n/a	11.30	11.72
State Tier 2	n/a	8.50	8.81
Federal Minimum	5.15	6.55	7.25

Source: Department of Labor, Licensing, and Regulation; Bureau of Labor Statistics

The living wage legislation charged the Department of Legislative Services (DLS) with conducting a study of the fiscal and economic impacts of the legislation on the public and private sectors. In conducting the study, DLS was required to consult with the Department of Labor, Licensing, and Regulation (DLLR); the Office of the Attorney General; local governments; and other appropriate units and to report its findings by January 1, 2009, to the General Assembly. This report stems from that mandate.

Maryland's Living Wage Legislation

The living wage applies only to State service contracts. State law defines services as "the labor, time, or effort of a contractor and any product or report necessarily associated with the rendering of a service."[1] It further states that services do not include construction related

[1] State Finance and Procurement Article §11-101(t).

services, architectural services, engineering services, or energy performance contract services. The Code of Maryland Regulations further clarifies that services include maintenance, banking and financial services, and information technology services but does not include construction work or the purchase of supplies.[2]

The Tier 1 wage rate applies to contracts in which at least 50 percent of the contract services will be performed in Tier 1 locations, as determined by the State agency responsible for the contract. The Tier 2 wage rate applies to contracts in which at least 50 percent of the contract services will be performed in Tier 2 locations, also determined by the head of the unit responsible for the State contract.

Exemptions

In general, State contractors or subcontractors with a State service contract valued at greater than $100,000 must pay their employees at least the living wage. The legislation establishes three categories of exemptions to the living wage mandate.

The first category of contracts exempted is contracts that provide emergency services to prevent or respond to an imminent threat to public health or safety, regardless of who performs the service. The law also bars employers from paying the living wage if doing so would conflict with any federal requirement. To date, no contracts have been exempted for either of these reasons.

The second category of exemptions is for contracts awarded to the following types of employers:

- public service companies;
- nonprofit organizations;
- State agencies;
- county governments (including Baltimore City); and
- any firm with 10 or fewer employees that has a State contract valued at less than $500,000.

The third category of exemption allows employers to pay less than the living wage to specified employees, even if the contract itself is not exempt from the living wage mandate. Specifically, employers need not pay a living wage to employees who:

[2] COMAR 21.11.10.01B(3)(b)

- are under the age of 18;
- work less than full-time for 13 consecutive weeks for the duration of the contract; or
- spend less than half their time during any work week working on the State contract.

Employers who provide health insurance to workers may reduce wages by all or part of the hourly cost of the employers’ share of the premium for each employee. The law authorizes the Commissioner of Labor and Industry to allow an employer who contributes to its employees’ tax-deferred retirement savings accounts to reduce the living wage rate by the hourly cost of the employers’ contribution, up to 50 cents per hour.

Enforcement and Penalties

The law requires the commissioner to adopt regulations, investigate wage complaints, issue orders for hearings, issue determinations, serve each interested party, and determine the amount of restitution for violations. Every three years, the commissioner must assess the appropriateness of the inflation measure used to recalculate the living wage rate on an annual basis (the Consumer Price Index for all Urban Consumers in the Washington-Baltimore metropolitan area). The commissioner must also assess whether Maryland counties are subject to the appropriate living wage rates, given labor costs in their jurisdictions. Employees may sue for damages when employers fail to pay the living wage, regardless of whether the State has required the employers to pay restitution.

Employers who violate the living wage requirements must pay the affected employees the amount determined by the commissioner and pay the State $20 per day per employee in liquidated damages. They must also post a notice of the living wage rate, the employees’ rights under the bill, and contact information for the commissioner in English, Spanish, and any other language commonly used at the work site; the commissioner is responsible for providing these notices to employers.

State Procurement Laws Affecting the Living Wage

The Department of Budget and Management (DBM) is designated in State law as the control agency for service contracts for all State agencies. However, for most unskilled services, including building maintenance, janitorial services, and landscaping, it cedes that authority to the Department of General Services (DGS). This leaves most contracts for skilled and professional services (e.g., information technology, legal, research, and consulting services) under the authority of DBM. Since most of those vendors already make more than the living wage, DLS found that most service contracts controlled by DBM are not affected by the living wage law. The Maryland Department of Transportation (MDOT), meanwhile, controls all procurement activity for each of its modes, including service contracting.

The following State agencies are exempted from most State procurement law and, therefore, are not required to abide by the living wage mandate:

- University System of Maryland;
- Morgan State University;
- St. Mary’s College of Maryland;
- Blind Industries and Services of Maryland;
- Maryland State Arts Council;
- Maryland Health and Higher Educational Facilities Authority;
- Department of Business and Economic Development;
- Maryland Food Center Authority;
- Maryland Public Broadcasting Commission;
- Maryland State Planning Council on Developmental Disabilities;
- Maryland Automobile Insurance Fund;
- Maryland Historical Trust;
- Rural Maryland Council;
- Maryland State Lottery Agency;
- Maryland Health Insurance Plan;
- Maryland Energy Administration;
- Maryland Developmental Disabilities Administration;
- Maryland Stadium Authority; and
- State Retirement and Pension System.

