

**Department of Legislative Services**  
 Maryland General Assembly  
 2000 Session

**FISCAL NOTE**

Senate Bill 745 (Senators Astle and Dorman)

Finance

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**Service Contracts Act**

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This bill creates a legal environment applicable to the sale of service contracts. A “service contract” is a contract or agreement for a separately stated consideration for a specific duration to perform, or indemnify for, repair, replacement, or maintenance of property needed because of an operational or structural failure attributable to a defect in materials, workmanship, or normal wear and tear.

The bill applies to service contracts entered into on or after October 1, 2000.

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**Fiscal Summary**

**State Effect:** Special fund expenditures could increase by \$230,400 in FY 2001, reflecting the bill’s October 1, 2000, effective date. Out-year projections reflect annualization and inflation. Special fund revenues could increase by a similar amount from registration and processing fees and the Maryland Insurance Administration’s (MIA) assessment on insurers.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SF Revenues	\$230,400	\$287,900	\$301,600	\$316,000	\$331,100
SF Expenditures	\$230,400	\$287,900	\$301,600	\$316,000	\$331,100
Net Effect	\$0	\$0	\$0	\$0	\$0

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

**Local Effect:** It is assumed that cases brought for an injunction or other equitable relief would be heard in the circuit courts. Any increase in workload could be handled with the existing budgeted resources of the circuit courts, assuming the number of cases brought is minimal. Revenues could increase minimally under the bill’s monetary penalty provision for those cases heard in the circuit courts.

**Small Business Effect:** Meaningful.

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## **Analysis**

**Bill Summary:** The bill establishes requirements for the contents of service contracts; rights of parties to a service contract; and education, examination, and bonding requirements for service contract providers. With certain exceptions, a service contract provider must register with the Insurance Commissioner and pay a \$300 registration fee. A registered service contract provider must file each type of service contract it intends to market to consumers with the commissioner and pay a processing fee of \$125 with each service contract filed.

To enforce the bill, the commissioner may, after a hearing, issue a cease and desist order and may bring an action for an injunction or other appropriate relief. A person who is convicted of violating the bill, or an order or regulation adopted under the bill, is subject to a fine of up to \$5,000 for each violation, not to exceed \$50,000 for all violations of a similar nature.

**Current Law:** Service contract providers are not regulated by the State. Service contracts are governed by the law of contracts.

**State Fiscal Effect:** This bill represents a new area of regulation for the commissioner. The number of service contract providers who would be registered under this bill cannot be accurately estimated at this time, although it is assumed that the number could exceed 500. If so, special fund expenditures by MIA could increase by an estimated \$230,400 in fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of five new positions (one rate and form analyst, one financial examiner, one consumer complaint investigator, one market conduct examiner, and one attorney to regulate the service contract industry). It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$211,400
Equipment	18,000
Other Operating Expenses	<u>1,000</u>
<b>Total FY 2001 State Expenditures</b>	<b>\$230,400</b>

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

MIA is a special fund agency. It receives its revenues from filing fees and an annual assessment on insurers. Any costs associated with this bill not accounted for by registration and processing fees would be passed on to insurers through an increase in MIA's annual assessment. Conversely, if registration and processing fee revenues exceed costs, MIA's assessment on insurers would be adjusted downward accordingly.

General fund revenues could increase minimally under the bill's monetary penalty provision for those cases heard in the District Court.

**Small Business Effect:** Small business service contract providers would be subject to regulation and possible penalties under this bill.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Judiciary (Administrative Office of the Courts), Maryland Insurance Administration, Office of the Attorney General, Department of Legislative Services

**Fiscal Note History:** First Reader - March 14, 2000  
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Analysis by: Ryan Wilson

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510