HB 360

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 360 (Delegate Proctor)
Economic Matters

Home Builders - Performance Bonds

This bill requires a homebuilder to post a performance bond with the Consumer Protection Division of the Office of the Attorney General for the benefit of the owner of a new home to cover any expenses incurred by the owner if the builder fails to complete the new home or there is an extreme delay during construction. The Consumer Protection Division of the Office of the Attorney General (CPD) must adopt regulations for the administration of the bill's provision.

Fiscal Summary

State Effect: General fund expenditures would increase by $82,400 in FY 2002. Out-year expenditures reflect annualization and ongoing operations. Revenues would not be affected.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF Expenditure	82,400	112,300	118,100	124,200	130,800
Net Effect	($82,400)	($112,300)	($118,100)	($124,200)	($130,800)

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

Local Effect: None.

Small Business Effect: Potentially meaningful.

Analysis

Current Law: Under the Maryland Homebuilders Act (Chapter 522 of 2000), homebuilders are required to register with the Consumer Protection Division and maintain general liability insurance of at least $100,000, but only homebuilders that have previously had their registration revoked and who seek a new registration are required to post a licensing bond.

The Sales of Property Title of the Real Property Article requires all homebuilders who receive a deposit from a homebuyer to post a surety bond in the event the purchaser becomes entitled to a return of the money. This bond is to ensure a buyer gets the full deposit returned should the builder fail to perform the contract.

Background: There were 29,417 new housing units authorized in Maryland in 2000. Information is not available on the number of those that did not get finished or experienced long delays in construction.

State Fiscal Effect: General fund expenditures could increase by an estimated $82,447 in fiscal 2002, which accounts for the bill's October 1, 2001 effective date. This estimate reflects the cost of hiring one administrator and one legal secretary to manage the bond program, process the paperwork, and communicate with homebuilders and homeowners. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$77,252
Equipment	5,195
Total FY 2002 State Expenditures	**$82,447**

Future year expenditures reflect: (1) full salaries with a 6.5% increase in fiscal 2003 and a 4.5% increase each year thereafter, with 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Small Business Effect: The Consumer Protection Division will determine the bond amount. Many homebuilders are small businesses and, depending on the size of the bond the CPD requires, this bill could have a meaningful impact on the income of these businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Consumer Protection Division of the Office of the Attorney General; Department of Labor, Licensing, and Regulation; U.S. Census Bureau; Department of Business and Economic Development; Department of Legislative Services

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