

**Department of Legislative Services**  
 Maryland General Assembly  
 1999 Session

**FISCAL NOTE**

House Bill 896 (Delegates Fulton and Branch)

Economic Matters

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**State Board of Home Inspectors**

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This bill establishes a State Board of Home Inspectors in the Department of Labor, Licensing, and Regulation.

The bill: (1) provides for the membership, powers, and duties of the board; (2) requires an individual to be licensed before the individual may perform home inspections; (3) establishes requirements for licensure; (4) provides for the issuance, scope, term, renewal, and reinstatement of licenses; (5) authorizes the board to deny, suspend, or revoke a license under specified circumstances; (6) provides that individuals shall be given an opportunity for a hearing before the board denies, suspends, or revokes a license; (7) requires a home inspector to prepare a home inspection report; and (8) provides that violators of the bill are guilty of a misdemeanor and subject to a fine not exceeding \$1,000 or imprisonment not exceeding six months or both.

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**Fiscal Summary**

**State Effect:** General fund expenditures could increase by an estimated \$150,200 in FY 2000, which reflects the bill's October 1, 1999 effective date and one-time start-up costs. Out-year expenditures reflect annualization and inflation. Revenues could increase by \$106,300 in FY 2000. Out-year revenue estimates reflect a one-year licensing period and 2% growth.

| (in dollars)    | FY 2000    | FY 2001   | FY 2002   | FY 2003   | FY 2004   |
|-----------------|------------|-----------|-----------|-----------|-----------|
| GF Revenues     | \$106,300  | \$170,000 | \$174,200 | \$176,200 | \$176,200 |
| GF Expenditures | 150,200    | 136,000   | 140,600   | \$145,400 | \$150,400 |
| Net Effect      | (\$43,900) | \$34,000  | \$33,600  | \$30,800  | \$25,800  |

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

**Local Effect:** Potential minimal effect on local revenues due to the bill's monetary penalty provision.

**Small Business Effect:** Meaningful effect.

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### Fiscal Analysis

**State Revenues:** The bill establishes a State Board of Home Inspectors in the Department of Labor, Licensing, and Regulation (DLLR). The bill allows the board to set reasonable fees for the issuance and renewal of licenses. The board is required to generate revenues in order to cover its expenses. It is estimated that approximately 400 home inspectors and 40 associate home inspectors currently practicing in Maryland would apply for licensure, and that it would cost approximately \$150,000 on an annualized basis to meet the bill's requirements once the licensing program is fully implemented. Therefore, DLLR expects to charge \$415 annually for a home inspector license and \$100 annually for an associate home inspector license.

DLLR advises that it would not be able to collect licensing fees until January 2000, at which time 250 home inspectors and 25 associate home inspectors are expected to apply for a home inspector license. Therefore, general fund revenues should increase by \$106,300 in fiscal 2000. Future year revenues reflect 2% growth in the industry.

**State Expenditures:** General fund expenditures could increase by an estimated \$150,200 in fiscal 2000, which accounts for the bill's October 1, 1999 effective date. This estimate reflects the cost of hiring two full-time employees (administrator III, office secretary I) and two part-time employees (assistant attorney general, investigator) to work with existing staff to credential, examine, and license home inspectors. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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| Salaries and Fringe Benefits   | \$ 90,500        |
| Contractual Services ( <i>develop an electronic inspectors program</i> ) | 35,000           |
| Computer Equipment   | 13,900           |
| Operating Expenses   | <u>10,800</u>    |
| <b>Total FY 2000 State Expenditures</b>                                  | <b>\$150,200</b> |

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The bill's incarceration provision is not expected to significantly affect State expenditures. DLLR expects fewer than ten cases per year as a result of this bill. Based on this number of cases, the Office of Administrative Hearings could handle any additional workload with existing budgeted resources.

**Small Business Effect:** This bill could have a meaningful effect on businesses providing home inspection services, the majority of which are assumed to be small businesses. This bill would not affect the number of home inspectors in the State or materially alter their business practices. However, to the extent that small home inspection businesses assume the licensing costs of their employees, this bill could meaningfully affect them. Home inspectors would be subject to an examination fee and an annual licensing fee, and would be required to have minimum net assets or a bond between \$5,000 and \$10,000. The price of the bond is estimated to be between \$200 and \$500, which depends on the risk profile of each firm. The risk profile is based on factors such as the firm's financial history, the number of employees, and the number of years the firm has been in business. In addition, the bill authorizes the Board of Home Inspectors to require continuing education courses. To the extent that the board exercises its authority, small home inspection businesses would incur the costs associated with obtaining additional education. Further, for any home inspector who violates the provisions of this bill, increased fines and jail terms could be assessed.

Home inspectors would likely pass some of these additional costs on to home buyers.

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**Information Sources:** Department of Labor, Licensing, and Regulation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 28, 1999  
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