

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1285 (Delegate Franchot)
Economic Matters

Maryland Contractors Licensing Act

This bill requires a person to obtain a license from the Department of Labor, Licensing, and Regulation (DLLR) before the person engages in business as a “contractor” in the State. A contractor means any person who submits a bid to construct, alter, repair, add to, subtract from, improve, move, wreck, or demolish any building, highway, road, railroad, structure, or excavation associated with a project, development, or improvement. A contractor does not include a material supplier, a person who performs construction on the site of real property that the person owns or leases, or a person licensed as a professional by any licensing or regulatory board.

Fiscal Summary

State Effect: General fund revenues would increase by \$2.5 million in FY 1997. Future year revenues reflect renewal fees, turnover, and growth. General fund expenditures would increase by about \$980,000 in FY 1997. Future year expenditures reflect full salaries, turnover, and inflation.

(In millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$2.50	\$2.55	\$2.60	\$2.65	\$2.71
GF Expenditures	\$0.98	\$1.19	\$1.23	\$1.26	\$1.30
Net Effect	\$1.52	\$1.36	\$1.37	\$1.39	\$1.41

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

Local Effect: Potential increase in revenues and expenditures due to the bill’s penalty provisions.

Fiscal Analysis

Bill Summary: Major provisions of the bill include:

- An applicant for a contractor's license must pay a \$100 licensing fee. The license is valid for a one-year term and may be renewed before the expiration date by paying a \$100 renewal fee.
- A contractor must maintain workers' compensation insurance and general liability insurance in the amounts specified by DLLR. The insurance company carrying this insurance must notify DLLR of the cancellation, termination, or expiration of a contractor's insurance. DLLR must notify the contractor that the contractor's license will be suspended after 15 days from the date of the notice unless the contractor can provide proof of insurance to DLLR.
- A person who undertakes any construction work on a contract with a value of more than \$25,000 without a license is subject to a civil penalty of \$200 for each day that the person is in violation.
- A person who knowingly violates a provision of this bill is guilty of a misdemeanor and is subject to a fine of up to \$5,000 or imprisonment of up to one year, or both.

State Revenues: In 1992, according to the Statistical Abstract of the United States, there were 573,000 construction contractors in the United States. Based on this information, the level of construction activity in the State, and the number of professionals already licensed by DLLR, it is estimated that this bill will impact about 25,000 contractors.

The bill provides that construction contractors must be licensed by DLLR and pay a \$100 license fee. As a result, general fund revenue will increase by \$2.5 million in fiscal 1997. Revenue projections in the out-years reflect the \$100 renewal fees, 5% turnover, and 2% growth.

General fund revenues could increase under the bill's monetary penalty provisions for those cases heard in the District Court, depending upon the number of convictions and fines imposed.

State Expenditures: DLLR is responsible for licensing applicants, renewing licenses, investigating complaints, and tracking insurance coverage. Due to the large volume of applicants, DLLR will need an Administrator, 10 Office Workers, 10 Investigators, and an Assistant Attorney General. As a result, general fund expenditures will increase by

\$646,829 in fiscal 1997. This figure includes salaries of \$327,358, fringe benefits, one-time start-up costs, ongoing operating costs, and reflects the October 1, 1996 effective date. Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

DLLR may deny a license to an applicant, reprimand a licensee, or suspend or revoke a license. However, before DLLR can take any final action against a licensee, the licensee must be provided an opportunity for a hearing before the department. It is assumed that DLLR will hear 2,000 cases annually through the Office of Administrative Hearings and incur hearing costs of about \$450,000. Since the effective date of the bill is October 1, 1996, fiscal 1997 expenditures will increase by \$337,500.

General fund expenditures could increase as a result of the bill's incarceration penalty due to increased payments to counties for reimbursement of inmate costs, depending on the number of convictions and sentences imposed.

Persons serving a sentence of 12 months or less are sentenced to a local detention facility. The State reimburses counties for part of the per diem rate after a person has served 90 days. State per diem reimbursements are estimated to range from \$11 to \$50 per inmate, depending upon the jurisdiction.

In sum, fiscal 1997 general fund expenditures will increase by \$984,329 which includes \$646,829 in salaries and related operating expenses and \$337,500 in hearing costs.

Local Revenues: Revenues could increase under the bill's monetary penalty provision for those cases heard in the circuit courts, depending upon the number of convictions and fines imposed.

Local Expenditures: Expenditures could increase as a result of the bill's incarceration penalty depending upon the number of convictions and sentences imposed. Counties pay the full cost of incarceration for the first 90 days of the sentence, plus part of the per diem cost after 90 days. Per diem operating costs of local detention facilities are expected to range from \$22 to \$108 per inmate in fiscal 1997.

Information Source(s): Department of Labor, Licensing, and Regulation; Statistical Abstract of the United States; Department of Fiscal Services

Fiscal Note History: First Reader - February 27, 1996

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