Research on the Effects of Living Wages

In 1994, Baltimore City became the first locality in the country to enact a living wage requirement for city contractors. Since then, living wage laws have been adopted in at least 120 localities in the U.S, including other large cities such as Detroit, Boston, and Los Angeles. In 2005, Montgomery and Prince George's counties enacted their own living wage ordinances. Washington, DC enacted a living wage bill in 2006, which set the initial living wage at $11.75, subject to annual increases. The current living wage rate is $9.62 in Baltimore City, $11.60 in Montgomery County, and $11.25 in Prince George's County.

Most available research on the effect of living wages at the local level has found only minimal increases in total contract costs. Specifically, several studies have found that contract costs following the implementation of living wage laws increase by less than the rate of inflation. A review of the effects of living wages in a dozen local jurisdictions found that contract costs increased by less than 1.0 percent of each jurisdiction's total budget (Elmore, 2003). In Baltimore City, a 1999 Johns Hopkins University study found that for the 26 living wage contracts that could be compared before and after the living wage law was implemented, contract costs increased by 1.2 percent (Niedt, Ruiters, Wise, and Shoenberger, 1999).

The research studies attribute the minimal increases in contract costs to several factors. A consistent finding has been that living wages increase retention among service employees, which reduces recruitment and training costs for employers. Several studies have found evidence of increased worker productivity and employer absorption of some costs due to the pressure of competitive contract bidding. Another possible explanation for these findings is that they are incomplete. Almost all of the available research on the effects of living wages has examined cost effects within one to three years of the legislation's enactment in a particular jurisdiction. Thus, they capture only a small portion of affected contracts because the living wage requirements apply only to new contracts awarded after the living wage takes effect. Several studies, including the Baltimore City study, found that labor-intensive contracts such as those for security guards or janitorial services generated greater increases in contract costs, often as high as 10 percent.

Other studies have focused on the labor market effects of the living wage. Several studies have found that living wages have resulted in reduced employment among the least skilled workers. Empirical studies have found that a 10 percent increase in the wage floor leads to roughly a 1 to 2 percent decline in employment among low-wage workers. Overall, however, these analyses have found that living wages have a net positive economic effect on low-wage workers (Adams and Neumark, 2005; Neumark, 2004).

Methodology

In conducting this study, DLS was guided by the following three research questions:

- What effect, if any, has the State's living wage had on the real cost of State service contracts?

- Has the living wage affected the competitiveness of State procurements for service contracts?

- How is the living wage law being implemented at the agency level? What effects has it had on procurement offices and businesses seeking State service contracts? How are reports of living wage violations being handled?

To address the first question, the study sought to use the same methodology used by published studies to assess the fiscal effects of the living wage in Baltimore and several other jurisdictions; however, limitations in the data available for analysis precluded that approach. Those studies selected samples of contracts issued after the enactment of the living wage and compared wages and contract costs for those contracts with similar contracts executed before the living wage was in effect. The resulting analyses produced inflation-adjusted differences in contract costs.

A key difference between those studies and this study is that the other studies were carried out several years after the first wave of living wage contracts were completed. For instance, the Baltimore study was conducted in 1999, five years after the living wage was enacted. As a result, those researchers had access to actual contract payments for the first full year after the living wage was enacted. By contrast, this study occurred during the first year of implementation, limiting DLS access to less than a full year of contract payments for any contracts issued after the enactment of the living wage. The DLS research team reviewed vendor bids and signed contracts to obtain wage and labor data to use as comparisons; however, DLS found that those documents did not provide adequate detailed data. In general, bids and service contracts provide the total value of the contract but do not break out labor costs in sufficient detail to allow for valid analyses.

DLS also learned that comparisons of contract costs for recurring contracts are not valid because job specifications or requirements are often significantly altered. The clearest example of this can be found in the contract for shuttle bus services at Thurgood Marshall Baltimore-Washington International Airport. The prior contract required the vendor to provide fuel for the shuttles, whereas the new (living wage) contract required the State to provide fuel for the shuttles at no cost to the vendor. Therefore, simply comparing total contract values for these two contracts does not account for important differences. Such differences were found in virtually every contract that DLS examined for this study, making meaningful comparisons impossible. Moreover, the signed contracts do not itemize costs for labor, fuel, and other factors that would allow for a direct comparison of labor costs. In order to make direct comparisons of labor costs, DLS would have to review a full year's worth of paid invoices under a living wage contract, which were not available in time for this study.

Therefore, this study employs a case study approach to analyze the early effects of the living wage on contract costs and on vendors. A case study approach is common in situations where collection of data with sufficient detail for analysis is not possible with limited time and resources. Although the results cannot be generalized to the universe of contracts, the results are illustrative of the issues confronted by contractors that are required to pay living wages and the likely effects on State contract costs. Findings from this preliminary examination of the effects of the living wage could inform future research on the fiscal and economic effects of the State's living wage.

