

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 17 (Senator Munson)
Judicial Proceedings

Referred to Environmental Matters

Lead Paint - Insurance - Definition of Affected Property

This amended bill alters the definition of affected property in Article 48A - Insurance Code and the new Insurance Article to include (1) a residential rental property constructed before 1950 that contains only one rental dwelling unit or a residential rental property that contains only one rental dwelling unit for which the owner makes an election to comply with reduction in lead risk in housing under the Environment Article; or (2) an individual rental dwelling unit within a residential rental property constructed before 1950 that contains more than one rental dwelling unit or a residential rental property that contains more than one rental dwelling unit for which the owner makes an election to comply with reduction in lead risk in housing under the Environment Article. Affected property does not include property exempted under the Environment Article and rental dwelling unit has the meaning stated in the Environment Article. Under current law "affected property" is defined as a property with at least one rental dwelling unit.

The bill takes effect June 1, 1997.

Fiscal Summary

State Effect: Potential indeterminate increase in general fund revenues from the insurance premium tax.

Local Effect: None.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

State Effect: To the extent that insurers' liabilities and, thus their claims increase as a result of the bill, if premiums increase, revenues from the 2% premium tax would increase. Any such increase is indeterminate at this time.

Small Business Effect: The bill would require insurers to provide lead hazard coverage of up to \$17,000, by waiving any lead hazard coverage exclusion in a policy, on a unit-by-unit basis for rental properties. Under current law, insurers are required to waive the coverage exclusion only when every unit in a property has been certified. There are an estimated 25,000-30,000 properties, which are assumed to comprise about 200,000 units, in MDE's registry of "affected properties."

Small business owners of affected properties could benefit from increased lead hazard insurance coverage. Such insurance can significantly reduce a small business' exposure for liabilities relating to lead paint hazards and costs for litigation.

Insurance premiums are based in part on the claims experience of the pool of insureds. It is estimated that lead liabilities will eventually cost the insurance industry \$3 billion to \$100 billion nationally. To the extent that insurers' liabilities and, thus their claims increase as a result of this bill, insureds, including small businesses and consumers, could face increased premiums.

There are 118 certified lead paint inspectors, 219 certified abatement contractors, and 11 certified training inspectors in the State, almost all of which are small businesses, which could benefit from increased business associated with any increase in abatement. Abatement can cost up to \$20,000 per housing unit.

Information Source(s): Maryland Insurance Administration, Department of the Environment, December 1996 article in *Best's Review*, Department of Fiscal Services

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