

Economic Impact Statement

Office of Legislative Oversight

Bill 26-22 Landlord-Tenant Relations – Radon Testing and Mitigation – Required

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 26-22 would have a net negative impact on economic conditions in the County in terms of the Council's priority indicators. The Bill would require all landlords to test for dangerous radon levels inside rental housing units before leasing them to prospective tenants. On the one hand, certain landlords would incur higher operating costs associated with radon testing and mitigative actions, while certain tenants would experience higher rents because of landlords passing through costs. On the other hand, certain home improvement retailers and businesses specializing in radon testing/mitigation would gain revenues because of higher demand for radon testing and mitigation technology and services. Overall, OLO expects the economic benefits to these businesses to be outweighed by the economic costs to landlords and tenants, coupled with the economic leakages generated from the change in law.

BACKGROUND

Radon is an invisible, radio-active gas which enters homes and creates serious health risks for inhabitants. As of 2016, the County requires all single-family attached or detached homes located in the County to be tested for radon before completing home sales. Bill 26-22 seeks to extend this protection to tenants of rental housing. The Bill would attempt to do so by requiring all landlords of single-family homes or multifamily dwelling units to:

- conduct radon tests before leasing units to prospective tenants;
- disclose test results (performed less than three years before the lease date) indicating the radon level is below 4 pCi/L, as recommended by the U.S. Environmental Protection Agency (EPA).
- provide tenants with education materials on radon; and
- take mitigative actions to reduce the radon level to 2 pCi/L or below if tenants notify landlords of test results above the EPA's recommended level.

If landlords fail to take mitigative actions, tenants would have the option to terminate the lease agreement without loss of security deposits or any other financial penalties.

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INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 26-22 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.¹ To do so, OLO assesses the following:

- whether the Bill would result in a significant increase in demand for radon testing and mitigation services among landlords;
- how the Bill would impact primary stakeholders—namely, landlords, tenants, home improvement retailers, and business specializing in radon testing/mitigation services, and
- whether the Bill's economic costs would outweigh its benefits.

The primary information sources for this analysis are OLO consultations with two local radon professionals, the County's education materials on radon, and secondary sources cited below.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 26-22 are the following:

- radon testing rates among landlords;
- radon testing/mitigation compliance among landlords;
- percentage of radon tests performed by County-based third-parties.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Radon Testing and Mitigation

By requiring all landlords of single-family homes or multifamily dwelling units to conduct radon tests before leasing units to prospective tenants, OLO expects Bill 26-22 to increase the total number of rental housing units tested for radon and the frequency at which tests occur. Because the average indoor radon level in the County is above 4 pCi/L, increased radon testing likely would increase radon mitigative actions.² While OLO cannot quantify their magnitude, increases in radon testing and mitigation likely would be significant.

¹ Montgomery County Code, [Sec. 2-81B](#).

² Montgomerycountymd.gov, "[Radon](#)."

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Indeed, there are several reasons why radon testing and mitigation are unlikely to occur in rental housing units without a legal requirement. For one, large segments of the public do not know radon causes lung cancer.³ So it is unlikely most landlords or tenants are aware of the dangers high radon levels pose. Second, because radon poses a long-term health risk, tenants who are aware of the risk may discount the future health benefits of lower exposure to radon relative to the short-term benefit of avoiding radon testing costs, particularly low-income and/or cost-burdened tenants struggling to keep up with rent.⁴ Third, per the theory of asymmetric information,⁵ landlords lack an economic incentive to inform tenants. Because they typically do not reside in their units, landlords are not frequently exposed to the risk at those sites. Thus, they may refrain from informing tenants to avoid paying for radon testing and mitigation.

In short, OLO expects the Bill to help address the likely under-production of radon testing and mitigation in local rental housing units caused from insufficient stakeholder knowledge, economic incentives, or other factors.

However, while OLO expects a significant increase in testing, certain landlords may not comply with the testing and/or mitigation requirements. As currently written, the Bill would penalize landlords for failure to mitigate by giving tenants “the option to terminate a lease agreement ... without loss of security deposit or any other financial penalty.” Depending on the total cost of mitigative action, certain landlords may decide to incur costs associated with finding new tenants.

