

**Department of Legislative Services**

Maryland General Assembly

2001 Session

**FISCAL NOTE**

House Bill 126 (Delegates Morhaim and Moe)

Economic Matters

**State Board of Home Inspectors**

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

This bill sunsets July 1, 2011.

**Fiscal Summary**

**State Effect:** General fund expenditures could increase by \$310,500 in FY 2002, which reflects the October 1, 2001 effective date and one-time start-up costs. Out-year expenditures reflect annualization and inflation. Revenues would increase by \$340,000 in FY 2002. Out-year revenue estimates reflect a two-year licensing period and 2% growth.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$340,000	\$6,800	\$346,800	\$6,800	\$353,600
GF Expenditure	310,500	156,200	163,600	171,400	179,600
Net Effect	\$29,500	(\$149,400)	\$183,200	(\$164,600)	\$174,000

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

**Local Effect:** Potential minimal.

**Small Business Effect:** Meaningful effect.

## Analysis

**Bill Summary:** The bill: (1) provides for the membership, powers, and duties of the board; (2) requires an individual to be licensed before an 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 the 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 to exceed \$1,000 or imprisonment not to exceed six months or both.

The bill also provides exemptions for certain occupations operating within the scope of their professional license from having to hold a home inspectors license.

**Current Law:** There is no State board of home inspectors, no definition of home inspector, and no definition of home inspection, nor are there any registration requirements. A home inspector is required to provide a customer with a list of credentials and a disclosure statement that details the scope of the inspection and advises the customer about the limitations of a home inspection.

**State Revenues:** In establishing a State Board of Home Inspectors, the bill empowers the board to set licensing fees. The bill requires that the board generate enough revenue to cover its expenses. It is estimated that there are approximately 400 home inspectors currently practicing in Maryland. It is also estimated that the board will spend from \$150,000 to \$170,000 a year (general funds) once the licensing program is fully implemented. Therefore DLLR expects to charge approximately \$850 biennially for a home inspectors license.

DLLR advises that it would collect licensing fees beginning in January 2002, at which time 400 people are expected to apply for a license. A home inspector's license is valid for two years, resulting in a pattern of every other year generating the bulk of the revenue. In the off-years some revenue would be generated from new applicants receiving licenses. These licenses would be pro-rated so that they would renew on the even year schedule.

**State Expenditures:** General fund expenditures could increase by an estimated \$310,520 in fiscal 2002, which accounts for the October 1, 2001, effective date. This estimate reflects the cost of hiring a full-time administrator III, an office secretary I, a

part-time assistant attorney general, and a part-time investigator. The estimate also reflects fringe benefits, start-up costs, and operating expenses.

Salaries and Fringe Benefits	\$95,026
Contractual Services ( <i>develop an electronic Inspectors program</i> )	185,000
Computer Equipment	16,000
Operating Expenses	<u>14,494</u>
<b>Total FY 2002 State Expenditures</b>	<b>\$310,520</b>

Out-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.

The bill's incarceration provision is not expected to significantly affect State revenues or expenditures. DLLR expects fewer than ten cases a year as a result of this bill. Based on this, 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.

This bill would not materially affect the number of home inspector businesses in the State or significantly cause an alteration in business practices. There is a minimum dollar cost each firm will have to pay for insurance (\$50,000), regardless of size; therefore, the liability insurance costs will have a more significant impact on smaller firms.

The continuing education requirements will also have a more significant effect on smaller firms as they are more likely to need to cease operations while inspectors are attending classes. A larger firm can stagger when its inspectors attend classes so that no business is lost.

Some of these additional costs will be passed on to the consumer and will be reflected in the costs to purchase a home.

## **Additional Information**

**Prior Introductions:** The same bill was introduced in the 2000 session as HB 212 and in the 1999 session as HB 288. Both received unfavorable reports from the House Economic Matters Committee.

**Cross File:** None.

**Information Source(s):** Department of Labor, Licensing, and Regulation; Office of Administrative Hearings; Department of Legislative Services

**Fiscal Note History:** First Reader – February 2, 2001  
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