

**Department of Legislative Services
Maryland General Assembly
2004 Session**

FISCAL AND POLICY NOTE

House Bill 1241 (Delegate Oaks, *et al.*)
Economic Matters

Home Improvement Contractor and Subcontractor Licenses - Lead Abatement Requirement

This bill provides that before October 1, 2005, an individual seeking an initial license or renewal of an existing license as a home improvement contractor or subcontractor from the Department of Labor, Licensing, and Regulation (DLLR) must meet the Maryland Department of the Environment (MDE) training requirements for lead-paint abatement services. On or after October 1, 2005, a contractor or subcontractor must meet MDE's accreditation requirements for lead-paint abatement services.

Fiscal Summary

State Effect: FY 2005 general fund revenues could decrease by \$506,300 due to a decrease in licensed contractors, and net special fund revenues could increase by \$375,000. Out-year revenue estimates are annualized and reflect increased accreditations by MDE through FY 2007 but an overall decrease in licensed contractors. FY 2005 general fund expenditures could increase by \$58,100. Special fund expenditures could increase by \$236,200. Out-year expenditures are annualized and adjusted for inflation.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$506,300)	(\$675,000)	(\$450,000)	(\$450,000)	(\$450,000)
SF Revenue	375,000	500,000	800,000	800,000	800,000
GF Expenditure	58,100	39,700	42,200	44,900	47,800
SF Expenditure	236,200	281,000	297,500	315,400	334,600
Net Effect	(\$425,600)	(\$495,700)	\$10,300	(\$10,300)	(\$32,400)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: The Maryland Home Improvement Commission (MHIC) within DLLR licenses contractors and subcontractors in the State. License applicants must pass an examination. Applicants for a contractor license, as well as licensed contractors, must maintain general liability insurance of at least \$50,000. Applicants for a contractor license also must submit a credit report or pay a credit report fee. The application fee for a contractor license is \$225; the application fee for a subcontractor license is \$125. Application fees are paid into the general fund. License terms are two years. Renewal fees, which are paid into the general fund, are the same as the initial application fees.

Before MHIC issues a contractor license, the contractor must also pay a fee of \$100 to the Home Improvement Guaranty Fund, a special fund used for compensating owners for actual losses that result from acts or omissions by a licensed contractor. Pursuant to current authority, MHIC also assesses \$100 at each renewal.

Any person, or any business, that serves as a lead paint contractor, supervisor, inspector, risk assessor, or training provider must be accredited by MDE. An individual must pass an examination, complete required training, and have relevant experience to become accredited. Training requirements vary, but range from one-day courses to four-day courses. Accreditations are valid for two years. Current application fees are as follows:

<u>Type</u>	<u>Application Fee</u>
Abatement services contractor	\$200
Removal/demolition supervisor	125
Maintenance/repainting supervisor	100
Inspector technician	100
Visual inspector	100
Risk assessor	150
Structural steel supervisor	125

Fees are paid into the Lead Accreditation Fund within MDE. MDE must use the fund for activities related to processing, monitoring, and regulating the accreditation of lead-paint abatement services and for program development.

Background: According to DLLR, currently there are about 14,000 licensed home improvement contractors and about 500 licensed subcontractors in the State. DLLR issues or renews about 7,000 contractor licenses annually. MDE issues or renews approximately 321 lead-abatement company accreditation approvals annually; in total, MDE receives applications for about 2,000 accreditations each year (for all types of

accreditations). According to MDE, there are 11 accredited training providers and 35 instructors in the State; these entities currently offer 22 training courses.

State Revenues: MDE advises that it would not be able to accredit all licensed contractors and subcontractors in the State; there simply are not enough training providers to do so. While the bill could encourage additional entities to become accredited to provide training, due to the requirements involved, there would be a time lag before any additional entities could become accredited. Accordingly, the following revenue estimates assume that MDE will be able to accredit 3,000 home improvement contractors in fiscal 2005; 4,000 in fiscal 2006; and 5,000 annually thereafter. Correspondingly, these estimates assume that the number of home improvement contractors licensed annually (currently about 7,000) will decrease by 2,250 in fiscal 2005 (which reflects the bill's October 1, 2004 effective date); 3,000 in fiscal 2006; and 2,000 annually thereafter. These estimates only reflect the anticipated decrease in licensed contractors; although subcontractors would also need to be trained and accredited, subcontractors represent only a small percentage of the total number of entities licensed by DLLR. These estimates also assume that none of the 7,000 contractors licensed annually by DLLR is already accredited by MDE.

Maryland Department of the Environment

Special fund revenues to MDE's Lead Accreditation Fund could increase by \$600,000 in fiscal 2005, assuming that 3,000 home improvement contractors would become accredited at the contractor level of \$200. Out-years reflect an increase in the total number of contractors accredited to 5,000 annually beginning in fiscal 2007.

Department of Labor, Licensing, and Regulation

General fund revenues would decrease by \$506,250 in fiscal 2005 due to the expected decrease in initial and renewal license fees from home improvement contractors. Fees deposited to the Home Improvement Guaranty Fund would decrease by \$225,000 in fiscal 2005. These estimates assume that, in the absence of the bill, from October 1, 2004 (the bill's effective date) through the end of fiscal 2005, DLLR would have issued 5,250 contractor initial or renewal licenses; under the bill, DLLR would issue only 3,000 – a decrease of 2,250. Out-years are based on reductions in the number of licensed contractors from the current annual number (7,000); these estimates reflect additional contractors being accredited on an annual basis through fiscal 2007, but an overall reduction in the total number of licensed contractors from current numbers (from 14,000 to 10,000).

State Expenditures:

Maryland Department of the Environment

MDE reports that it currently processes about 2,000 applications annually for lead accreditation with one full-time administrative staff; the program also employs two inspectors. Under the bill, given the current universe of about 14,000 licensed home improvement contractors, MDE expects to receive a significant increase in applications and questions regarding training and accreditation requirements. Special fund expenditures could increase by an estimated \$236,180 in fiscal 2005, which accounts for the bill's October 1, 2004 effective date. This estimate reflects the cost of hiring six staff (three inspectors, two administrative specialists, and one office secretary) to handle the expected increase in workload. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$193,387
Automobile Purchase/Operations	18,629
Equipment	13,830
Outreach and Other Operating Expenses	<u>10,334</u>
Total FY 2005 MDE Expenditures	\$236,180

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Department of Labor, Licensing, and Regulation

General fund expenditures for DLLR could increase by an estimated \$58,072 in fiscal 2005, which accounts for the bill's October 1, 2004 effective date. This estimate reflects the cost of hiring one office secretary to track and verify training and accreditation compliance, provide outreach to licensees and applicants regarding the new requirements, and handle increased phone calls. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	\$28,550
Programming/Database Changes	20,000
Outreach/Equipment/Operating Expenses	<u>9,522</u>
Total FY 2005 DLLR Expenditures	\$58,072

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Small Business Effect: Home improvement contractors and subcontractors, most of which represent small businesses, could be significantly impacted as a result of the bill. Those wishing to apply for a license or renew their license would need to be trained and accredited by MDE. A significant number of those entities would not be able to be trained and accredited in the timeframe established by the bill; as a result, these entities would be ineligible to be licensed by DLLR. Due to the anticipated increase in demand for lead abatement training, the bill would likely encourage additional businesses to become accredited by MDE as training providers.

Additional Information

Prior Introductions: Similar legislation was introduced as HB 1200 of 2002. The bill passed the House with amendments. The Senate Judicial Proceedings Committee held a hearing on the bill, but no further action was taken.

Cross File: None.

Information Source(s): Maryland Department of the Environment; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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