

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ♦ Phone: (614) 466-3615
♦ Internet Web Site: <http://www.lsc.state.oh.us/>

BILL: **Am. Sub. H.B. 444** DATE: **December 17, 2008**
STATUS: **As Enacted – Effective April 7, 2009** SPONSOR: **Rep. J. Stewart**
LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**
CONTENTS: **Makes changes to the construction industry licensing laws concerning unlicensed contractors and other related changes**

State Fiscal Highlights

STATE FUND	2009 – FUTURE YEARS
Industrial Compliance Operating Fund (Fund 5560) – Department of Commerce	
Revenues	Potential gain from license fees and civil penalties in the hundreds of thousands of dollars annually
Expenditures	- 0 -
General Reimbursement Fund (Fund 1060) – Attorney General	
Revenues	Potential gain from collection fees
Expenditures	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2009 is July 1, 2008 – June 30, 2009.

Unlicensed contractors

- The bill authorizes the Ohio Construction Industry Licensing Board (OCILB) to impose on unlicensed contractors a civil penalty of up to \$1,000 per day per violation, with the Industrial Compliance Operating Fund (Fund 5560) gaining revenue from this new fining authority. These civil penalties could easily amount to hundreds of thousands of dollars annually. This new disciplinary measure is expected to have no impact on OCILB expenses.
- There may be a significant increase in contractor licensure over time as knowledge of the new disciplinary measure spreads among the industry and compliance increases. If this occurs, there would be a gain in license fee revenue to the Industrial Compliance Operating Fund (Fund 5560).
- The bill permits the Attorney General to charge collection fees for unlicensed contractors that fail to pay civil penalties levied by OCILB. These collection fees would accrue to the Attorney General's General Reimbursement Fund (Fund 1060).

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.



Detailed Fiscal Analysis

Unlicensed contractors

Background

The Ohio Construction Industry Licensing Board (OCILB) licenses specialty contractors in the heating, ventilating and air conditioning (HVAC), refrigeration, plumbing, hydronics, and electrical trades who perform *commercial* work in Ohio. OCILB administers these licenses through separate HVAC and Refrigeration, Plumbing, Electrical, and Administrative sections. Under current law, no person can act as or claim to be a specialty contractor in one of the above five trades unless that person is licensed by OCILB. Currently, OCILB oversees approximately 20,000 active contractor licenses. The bill contains a number of provisions to reign in unlicensed contractors.

Currently, OCILB has little recourse against contractors operating without a license. OCILB may investigate a complaint concerning an unlicensed contractor and, if there is reasonable evidence, forward the complaint to the appropriate local prosecutor for criminal charges. Unlicensed contractors can be found guilty of a minor misdemeanor on a first offense and a fourth-degree misdemeanor (M4) on a subsequent offense. A minor misdemeanor carries no jail term and a maximum fine of \$150, while an M4 carries a maximum jail term of 30 days and a maximum fine of \$250. Although OCILB refers approximately 150 complaints to local prosecutors in a typical year, such cases can be difficult to successfully prosecute. One reason is that the contracting work that instigated the investigation has already been completed by the time the prosecutor receives the complaint from OCILB. Another reason is that some prosecutors appear to be either unaware of the law or do not have the resources to take on these cases.

New OCILB disciplinary measures

To more effectively pursue unlicensed contractors, the bill permits the appropriate section of OCILB to investigate any person who allegedly has operated as a contractor without a license. If there is reasonable evidence to support that conclusion, the bill requires the appropriate section to hold a hearing to determine if a violation has occurred. If four of the five members of the applicable OCILB section find that a violation has occurred, it may impose civil penalties of up to \$1,000 per violation per day. Any civil penalties or fines would be deposited into the Industrial Compliance Operating Fund (Fund 5560), OCILB's operating fund. Assuming there continues to be a volume of approximately 150 such cases per year, civil penalty revenue could easily be in the hundreds of thousands of dollars annually. However, over time it may be that the revenue these civil penalties generates declines as compliance increases.

In addition to this increased authority, the bill requires the appropriate OCILB section to give the Attorney General the names of those who fail to pay any civil penalties resulting from OCILB investigations. In these situations, individuals would also be liable for any fee assessed by the Attorney General for collection of civil penalties owed. Attorney General fees would likely be deposited into the General Reimbursement Fund (Fund 1060).

Overall, any increase in the volume of hearings would likely pose no additional cost to OCILB since existing hearing officers would be used for any additional hearings that occur. OCILB would continue to refer unlicensed contractors for prosecution, but on a case-by-case basis given the difficulties in prosecuting such individuals.

Possible impact on contractor licensure

As previously mentioned, OCILB currently oversees approximately 20,000 active contractor licenses. This number may well increase as knowledge of the new disciplinary measure included in the bill spreads through the industry. If so, there would be a gain in license fee revenue to the Industrial Compliance Operating Fund in addition to any civil penalties collected as a result of OCILB investigations. Contractors licensed by OCILB pay a \$50 initial license and examination fee and a \$60 annual renewal fee.

Contractor definition

Current law defines a contractor as any individual or business entity that works *for compensation*. The bill removes this qualification from the definition of a contractor. This change is intended to prevent situations in which an unlicensed contractor claims to have not been compensated for their work in an effort to avoid licensure requirements such as paying license fees, obtaining liability insurance, and completing continuing education. By specifying that a contractor must be licensed whether or not they are compensated, contractor licensure may increase, which in turn would increase revenue to the Industrial Compliance Operating Fund.

LSC fiscal staff: Jason Phillips, Budget Analyst

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