DLS staff identified all new service contracts approved by the Board of Public Works between October 2007 (when the living wage took effect) and June 30, 2008, a total of 82 contracts. DLS then contacted each of the three agencies with lead responsibilities for service contracts: DBM, DGS, and MDOT. Members of the DLS research team spent more than a week onsite at these agencies reviewing and collecting data from procurement and contract files. A key component of that effort was identifying which contracts were for ongoing services and, therefore, had predecessor contracts that could be compared. Of the 82 contracts, 59 were for ongoing services. A summary of the information collected is presented in **Appendix A**.

Based on the data collected, DLS identified eight service contracts for inclusion in the case study analysis. Criteria used to select the case study participants included:

- a diverse set of services provided;
- a mix of contracts awarded to incumbent vendors and those awarded to new bidders;
- a range in the number of bidders for the contract;
- proportional balance between DGS and MDOT contracts; and
- a mix of contracts in Tier 1 and Tier 2 locations.

Exhibit 2 summarizes the traits of the eight contracts examined.

Exhibit 2
Relevant Traits of Case Study Contracts

	Service	Vendor	Bidders	Agency	Tier
Contract 1	Shuttle Transit	Incumbent	1	MDOT (MAA)	1
Contract 2	Drainage Repairs	Incumbent	4	MDOT (SHA)	1
Contract 3	Security Guard	New	15	DGS	1
Contract 4	Janitorial	New	17	DGS	1
Contract 5	Mowing	New	7	MDOT (SHA)	2
Contract 6	Contract Support	New	14	MDOT (SHA)	1
Contract 7	Security Guard	New	8	DGS	1
Contract 8	Drawbridge	Not applicable	2	MDOT (SHA)	2

DGS: Department of General Services
MAA: Maryland Aviation Administration
MDOT: Maryland Department of Transportation
SHA: State Highway Administration

Source: Department of General Services; Department of Legislative Services; Maryland Department of Transportation

For each contract, DLS sought to interview the prime contractor. If the prime contractor was not the incumbent contractor, DLS also sought to interview the prior contractor. For contracts with four or fewer bidders, DLS sought to interview all of the bidders. For contracts with more than four bidders, DLS sought to interview at least two unsuccessful bidders chosen at random. Some efforts to contact vendors were not successful. Of the 27 possible vendors, DLS interviewed 19 vendors and received e-mail responses to questions from 2 additional vendors, for a total of 21 vendors. The most common reason for failure to interview a vendor was that telephone numbers listed in State records had been disconnected, and efforts to track down correct phone numbers from the Yellow Pages were unsuccessful. In a few other cases, vendors did not respond to repeated telephone and e-mail requests for information. Current contractors for all eight case study contracts were among those interviewed.

In addition, DLS included as a ninth case study the contracts for janitorial services at Oriole Park and M&T Bank Stadium procured by the Maryland Stadium Authority (MSA). Although MSA was technically exempt from the living wage mandate, its board voted to require that janitorial crews working at the two stadiums be paid a living wage consistent with State law. MSA is the only exempt entity that opted to abide by the living wage law. For this case study, DLS staff interviewed the former chairman of the MSA board, the acting MSA Executive Director, and the chief operating officer for the firm that was awarded the new contract. Findings from this case study, because of its unique status, are presented separately from the study's broader results, although in some regards they mirror the broader findings.

Application of the Living Wage to Service Contracts

As the agency responsible for enforcing the living wage, DLLR tracks the service contracts awarded by the State. Between October 1, 2007, and September 30, 2008, 269 service contracts were referred to DLLR by MDOT, DGS, and DBM. In addition, DLLR identified an additional 20 contracts through eMarylandMarketplace, the State's web-based procurement portal on which all State procurements are posted and awards announced. This yielded a total of 289 contracts potentially subject to the living wage. Of those, 73 were deemed exempt by the control agency. Following its own review, DLLR found that an additional 26 contracts should be exempt from monitoring, often because the compensation for the services being procured were already above the living wage rate. This left a total of 190 contracts subject to the living wage (66 percent). In dollar terms, of the $1.3 billion worth of service contracts identified by DLLR, $634 million is exempt from the living wage (50 percent). The most common reasons given for exempting a contract were that the vendor was a non-profit entity (25 contracts) and that the vendor had 10 or fewer employees (13 contracts).

When asked, only one vendor indicated that he was aware of a competitor taking steps to evade qualifying for the living wage. He said one of his competitors had reorganized his business into several smaller units, each with fewer than 10 employees, in an effort to qualify for exemptions to the living wage.

Effects on Wages, Benefits, and Contract Costs

The vast majority of vendors interviewed for this study indicated that they have raised the wages they pay their employees as a result of the living wage mandate, and that they have passed those costs on to the State in the form of higher bids. Across industries, most vendors indicated that absent the living wage, they would pay their employees between $9 and $10 an hour in Tier 1 locations. The increase to a living wage of $11.30, therefore, represents an increase of between 13 and 25.6 percent in labor costs for affected contracts. However, four vendors indicated that their wages already exceeded the living wage (including one with a current living wage contract), so there was no effect on their bids, and two indicated that they would pay minimum wages in the absence of the living wage requirement (neither of which had current contracts with the State). With labor costs representing between 50 and 75 percent of the total contract cost for the affected contracts, this projects to an increase in total contract costs of between 7 and 19 percent for affected contracts.

