

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE

House Bill 288 (Delegate Morhaim. *et al.*)
 Economic Matters

State Board of Home Inspectors

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; (8) authorizes the board to impose a civil penalty not exceeding \$5,000 for each violation; and (9) provides that violators of the bill are guilty of a misdemeanor and subject to a fine not exceeding \$1,000 or imprisonment not exceeding 6 months or both.

The bill sunsets on July 1, 2009.

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 would not be affected in FY 2000. Out-year revenue estimates reflect a 1-year licensing period and 2% growth.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	\$0	\$165,000	\$336,500	\$8,300	\$343,200
GF Expenditures	\$150,200	\$136,000	\$140,600	\$145,400	\$150,400
Net Effect	(\$150,200)	\$29,000	\$195,900	(\$137,100)	\$192,800

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.

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 there are 400 home inspectors currently practicing in Maryland, 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 \$825 for a biannual home inspector license.

DLLR advises that it would not be able to collect licensing fees until January 2001, at which time 400 people are expected to apply for a home inspector license. DLLR would prorate the license fee to account for an even-year renewal schedule. Therefore, general fund revenues should increase by \$165,000 (400 licensees x \$825 x 50%) in fiscal 2001. 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 2 full-time employees (administrator III, office secretary 1) and 2 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.

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>
Total FY 2000 State Expenditures	\$150,200

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 10 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 Maryland 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 at least \$50,000 of general liability insurance. The price of the insurance 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.

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

Fiscal Note History: First Reader - February 15, 1999

dmm\jr

Analysis by: Jo Ellan Jordan

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 946-5510

(301) 970-5510