Businesses, Non-Profits, Other Private Organizations

By increasing radon testing and mitigation more than what would likely occur in its absence, Bill 22-22 would have mixed impacts on certain private organizations in the County in terms of several indicators prioritized by the Council.

Landlords: OLO anticipates the Bill would increase operating costs for certain landlords. To comply with the radon testing requirement, landlords could either use devices purchased from home improvement retailers or online vendors or hire radon testing/mitigation professionals.⁶ Holding all else equal, these activities would increase operating costs for landlords in the form of expenses related to purchasing tests, using maintenance staff to administer them, and/or hiring businesses to conduct radon tests and, when needed, take mitigative actions. However, OLO expects a certain portion of these costs to be passed through to tenants in the form of higher rents.

Radon Testing/Mitigation Professionals: By increasing radon testing and mitigation in rental housing units, OLO expects the Bill would increase revenues for certain property inspectors and businesses specializing in radon testing/mitigation.⁷ Holding all else equal, revenue gains would increase business incomes for these entities.

³ For a systematic review of the literature on public awareness of radon, see Vogeltanz-Holm and Schwartz, [“Radon and lung cancer: What does the public really know?”](#)

⁴ For a brief overview of temporal discounting, see Behavioraleconomics.com, [“Time \(temporal\) discounting.”](#)

⁵ For an overview of asymmetric information, see Nobelprize.org, [Price in Economic Sciences 2001](#).

⁶ Montgomerycountymd.gov, [“Radon.”](#)

⁷ Based on conversations with radon professionals, there is somewhat of a divide in the market for radon testing and mitigation. Third-party radon testing is typically performed by businesses specializing in this area and some property inspectors. Radon mitigation is typically performed by businesses specializing in this area, in which some also offer radon testing.

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Moreover, given the large number of rental housing units in the County, the Bill likely would cause certain businesses to hire more radon testing/mitigation technicians. Indeed, one radon testing professional informed OLO the 2016 County law requiring radon testing for all single-family home transactions significantly increased demand for radon testing in the County. To meet higher demand, his firm hired more radon testing technicians.

Home Improvement Retailers: The Bill likely would increase revenues for certain home improvement retailers from landlords purchasing radon tests and mitigation systems.

Beyond these potential impacts, OLO does not expect the Bill to affect private organizations in terms of the Council's other priority indicators.

Residents

OLO anticipates that enacting Bill 26-22 would have mixed impacts on certain residents in the County in terms of several indicators prioritized by the Council. As previously discussed, the Bill would increase operating costs for many landlords. Many landlords likely would pass through a portion of these costs to tenants in the form of higher rents. Holding all else equal, higher rents would reduce household income for tenants. Furthermore, increased demand for radon testing and mitigation likely would increase wages for certain residents employed as non-salaried maintenance staff for rental properties or radon testing/mitigation technicians.

Beyond these potential impacts, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

Net Impact

While Bill 26-22 likely would have mixed impacts on certain private organizations and residents, OLO anticipates the Bill would have an overall negative impact on economic conditions in the County in terms of the Council's priority indicators. For one, certain landlords likely would hire radon professionals or purchase radon tests or mitigation systems from businesses based outside the County. Second, a portion of expenses related to radon testing and maintenance would go to manufacturers and distributors of the technologies based outside the County. Thus, these economic leakages coupled with the economic costs to landlords and tenants likely would be greater than the economic benefits of the Bill for home improvement retailers and businesses specializing in property inspection, radon testing, and/or radon mitigation.

DISCUSSION ITEMS

Not applicable

WORKS CITED

Behavioraleconomics.com. "[Time \(temporal\) discounting](#)."

Montgomery County Code. [Sec. 2-81B, Economic Impact Statements](#).

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Montgomery County Council. [Bill 26-22, Landlord-Tenant Relations – Radon Testing and Mitigation – Required](#).

Introduced on September 20, 2022.

Montgomerycountymd.gov. “[Radon](#).” Department of Environmental Protection.

Nobelprize.org, [Price in Economic Sciences 2001](#).

Vogeltanz-Holm, Nancy and Gary G. Schwartz. “[Radon and lung cancer: What does the public really know?](#)” *Journal of Environmental Radioactivity* 192 (2018): 26-31.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO’s endorsement of, or objection to, the Bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.