The availability of health benefits had no effect on employee compensation or contract costs. Three vendors indicated that they provide subsidized health benefits to their employees, but all of these vendors also indicated that their wages already exceeded the living wage. Several other vendors responded that they would like to provide health benefits but did not foresee doing so in order to keep their labor costs competitive.

Only one vendor said he had taken steps to absorb some of the increased costs prompted by the increase in wages. He said he had cut working hours by about 10 percent across the board and sought to reduce fuel costs by operating his vehicles in a more efficient manner. Otherwise, all vendors indicated that they were passing the full cost of increased wages on to the State.

While at least three contractors indicated that the higher wages have cut down on employee turnover, several others pointed to short-term disruptions due to the living wage. Since the living wage does not apply to contracts executed before October 1, 2007, vendors with pre-existing contracts indicated that vendors with new living wage contracts have been raiding their workforce by offering higher wages. Over time, as more contracts become subject to the living wage, this tension between old and new contracts may resolve itself. To the extent that contractors begin to see more stable workforces, the reduced training and recruitment costs could be passed on to the State.

None of the vendors DLS spoke with indicated that reporting requirements presented an undue burden on them. The wage and hour reports required by DLLR for monitoring purposes are typically generated through payroll and require little or no additional work.

Competitiveness of State Procurements

There is no evidence to suggest that the living wage mandate has reduced the competitiveness of State procurements by discouraging vendors from bidding on State contracts. For the 48 contracts for which DLS has data on the number of bidders for both the current (living wage) and comparable preceding contracts, the average number of bidders actually increased from 3.7 for preceding contracts to 4.7 for current contracts. Twenty-three contracts saw the number of bidders increase when the contract was re-bid with a living wage mandate, compared with 14 contracts that saw the number of bidders decrease; 11 had the same number of bidders.

These findings seem consistent with comments made by almost half of the vendors DLS interviewed that the living wage mandate encourages them to bid on State contracts because it levels the playing field with regards to labor costs. Several vendors commented that in the future they will only bid on living wage contracts because of the leveling effect it has on competition. One current contractor noted that her contract was the first State procurement for which her firm had submitted a bid because it preferred to work under living wage mandates. She explained, “I would rather our employees work with a good wage. If a living wage is not mandated, the bids are a race to the bottom. That’s not the relationship that we want to have with our employees. [The living wage] puts all bidders on the same footing.”

At the same time, a majority of vendors noted two developments that could discourage them from bidding on future living wage contracts. First, there is widespread belief among vendors that their competitors are underbidding in order to win awards, either intentionally or due to lack of familiarity with the living wage mandate. This is borne out by several vendors who reported that they were not aware of the living wage mandate when they bid on specific contracts and, therefore, were not deemed to be responsive to the bid requirements. In several other cases, contractors reported that they had been awarded their contract only after several lower-bid vendors dropped out of the procurement after realizing that their overall bid would not be high enough to cover labor costs under the living wage. One incumbent contractor, who did not win the re-bid contract, reported that his contract had been extended three times because several low bidders had backed out when they were made aware of the living wage requirement. One unsuccessful vendor complained, "[Competitors] are low-balling it. They sign all the papers saying they are going to pay the wage, and then they tell all the employees that they are going to pay $8…It's almost a waste of my time to bid anymore because we keep getting outbid." This sentiment was echoed repeatedly by vendors who were sure that many successful low bids could not accommodate a living wage.

The second factor that could reduce participation in future State procurements is vendors' concern about the inflation adjustments to the living wage. Five of the eight vendors with current State contracts indicated that they were not aware at the time they developed their bids that the living wage would increase during the life of the contract and that their bids did not include those adjustments. In several cases, they inquired about contract modifications to account for the increase, but their requests were rejected. As a result, they reported that they were either operating at a loss or barely breaking even on their current contracts. Some of these vendors indicated that they would adjust their future bids to account for potential wage increases, but others inferred that doing so was too risky because they would likely be underbid. As one contractor noted, "I don't want to bid to where we are going to lose money. Our profit margin is not that high." The result is that some of these vendors indicate that they may be dissuaded from bidding on future contracts because submitting a competitive bid could put them at risk of losing money on the contract.

Maryland Stadium Authority

In August 2007, the cleaning crews at Oriole Park at Camden Yards threatened to go on a hunger strike unless they were paid a living wage. At the time, the Maryland Stadium Authority (MSA) contracted with a firm that provided day laborers to clean up the stadium and paid them about $7 an hour. However, the crews were paid only for time worked, not including time spent waiting for games to finish. Typically, the employer brought the crews to the stadium one or two hours before games ended, resulting in a great deal of uncompensated time. Since MSA was exempt from the living wage requirement, the contractor was not required to pay its employees a living wage. The hunger strike was organized by the United Workers Association, a self-described human rights organization based in Baltimore and founded by homeless workers. The MSA board entered into negotiations with UWA to avert the hunger strike. In September, the board voted to abide by the State's new living wage law and pay the cleaning crews the Tier 1 living wage.

