SB 520

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 520 (Senator Young)
Education, Health, and Environmental Affairs

State Real Estate Commission - Property Managers - Registration

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This bill requires specified persons to register with the State Real Estate Commission as property managers before providing, attempting to provide, or offering to provide property management services in the State, subject to specified conditions. A person otherwise licensed by the commission may provide property management services in the State without also being registered as a property manager and meeting the related liability coverage requirements.

Fiscal Summary

State Effect: Special fund expenditures by the Department of Labor, Licensing, and Regulation (DLLR) increase by $69,200 in FY 2018 for staff, information technology, and legal expenses. Future years reflect annualization and the elimination of one-time costs. Special fund revenues increase by $187,500 in FY 2018 and by $2,300 in FY 2019 from initial property manager registrations, as discussed below. Future years reflect ongoing initial and renewal registrations. The bill's penalty provision is not anticipated to materially affect general fund revenues.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	$187,500	$2,300	$189,800	$4,500	$192,000
SF Expenditure	$69,200	$72,900	$76,200	$79,700	$83,500
Net Effect	$118,300	($70,600)	$113,500	($75,200)	$108,500

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Meaningful. The bill likely affects small businesses that provide property management services and are not otherwise excluded from the bill's registration and surety bond requirements. These businesses must comply with qualifications set by the commission, purchase the required surety bond if they do not otherwise have one, and pay a registration fee every two years.

Analysis

Bill Summary: "Property manager" means a person who is registered by the commission to provide property management services, and includes a partnership or a corporation. "Property management services" means the leasing, managing, advertising, renting, or handling of trust money of a property. It does *not* include:

- participating in a homeowners association;
- renting a property for less than six months;
- leasing, managing, advertising, renting, or handling of trust money of an apartment complex with 50 or more units;
- services provided by a person employed exclusively as the property manager for the property management of one person; or
- services provided on an incidental basis and without additional compensation by employees of an owner of a property.

Generally, a property manager must register with the commission before providing, attempting to provide, or offering to provide property management services in the State. The penalty for failing to do so is a fine of up to $1,000, imposed by the commission. The commission must determine the qualifications for registration.

The commission may set reasonable fees for the issuance and renewal of property manager registrations and other related services it provides. The fees must be set so as to produce funds to approximate the cost of registering property managers. A registration expires on a date set by the commission, unless it is renewed for an additional two-year term.

Generally, a property manager must be covered by a surety bond in the amount of at least $100,000, if the property manager rents fewer than 20 properties, or $200,000, if the property manager rents 20 or more properties. A property manager must provide acceptable proof of the surety bond to the commission.

A person otherwise licensed by the commission may provide property management services in the State without also being registered as a property manager and meeting the related liability coverage requirements.

Current Law/Background: Under current law, a person is not required to register with the State Real Estate Commission before providing, attempting to provide, or offering to provide property management services. DLLR estimates that approximately 2,500 persons are required to be registered under the bill, but the actual amount may vary from this estimate.

State Real Estate Commission

Generally, an individual must be licensed by the commission as a real estate broker before the individual may provide real estate brokerage services in the State. Similarly, an individual must be licensed by the commission as an associate real estate broker or a real estate salesperson before the individual, while acting on behalf of a real estate broker, may provide real estate brokerage services in the State. Real estate brokerage services include, for consideration, selling, buying, exchanging, or leasing any real estate or collecting rent for the use of any real estate on behalf of another person. Licensees are not required to have or provide proof of a surety bond to the commission. Initial fees for brokers, associate brokers, and salespersons are $190, $130, and $90, respectively; renewal fees are $20 less.

State Fiscal Effect: DLLR advises that it requires two additional staff to implement the registration program for property managers, in addition to relatively minor information technology expenses and legal expenses. The Department of Legislative Services (DLS) disagrees with this assessment and notes that the commission, as a special funded entity with more than 40,000 licensees, is one of the largest and most well-funded and staffed regulatory entities at DLLR. Accordingly, the cost estimate below reflects only one new staff person and the commission's other expenses.

Special fund expenditures for the State Real Estate Commission Fund increase by $69,164 in fiscal 2018, which accounts for the bill's October 1, 2017 effective date. This estimate reflects the cost of hiring one administrative staff to generally oversee the registration program. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	$52,305
Programming Expenses	$9,000
Operating Expenses	7,859
Total FY 2018 State Expenditures	**$69,164**

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses.

The commission is authorized to set fees by regulation for the issuance and renewal of property manager registrations. Registrations expire on a date set by the commission, unless renewed for an additional two-year term. All of the affected property managers are required to be registered with the commission beginning October 1, 2017 (fiscal 2018). The two-year registration creates a revenue cycle where the majority of revenue is received in even-numbered fiscal years, with minimal revenue in odd-numbered fiscal years. This means that even-year revenue generally must be sufficient to cover the commission's expenses for that year and the following year.

As noted above, the commission estimates that 2,500 persons will register as property managers in fiscal 2018. The commission anticipates an additional 30 persons will register annually thereafter. A registration fee of $75 appears sufficient to cover the commission's costs, assuming that (1) the commission hires only one staff; (2) 2,500 registrations are issued in fiscal 2018, 30 additional registrations are issued annually thereafter, and registrations are renewed every two years; and (3) a special fund balance is retained each year and used to supplement rising staff costs in future years.

Any variation from these assumptions alters the registration fee required. For example, registration fees for property managers further increase to the extent that DLLR requires additional staff or registers fewer property managers. DLS notes that DLLR's own estimate for the fee, which reflects the cost of two staff and provides 10 years of sufficient revenue, is $175.

Under the DLS assumptions, special fund revenues increase by $187,500 in fiscal 2018, $2,250 in fiscal 2019, $189,750 in fiscal 2020, $4,500 in fiscal 2021, and $192,000 in fiscal 2022. The bill's penalty provision is not anticipated to materially affect general fund revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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mm/mcr

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