Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2017 Regular Session

Part I: Measure Information

Bill Request #:   124

Bill #:   HB 30

Bill Subject/Title: An ACT relating to public procurement.

Sponsor: Representative Jeffrrey Donohue

Unit of Government: **x** City   **x** County   **x** Urban-County

x Charter County   **x** Consolidated Local   **x** Unified Local Government

Office(s) Impacted: All governmental bodies issuing contracts for construction or maintenance of a public building or public work

Requirement: **x** Mandatory ____ Optional

Effect on
Powers & Duties: **x** Modifies Existing   **x** Adds New ____ Eliminates Existing

Part II: Purpose and Mechanics

HB 30, the "Kentucky Buy American Act", requires iron, steel, and manufactured goods (supplied as a primary component of a contract or subcontract in the construction or maintenance of public buildings, including schools, or public works) to be produced in Kentucky, unless the head of the governmental body in charge of the project issues a waiver.

Waivers may be issued if compliance is deemed to be inconsistent with the public interest; if the iron, steel, and manufactured goods needed are not produced in Kentucky; or if supplying iron, steel, and manufactured goods produced in Kentucky would "unreasonably" increase the cost of the overall contract.

If a waiver is issued; then the subject iron, steel, and manufactured goods are to be produced in America unless a second waiver is issued under the same criteria. The construction bid or proposal openings shall be delayed, if necessary, to accommodate requests for the second waiver.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

HB 30 could have a moderate to substantial fiscal impact on a local government, due **to potentially significant increases in construction costs, and increased administrative responsibilities for local officials**. Recent Kentucky local government construction outlays (excluding school and special districts) totaled approximately $758.2 million, as recorded in the 2012 Census of Governments survey data and adjusted for inflation. Supplies, materials, and components are estimated to comprise about thirty-nine percent of the net value of construction work done in Kentucky (data extrapolated from the 2012 Economic Census). Based on the $758.2 million, an overall price increase of one percent would increase annual local government construction costs by over seven million dollars (i.e., approximately $765.2 million). The Kentucky League of Cities reports over $464 million in FY 15 construction costs.

If one assumes that local governments would seek a waiver from the requirement to buy Kentucky or American supplies, materials, and components if lower-cost supplies, materials, and components were available from outside Kentucky or America, respectively; then, increased costs may be borne by local government due to factors including:

1. Firms based in Kentucky and America, already supplying materials, may charge higher prices due to the preference policy; and

2. Contractors may increase fees for ensuring compliance with the Kentucky Buy American Act; and

3. Delays may result in construction bid or proposal openings due to accommodating the request for a second waiver.

It is possible that the Kentucky Buy American Act's procurement requirements would generate additional local tax revenue to partially offset the increased costs at the aggregate level. However, localities in which the suppliers are based may differ from the localities executing the project, therefore, the additional tax revenues would not necessarily accrue to the locality bearing the cost of the project.

Data Source(s):   LRC Staff Economist's Office, Kentucky Finance and Administration Cabinet, Kentucky League of Cities, National Conference of State Legislators, National Association of State Procurement Officials "In-state Preferences" Briefing Paper (August 2012)

Preparer: H. Marks   **Reviewer:** JWN   **Date:** 1/2/17