To implement the living wage, MSA took advantage of the State's purchasing preference program for individuals with disabilities. State procurement law grants purchasing preferences to Maryland Correctional Enterprises, Blind Industries of Maryland, and the Employment Works program for disabled workers, in that order. Under the preference program, State agencies must purchase supplies and services from these entities if they produce or provide the desired supplies or services and agree to provide them to the purchasing agency. MSA turned to Maryland Works, a statewide membership organization that is designated in statute as the coordinating entity for the Employment Works program. In that role, Maryland Works is responsible for "facilitate[ing] the distribution of procurement contracts for supplies and services among community service providers and individual with disability owned businesses."[3]

Maryland Works awarded a contract to Chimes, a multiservice agency for individuals with developmental disabilities, to furnish cleaning crews for both Camden Yards and M&T Bank Stadium. The contracts specified that the crews would be paid the Tier 1 living wage. Chimes reports that it has relied exclusively on its clientele of individuals with disabilities to staff the cleaning crews for Camden Yards. However, Chimes has subcontracted with temporary labor agencies on several occasions to staff the crews at M&T Bank Stadium in instances where it had multiple events occurring at the same time or when it could not find enough workers due to poor weather. Chimes requires in its contracts that the temporary labor agencies also pay a living wage to the cleaning crews they provide. The Chimes contracts also include a significant investment in training for the crew members that was not included in the prior contract, as well as efficiencies in the assignment of crews. Therefore, as with the other contracts reviewed by DLS, the total contract costs of the former and current contract cannot be easily compared because the contract terms are quite different.

With regard to Camden Yards, MSA and Chimes are unable to determine the effects of the living wage on contract costs. The Baltimore Orioles pay rent for the use of Camden Yards, and the lease specifies that MSA is responsible for providing janitorial services. Therefore, any change in the cost of those services is absorbed by MSA, not the Orioles. The size of the cleaning crews necessary to clean up after Orioles games varies with attendance. The living wage requirement for Camden Yards coincided with a steep decline in attendance at Orioles games, resulting in lower demand for janitorial labor. As a result, MSA has not been able to isolate the net effect of the living wage on its contract costs from the broader effect of diminished revenues from lower paid attendance at Orioles games and reduced demand for janitorial labor.

By contrast, the Baltimore Ravens do not pay rent for the use of M&T Bank Stadium; however, under this arrangement, the full cost of janitorial services is passed on to the Ravens. Under the financing terms for the construction of the stadium, the State was precluded from charging rent. Therefore, MSA submits invoices to the Ravens for services it provides, including cleaning crews. Attendance at Ravens games has remained fairly constant over time, resulting in any increases in the cost of janitorial services to generally be attributed to the living wage law (as well as the additional training provided by Chimes). According to MSA, those costs have increased by almost 30 percent, but the full cost has been passed on to the Ravens. Moreover, with only 10 Ravens games played at the stadium (including preseason games, but not including any playoff games), the costs are relatively modest compared with Oriole Park, which hosts more than 80 Orioles games each year.

[3] State Finance and Procurement Article §14-108(c)

As a side note, Chimes noted that it has held the contract for janitorial services at BWI airport for many years. The contractor already pays cleaning crew employees the equivalent of the living wage; wages are approximately $9 per hour, and employees earn about an additional $2.50 per hour in fringe benefits. As a result, the living wage mandate has not affected the cost of its contract at the airport.

Resources Lacking for Enforcement

The fiscal note for Chapter 284 suggested that a full-time wage and hour investigator would be needed to investigate complaints of living wage violations, but that new position was not included in the fiscal 2009 budget. Instead, DLLR designated one of its four existing wage and hour investigators as its sole living wage investigator. After a few months, however, that individual was injured and did not return to work. Since then, responsibility for investigating and enforcing the living wage mandate has been divided among DLLR’s existing investigators, who are also responsible for enforcing the prevailing wage. For each living wage contract referred to DLLR, the agency collects and monitors wage reports from the contractor to ensure compliance with the law.

According to DLLR staff, most of the complaints they receive from employees are prompted by confusion about the provisions of the living wage law. Many employees believed they would receive immediate raises because of the living wage, but contracts signed before the law went into effect are not entitled to an increase. As of September 30, 2008, DLLR had obtained restitution for two employees who were improperly denied the living wage, totaling $324.

Procurement officers at MDOT and DGS advise that the living wage mandate has not burdened their staffs. Their primary responsibility is to ensure that contractors are aware of the living wage mandate and certify that they will pay the living wage on eligible contracts. Beyond that, the procurement officers forward information on eligible contracts to DLLR but have no further involvement with enforcement. Like the contractors DLS interviewed, the procurement officers have seen little or no evidence that vendors are restructuring their workforces to try to avoid paying the living wages (by, for instance, increasing their reliance on part-time workers who work less than half-time on the State contract).

