

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 880 (Delegate Rosenberg, *et al.*)
 Economic Matters

Public Safety - Demolition Work - Safety Provisions and Permitting

This bill requires a contractor to obtain a permit from a local jurisdiction or, if a local permit is not required, the Department of Labor, Licensing, and Regulation (DLLR) prior to demolition of a structure or mass of material built before January 1, 1978. The bill establishes notice, signage, and lead hazard provisions that apply to a contractor that performs demolition work of any such structure, regardless of the agency that issues the permit for the demolition work. A contractor obtaining a State permit must provide proof to DLLR of complying with specified requirements and agree to specified terms. DLLR must adopt regulations to carry out the bill and establish penalties for violations of the bill.

Fiscal Summary

State Effect: General fund expenditures by DLLR increase by \$476,200 in FY 2017 for additional staffing to issue permits and inspect properties, under the assumptions discussed below. Out-year expenditures reflect annualization, elimination of one-time start-up costs, and inflation. General fund revenues increase minimally from permit fees, which will be established in regulations, and penalties for failure to adhere to permit requirements, but a reliable estimate is not feasible at this time.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	-	-	-	-	-
GF Expenditure	\$476,200	\$395,600	\$410,600	\$426,400	\$442,700
Net Effect	(\$476,200)	(\$395,600)	(\$410,600)	(\$426,400)	(\$442,700)

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

Local Effect: Local governments that regulate demolition services may incur additional administrative and inspection requirements as a result of the bill. Baltimore City expenditures for demolition contractual services increase by approximately \$900,000 annually in FY 2017 through 2019 and by \$1.5 million annually in FY 2020 and 2021.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: An application for a demolition permit from DLLR must include proof that the applicant:

- successfully completed a training course on demolition protocol;
- holds a lead-safe certificate;
- provided written notice to owners of neighboring properties and wired facilities;
- distributed flooring adhesive to residential households adjacent to the work site;
- completed appropriate rodent control services;
- posted notice of the scheduled demolition;
- provided notice of the demolition to specified local agencies and providers;
- employed a predemolition inspector and developed a minimally disruptive main truck route; and
- safely disposed of any leaded windows in a residential unit prior to approval of the application.

In the application, the applicant must agree to the following terms:

- if approved, demolition work must begin within 30 days of approval of the permit and end within 90 days of approval;
- DLLR may assess a fee of 15 cents per cubic foot for failure to adhere to these requirements;
- at least 24 hours before beginning work, the contractor must schedule an on-site consultation with a DLLR inspector to discuss applicable requirements and procedures;
- all architectural materials must be removed from the secured demolition site by a certified lead hazard control worker, with all debris removed within 24 hours of completion;
- demolition work is authorized generally only between the hours of 7:00 a.m. and 7:00 p.m.;
- unsafe party walls must be reconstructed as necessary to properly enclose adjacent structures;
- the contractor must secure the site during the demolition phase and after demolition and debris removal; and

- the contractor must follow all stormwater, asbestos, oil tank, air pollutant, and other regulations applicable to the demolition work.

All preceding requirements related to notice, signage, and lead hazards also apply to contractors who obtain a demolition permit from a local jurisdiction.

Current Law: Prior to a change in occupancy, all affected rental properties are required to pass an inspection for lead-contaminated dust, performed by an inspection contractor accredited by the Maryland Department of the Environment (MDE). In order to pass the inspection, the property must be free of chipping, peeling, or flaking paint on the interior and exterior of the property.

An affected property is exempt from the risk reduction standards if the owner submits to MDE an inspection report that (1) indicates that the affected property has been tested in accordance with standards and procedures established by MDE; (2) states that all interior and exterior surfaces of the affected property are lead-free (lead-free exemption) *or* that all interior surfaces are lead-free and all exterior surfaces that were chipping, peeling, or flaking have been restored with nonlead-based paint and that no exterior painted surfaces of the affected property are chipping, peeling, or flaking (limited lead-free exemption); and (3) is verified by the MDE-accredited inspector who performed the test. In order to maintain a limited lead-free exemption, the owner must submit to MDE every two years a certification by an accredited inspector stating that no exterior painted surface of the affected property is chipping, peeling, or flaking.

Outside surfaces of an affected property, including windows, doors, trim, fences, porches, and other buildings or structures that are part of the affected property, are exempt from the risk-reduction standards if all exterior surfaces of an affected property are lead-free and the owner submits to MDE an inspection report that (1) indicates that the outside surfaces have been tested for the presence of lead-based paint in accordance with standards and procedures established by MDE; (2) states that all outside surfaces of the affected property are lead-free; and (3) is verified by the MDE-accredited inspector who performed the test.

