SB 698

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 698 (Senator Astle)
Finance

Service Contracts

This bill creates a legal environment applicable to "service contract providers" and the sale of "service contracts."

Fiscal Summary

State Effect: General fund expenditures could increase by $48,600 in FY 2002. Out-year expenditures reflect ongoing operations. No effect on revenues.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF Expenditure	48,600	53,000	56,000	58,000	61,000
Net Effect	($48,600)	($53,000)	($56,000)	($58,000)	($61,000)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A "service contract provider" is an individual; partnership; corporation; incorporated or unincorporated association; joint stock company; reciprocal, syndicate, or similar entity; or combination of entities acting in concert, that is contractually obligated to the purchaser or holder of a service contract under the terms of the service contract.

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 because of an operational or structural failure attributable to a defect in materials, workmanship, or normal wear and tear.

A service contract provider must:

- insure all service contracts under a reimbursement insurance policy;
- maintain a funded reserve account for its obligations under its service contracts and place in trust with the Secretary of Labor, Licensing, and Regulation (DLLR) a financial security deposit with a value of not less than 5% of the service contract in force or $25,000, whichever is greater;
- maintain (or its parent company must maintain) a net worth or stockholder's equity of $100 million; and
- maintain a license in good standing (with DLLR) as either a: (1) home improvement contractor; (2) heating, ventilation, air-conditioning, and refrigeration contractor; or (3) plumber.

The bill also establishes requirements for the contents of a service contract, which includes stating the price and terms under which the contract was sold, specifying the merchandise and services to be provided, and stating the terms, restrictions, or conditions governing cancellation of the service contract.

The Attorney General may take actions as necessary or appropriate to enforce these provisions and to protect holders of service contracts in the State. Service contract providers and other persons marketing and selling service contracts that comply with this title need not comply with any provision of the *Insurance Article*.

Current Law: Service contract providers are not regulated by the State. The law of contracts governs service contracts.

State Fiscal Effect: 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. The Attorney General advises that its enforcement role could be handled with existing resources.

DLLR estimates that it will require three additional staff at a cost of $121,800 in fiscal 2002 to meet the requirements of this bill. The Department of Legislative Services notes that the bill's provisions do not create a significant regulatory or administrative burden for DLLR and advises instead that general fund expenditures could increase by an estimated $48,610 in fiscal 2002, which accounts for the bill's October 1, 2001 effective date. This estimate reflects the cost of hiring an account auditor to review the corporate financial statements that DLLR will receive and audit the reserve accounts that some firms will maintain due to the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- that clerical duties could be handled with existing resources.

Salaries and Fringe Benefits	$32,543
Equipment	4,500
Operating Expenses	11,567
Total FY 2002 State Expenditures	**$48,610**

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: Depending on how broadly the provisions of this bill are applied there could be a significant impact on small businesses that provide service contracts.

Additional Information

Prior Introductions: SB 745 of 2000 was substantially similar to this bill. It was withdrawn.

Cross File: None.

Information Source(s): Office of the Attorney General; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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mld/jr

Analysis by: Brian D. Baugus

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