Conclusions and Recommendations

The living wage law appears to be affecting the contracts for which it was designed: service contracts employing low-skilled, low-wage laborers. For the DLS case study contracts, the living wage law has resulted in increased labor costs of between 13 and 25.6 percent and total contract cost increases of between 7 and 19 percent. While these findings cannot be generalized to the universe of State service contracts, these findings are generally consistent with the level of increased costs for labor-intensive service contracts identified in other research studies. Given the large number of exempt contracts or service contracts that already pay wages above the living wage, the cumulative effect on State expenditures should be minimal. Further research using actual contractor invoices and/or wage and hour reports from a full year of activity would be necessary to provide a more definitive conclusion about the fiscal effect of the living wage on the State.

The living wage mandate has not had a negative effect on the competitiveness of State procurements and may have even increased vendor participation by leveling the playing field. It has not placed any undue burdens on either vendors or procurement offices, and there is virtually no evidence to suggest that vendors are trying to evade having to pay the living wage. At the same time, most evidence suggests that increased labor costs are being passed on to the State in full, although there is still the potential for vendors to absorb some of those increases through reduced training and recruitment costs if they wish to remain competitive.

The State should explore the possibility of requiring bidders on service contracts to break out projected labor costs from other costs in their bids, and to provide projected work hours and wage rates for each labor category. This level of detail would accomplish two important purposes. First, it would allow procurement officers to easily identify bids that were not responsive with regard to the living wage. As noted in this report, many bids submitted by vendors did not account for the living wage, causing disruptions to the procurement process. Several contract awards have been delayed due to low bidders withdrawing their bids when they realized their bids would not cover living wages. Requiring bidders to reflect their wage rates up front will eliminate these delays and unfair bidding practices and streamline the procurement process. Second, including wage rates and projected hours could facilitate future analyses of the effects of the living wage law on contract costs by isolating labor costs for comparative analysis.

Procurement officers should make a concerted effort to alert vendors about the potential annual increases in living wage rates and to ensure that these wages are built into bids (or that the bids explain why they are not). DLS's recommendation to require bids to include wage rates and projected hours would also allow procurement officers to determine which bids are responsive in that regard. Alternatively, for contracts of three or fewer years, the State could explore the possibility of freezing wage rates for the term of the contract so that bidders can more accurately project their labor costs without the uncertainty of inflation-driven increases.

Finally, consideration should be given to awarding DLLR at least one regular full-time position to serve as the State's living wage investigator. As more contracts become eligible for re-bid, the number of contracts subject to the living wage will only increase, as will the potential for noncompliance. Adequate enforcement of the living wage mandate is not just a matter of fairness to the affected employees but also protects the integrity of State procurements against noncompliant vendors. Any perception that noncompliant vendors will not be penalized could discourage other vendors from participating in State procurements.

Key Characteristics of Living Wage Contracts and Their Predecessors

			Living Wage Contract				Previous Contract			
Type of Service	**Agency**	**Location**	**Vendor**	**Amount**	**Months**	**Bidders**	**Vendor**	**Amount**	**Months**	**Bidders**
Security Guard Services	DGS	Queen Anne’s	Spartan, Inc.	$100,932	36	10	Amazing Security	$99,316	36	12
Security Guard Services	DGS	Baltimore City	Spartan, Inc.	255,945	36	8	Stronghold Security	209,815	36	9
Security Guard Services	DGS	Baltimore City	Axiom Protective Services	916,293	36	12	Safe Sites	238,909	12	9
Window Washing	DGS	Baltimore City/Anne Arundel	Trident Building Services	260,400	60	3	Trident Building Services			
Guard Service - Borgerding DC/MSC	DGS	Baltimore City	Axiom Protective Services	431,441	36	15	Crown Security Services	308,947	36	20
Janitorial - Annapolis Public Buildings	DGS	Anne Arundel	Art of Moving and Living, Inc.	408,150	36	17	Maid 2 Clean	243,800	36	
Janitorial - Ellicott City DC	DGS	Howard	Sanitech	140,120	24	10	Not Provided	126,693		
Snow Melter Operations	MAA	Anne Arundel	Aero Snow Removal	1,118,230	12	1	Aero Snow Removal	937,685	12	2
Security Guard Services	MAA	Baltimore County	Spartan Security	240,240	36	3	Watkins Security Agency	1,143,313	36	
BWI Shuttle Service	MAA	Anne Arundel	First Transit	14,314,977	12	1	First Transit	52,861,703	36	4
Fence Repair /Installation at BWI	MAA	Anne Arundel	Fence Connection	466,590	36	4	Hercules Fence	473,955	36	
Facility and Preventative Maintenance	MDOT	Anne Arundel	AAA	2,535,000	36	4				
Commuter Bus Service - Line 903	MDTA	Prince George's	Keller Transportation	5,424,750	60	1				
Disabled Bus Towing Services	MDTA		The Auto Barn	490,000	60	2		428,620	36	
Light Rail Station Snow/Ice Removal	MDTA	Baltimore City /Others	Clover Leaf	1,698,900	54	1				
Light Rail Station Snow/Ice Removal	MDTA	Howard/Others	Clover Leaf	1,698,900	54	1				
Ice and Snow Removal	MTA	MARC Stations - Multiple	Clover Leaf, Inc.	775,520	42		Eight Contractors			
Ice and Snow Removal	MTA	Light Rail - Northern Region	Clover Leaf, Inc.	1,698,900	54					
Commuter Bus Service	MTA		Shore Motorcoach		24		Keller Transportation			
Rail Car Waste	MTA		Microphor	563,995	60					
Janitorial	MVA	Prince George’s	Phoenix Industries	80,400	12	18	Acclaim USA	82,800	12	
Armored Car Service	MVA	Multiple Counties	Dunbar Armored Car	354,000	36	2	Brinks/Dunbar (contract split)	726,000	60	2
Traffic Barriers	SHA	Prince George’s	L.S. Lee	1,915,300	30	3	L.S. Lee	1,519,000	26	3
Street Lighting	SHA	Carroll/Frederick	Rommel Engineering and Const.	625,000	25	2	Rommel Engineering and Const.	282,351	11	1
Street Lighting	SHA	Caroline/Cecil/Kent	Rommel Engineering and Const.	286,571	25					

