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FISCAL IMPACT STATEMENT

LS 6345

BILL NUMBER: SB 197

NOTE PREPARED: Dec 16, 2011

BILL AMENDED:

SUBJECT: State Contracts.

FIRST AUTHOR: Sen. Arnold

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that contracts for public works projects may not be awarded to a contractor that does not: (1) employ residents of Indiana as at least 80% of the employees working on the contract; and (2) enter into subcontracts only with subcontractors that employ residents of Indiana as at least 80% of the employees working on the contract.

It also provides that if a contract is being paid for with federal funds and the requirement that 80% of the employees must be residents of Indiana causes the loss of the federal funds as determined by the federal agency providing the funds, the use of 80% Indiana residents is a goal and not a requirement.

The bill applies this restriction to contracts entered into by the Public Works Division (PWD) of the Department of Administration (DOA), any state agency or commission entering into a public works contract, the Commission Governing the Ports of Indiana, and the Department of Transportation (INDOT).

The bill requires the Commissioner of the DOA to prepare an annual report for the public and the Legislative Council stating, for the contractors awarded public works contracts by the state and the subcontractors with which these contractors entered into subcontracts, the percentage of the contractors' and subcontractors' employees working on the public works contracts who are residents of Indiana.

Effective Date: Upon passage.

Explanation of State Expenditures: *Public Works Contracts:* The bill would have indeterminate fiscal impact on public works projects. Costs for the DOA, a state agency or commissions contracting for public works, the Ports of Indiana, and the INDOT could increase to the extent that a low-cost bidder who does not

employ the required proportion of Indiana residents or who subcontracts with a subcontractor who does not employ the required proportion of Indiana residents may not be granted a contract. Also, contracts awarded to contractors that fail to maintain or who's subcontractor fails to maintain the required proportions of Indiana residents are terminated, reinitiating the contracting process. However, some of these costs may be offset by the contractor or subcontractor being subject to a Class B infraction for failing to employ the required proportion of Indiana residents. A separate infraction applies for each nonresident employed in excess of the allowed number of nonresidents. Infraction penalties are deposited in the state General Fund.

Public Works Contracts-Reporting Requirements: Before August 15 of each year, beginning in 2011, the PWD, state agencies or commissions entering into a public works contract, the Ports of the Indiana, and the INDOT are to report to the Commissioner of the DOA on the percentage of employees employed by contractors or subcontractors who work on each contract and who are residents of Indiana. The Commissioner is to compile and make available this information for the public and the Legislative Council before October 1 of each year. The reporting requirements, criteria development, and list maintenance could increase costs to the DOA and other contracting agencies.

Background and Additional Information -

Public Works Contracts- Resident of Indiana: A resident of Indiana is defined as a person at least 18 years old and who has a registered motor vehicle in Indiana, is registered to vote in Indiana, has a child enrolled in an elementary or secondary school in Indiana, or who derives more than one-half of the person's gross income from sources in Indiana. However, if a person only meets the income factor, the person may not be a resident of Indiana if the preponderance of the evidence of the first three factors is not met.

Contractor and Subcontractor Qualifications: Currently, the PWD requires contracts and subcontractors to be certified prior to bidding or performing work under contract for which the cost is estimated at more than \$150,000. INDOT requires a form outlining the contractor's experience and financial condition for prequalification before bidding on contracts for the maintenance or construction of highways, bridges, and appurtenances.

INDOT: An INDOT survey of its contractors indicates that approximately 80% of workers are Indiana residents. Most INDOT projects are federally funded.

Explanation of State Revenues: *Public Works Contracts:* If additional court cases occur and infraction judgments and court fees are collected, revenue to the state General Fund may increase. The maximum judgment for a Class B infraction is \$1,000, which is deposited in the state General Fund.

If court actions are filed and a judgment is entered, a court fee of \$70 would be assessed, 70% of which would be deposited in the state General Fund if the case is filed in a court of record or 55% if the case is filed in a city or town court. In addition, some or all of the document storage fee (\$2), automated record keeping fee (\$5), judicial salaries fee (\$19), the public defense administration fee (\$5), the court administration fee (\$5), and the judicial insurance adjustment fee (\$2) are deposited into the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Public Works Contracts:* If additional court actions are filed and a judgment is entered, local governments would receive revenue from the following sources. The county

general fund would receive 27% of the \$70 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. Additional fees may be collected at the discretion of the judge and depending upon the particular type of case.

State Agencies Affected: DOA; Any state agency or commission entering into a public works contract; Ports of Indiana; INDOT.

Local Agencies Affected: Trial courts, local law enforcement agencies.

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