Background: According to MDE, lead paint dust from deteriorated lead paint or home renovation is the major source of exposure for children in Maryland. Chapter 114 of 1994 established the Lead Poisoning Prevention Program within MDE. Chapter 114 established a comprehensive plan to regulate compensation for children who are poisoned by lead paint, treat affected residential rental properties to reduce risks, and limit liability of landlords who act to reduce lead hazards in accordance with various regulatory requirements.

On January 5, 2016, Governor Lawrence J. Hogan, Jr. and Baltimore City Mayor Stephanie Rawlings-Blake announced Project C.O.R.E (Creating Opportunities for Renewal and Enterprise) as a multi-year State-city partnership to demolish thousands of vacant buildings in Baltimore City and replace them with green space and economic development projects. Total estimated funding over four years includes \$75 million from the State and \$18.5 million from Baltimore City for the demolition component of the project. The Maryland Stadium Authority (MSA) will serve as project manager for the demolition projects. To the extent that the bill increases the compliance costs of demolishing sites, either fewer properties may be demolished under Project C.O.R.E or some demolitions may be delayed.

State Revenues: General fund revenues increase from permit fees, but it is unknown by how much as permit fees are established in regulations, and revenues also depend on the number of permits issued by DLLR. As Baltimore City issues its own demolition permits, and the city is expected to have by far the most demolition activity of any jurisdiction in the State for the next few years, a limited number of State permits are expected to be issued under the bill. General fund revenues from penalties increase as contractors must pay 15 cents per cubic foot of the demolition site for failing to adhere to permit requirements.

State Expenditures: There are approximately 16,000 vacant buildings in Baltimore, and in recent years, 2,000 buildings have been demolished. Under Project C.O.R.E., 4,000 vacant properties are scheduled to be razed over four years. Even if a local jurisdiction issues a demolition permit, the bill *appears* to require DLLR to enforce notice, signage, and lead hazard provisions. Under the assumption that DLLR must do so and based on the large number of demolitions in Baltimore City, DLLR advises that two full-time investigators are needed to investigate sites in Baltimore City, and two additional full-time investigators are needed to issue permits and investigate sites in the rest of the State. An administrator and an administrative specialist are necessary to review and process permit applications and coordinate with the on-site consultations. Additionally, a database used to track permits is needed, which increases expenditures by at least \$150,000.

Thus, general fund expenditures increase for DLLR by at least \$476,183 in fiscal 2017, which assumes that DLLR staff are in place as of October 1, 2016, concurrent with the effective date of the bill. This estimate reflects the cost of hiring four investigators, one administrator, and one administrative specialist to issue permits and enforce the new requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Regular Positions	6.0
Regular Salaries and Fringe Benefits	\$263,296
One-time Start-up Costs	182,178
Operating Expenses	<u>30,709</u>
Total FY 2017 State Expenditures	\$476,183

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Expenditures: Baltimore City advises that the bill increases expenditures for contractual services relating to distributing a sufficient number of flooring adhesive mats to each residential household adjacent to the demolition site and removing and disposing of potential leaded windows and architectural details prior to the demolition. Baltimore City estimates these factors increase demolition costs by 20%, or approximately \$3,000 per demolition. Since Baltimore City anticipates using Baltimore City funds to demolish 300 buildings annually in fiscal 2017 through 2019 and 500 buildings in fiscal 2020 and 2021, Baltimore City expenditures increase \$900,000 annually in fiscal 2017 through 2019 and by \$1.5 million annually in fiscal 2020 and 2021. Baltimore City anticipates up to 20% fewer demolitions being performed through Project C.O.R.E. as a result of increased demolition costs.

Although local governments are not required to issue demolition permits, those governments that do regulate these services likely experience additional administrative and inspection costs as a result of the bill. It is unclear whether local governments that issue demolition permits are required to enforce the notice, signage, and lead hazard provisions of the bill. This analysis assumes DLLR must do so; however, if local governments are required to enforce these provisions for the permits they issue, then their costs further increase. Baltimore City, as noted above, would be significantly affected.

Small Business Effect: Small business demolition contractors may experience additional expenditures in obtaining a permit and complying with notice, signage, and lead hazard requirements. Most of those costs are likely passed on to their clients, including the State and local governments.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City; Allegany, Harford, Montgomery, and Talbot counties; Maryland Department of the Environment; Department of Health and Mental Hygiene; Department of Housing and Community Development; Department of Labor, Licensing, and Regulation; *Baltimore Sun*; Department of Legislative Services

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