			Living Wage Contract				Previous Contract			
Type of Service	**Agency**	**Location**	**Vendor**	**Amount**	**Months**	**Bidders**	**Vendor**	**Amount**	**Months**	**Bidders**
Roadside Mowing	SHA	Frederick	Green Thumb Landscaping	388,750	19	7	TME Enterprises	351,684	18	2
Street Lighting	SHA	Baltimore Co.	Lighting Maintenance	2,385,305	25	2	Traffic Systems, Inc.	2,482,948	30	3
Drawbridge Operation	SHA	Kent	Chesapeake Pilot Training	225,840	26	1	Chesapeake Pilot Training	311,400	33	1
Linestriping	SHA	Allegany/Garrett/Washington	Oglesby Construction	1,562,430	27	4	Denville Line Painting	1,599,300	22	3
Brush and Tree Cutting	SHA	Frederick	Pittman's Tree and Landscaping	337,575	25	4	Asplundh Tree Expert	496,694	26	3
Brush and Tree Cutting	SHA	Multiple Tier 2 Counties	Asplundh Tree Expert	941,787		1	Asplundh Tree Expert	693,412	35	1
Herbicide Application	SHA	Allegany	Asplundh Tree Expert	280,030	22	6				
Herbicide Application	SHA	Frederick	Asplundh Tree Expert	426,138	22	5				
Traffic Barriers	SHA	Garrett	Penn Line Service	351,364	24	2	Penn Line Service	311,284	23	2
Linestriping	SHA	Washington	Alpha Space Control	949,228	26	5	Alpha Space Control	980,110	21	4
Linestriping	SHA	Howard	Denville Line Striping	892,850	25	3	Denville Line Painting	784,450	26	4
Pavement Markings	SHA	Somerset	3-M Company	2,498,375	85	2				
Contract Support	SHA	Washington	Abacus Corp.	626,450						
Drawbridge Operation	SHA	Talbot	M&R Management	366,000	25	2				
Contract Support	SHA	Allegany	Earn Contractors	335,700		9				
Brush and Tree Cutting	SHA	Kent	Asplundh Tree Expert	359,382	30	2	Pardoe's Lawn and Tree Svc.	284,481	27	2
Concrete Replacement	SHA	Harford/Baltimore.	Romano Concrete Const.	896,570	19	4	Nations Contracting	364,915	18	3
Maintenance of Traffic	SHA	Carroll/Frederick/Howard	Allied Contractors	270,930	34	3	Allied Contractors	782,020	28	4
Contract Support	SHA	Garrett	ICIT, Inc.	714,000		7	Abacus Corp.	369,740	20	3
Contract Support	SHA	Montgomery	Thomas Jones	1,800,000	33	14	ICIT, Inc.	963,705	23	4
Linestriping	SHA	Montgomery/Prince George's	Denville Line Striping	2,359,500	34	5	Denville Line Painting	1,435,000	23	5
Linestriping	SHA	Anne Arundel	Denville Line Striping	1,452,711		4	Denville Line Painting	1,174,877	16	6
Traffic Barriers	SHA	Harford/Baltimore	L.S. Lee	3,074,575	22	3	Guardrails, Etc.	2,983,150	20	3
Traffic Barriers	SHA	Washington	Penn Line Service	442,970		3	Penn Line Service	413,212	23	2
Brush and Tree Cutting	SHA	Talbot	Asplundh Tree Expert	387,415	18	1	Asplundh Tree Expert	285,700	28	1
Linestriping	SHA	Carroll/Frederick/Howard	Denville Line Striping	2,139,500	25	4	Denville Line Painting	1,574,200	27	4
Herbicide Application	SHA	Montgomery	Evergreen Services	352,350	33	8				
Brush and Tree Cutting	SHA	Garrett	Vacation Landscapes	438,250	22	1	Vacation Landscapes	438,750	18	2

			Living Wage Contract				Previous Contract			
Type of Service	**Agency**	**Location**	**Vendor**	**Amount**	**Months**	**Bidders**	**Vendor**	**Amount**	**Months**	**Bidders**
Brush /Tree Cutting /Stump Removal	SHA	Prince George’s	Asplundh Tree Expert	933,404		1				
Brush /Tree Cutting/Stump Removal	SHA	Washington	Vacation Landscapes	349,875		1	Asplundh Tree Expert Co.	197,077		2
Brush/ Tree Cutting/Stump Removal	SHA	Cecil	Asplundh Tree Expert	415,757		3	Asplundh Tree Expert Co.	428,155		4
Brush /Tree Cutting /Stump Removal	SHA	Prince George’s	Penn Line Service	434,306	24	3	Excel Tree	513,300		2
Draining Structure Repairs	SHA	Baltimore/Harford	Nations Contracting	2,883,345		4	Nations Contracting	2,534,445		3
Janitorial Svc. for Memorial Info Center	SHA	Charles	JPEX Corporation	199,728		1				
Landscape Maintenance.	SHA	Baltimore County	PSN Landscaping	172,250		4				
Landscape Maintenance	SHA	Baltimore County	Poole Landscaping	203,753		3				
Line Striping	SHA	Baltimore/Harford	Mid Atlantic Marketing, Inc	683,200		2	Priceless Industries	620,000		3
Maintenance of Turf/Landscaping	SHA	Charles,/St. Mary's	Lorenz Lawn & Landscape	279,951		2				
Mowing /Trimming	SHA	Calvert	Community Bridge, Inc.	689,442		13	TME Enterprises	325,352	36	3
Roadside Mowing	SHA	Garrett	Brant’s Lawn & Landscaping	142,503		1	Alda Mar Services	30,838		3
Roadside Mowing	SHA	Talbot	Consolidated Janitorial Services.	214,410		4				
Roadside Mowing	SHA	Queen Anne’s	Consolidated Janitorial Services	308,315		6	Smallwood Ground Maint.	196,000		3
Roadside Mowing	SHA	Prince George’s	HF Huber & Sons	524,620		9				
Roadside Mowing	SHA	Howard	Kinion	800,584		9	H&O Contractor	753,450	24	3
Roadside Mowing	SHA	Dorchester	Consolidated Janitorial Services	329,022		6	James D. Anderson	278,660	48	3
Roadside Mowing	SHA	Cecil	Priority Services LLC	324,576		10	Expert Landscape Mgmt.	336,168		4
Roadside Mowing	SHA	Howard	Curb Appeal Landscaping	322,215		7	Expert Lanscaping	245,956		5
Roadside Mowing	SHA	Caroline	Consolidated Janitorial Services	670,684		7	Intercounty Contractors	387,726		3
Roadside Mowing	SHA	Caroline	Intercounty Contractors	387,726		2				
Roadside Mowing	SHA	Garrett	Brant’s Lawn & Landscaping				Alda Mar Services	30,838		3
Roadway/Shoulder Maintenance	SHA	Multiple Tier 1 and Tier 2	Brawner Builders	1,045,552		3	Huntington & Hopkins	1,131,965		2
Street Sweeping	SHA	Multiple Tier 2 Counties	Reilly Sweeping	236,360		3	Reilly Street Sweeping	207,260		2
Street Sweeping	SHA	Frederick/Howard	East Coast Sweeping	314,146		5	East Cost Sweeping	330,752		2
Street Sweeping - Park & Ride Lots	SHA	Calvert// St. Mary’s	East Coast Sweeping	247,006		4	East Cost Sweeping	200,928		3
Termoplastic Pavement Markings	SHA	Multiple Tier 2 Counties	Proline Painting CO	418,050		6				
Sealing of Joints/Cracks in Roadways	SHA	Carroll/ Frederick/Howard	Slurry Pavers	810,250		3	Slurry Pavers	636,506		3

			Living Wage Contract				Previous Contract			
Type of Service	**Agency**	**Location**	**Vendor**	**Amount**	**Months**	**Bidders**	**Vendor**	**Amount**	**Months**	**Bidders**
Rumble Strips at Various Locations	SHA	Multiple Tier 1 and Tier 2	M&R Management	305,300		2				

DGS: Department of General Services
MAA: Maryland Aviation Administration
MDOT: Maryland Department of Transportation
MTA: Maryland Transit Administration
MDTA: Maryland Transportation Authority
MVA: Motor Vehicle Administration
SHA: Maryland State Highway Administration

Source: Department of General Services; Department of Labor, Licensing, and Regulation; Department of Legislative Services; Maryland Department of Transportation

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