

# Economic Impact Statement

Office of Legislative Oversight

## Expedited Bill 30-22

## Buildings – Demolition or Removal

### SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Expedited Bill 30-22 likely would have an overall positive impact on economic conditions in the County in terms of the Council's priority indicators. By helping to close a "loophole" which allows contractors to bypass new home construction permitting requirements, the bill likely would increase operating costs for contractors who otherwise would obtain a building alteration/renovation permit in the absence of the change in law. However, as described below, requiring these contractors to comply with the more stringent, new home construction requirements likely would economically benefit other contractors, homebuyers, and third-party residents.

### BACKGROUND

The goal of Bill 30-22 is to close a "loophole" in County law regarding the requirement to obtain a permit for new home construction. Under current law, a contractor can bypass this requirement by tearing down an entire home except for a small wall. The contractor can then rebuild the home and sell it as "new." In such cases, the contractor is required to obtain a permit for a building alteration/renovation, which does not trigger the same requirements as a permit for new home construction. The requirements excluded in the building alteration/renovation permit include the following: properly disconnecting utilities, abating pest control and negative environmental issues, and providing a new home warranty to buyers.

Bill 30-22 would attempt to close this "loophole" by changing the threshold for requiring a demolition permit. The bill would redefine "demolish" to mean tearing down "sixty-seven (67) percent or more of first story exterior walls of a one-family or two-family dwelling unit."<sup>1</sup> Thus, the revised definition would prevent contractors who tear down an entire home except for a small wall from bypassing the permit for new home construction.

---

<sup>1</sup> [Sokoni to County Council, October 27, 2022; Expedited Bill 30-22.](#)

# Economic Impact Statement

## Office of Legislative Oversight

### 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 30-22 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.<sup>2</sup>

To do so, OLO primarily relies on the following sources of information in this analysis:

- consultations with County personnel in the Department of Permitting Services (DPS) and the Office of Consumer Protection (OCP); and
- consultations with a representative from the building industry.

Importantly, information and time constraints prevented OLO from quantifying the difference in total permitting and regulatory costs for homes built under the requirements for new home construction and building alteration/renovation permits, as well as the difference in costs to homebuyers and neighbors.

### VARIABLES

The primary variables that would affect the economic impacts of Bill 30-22 are the following:

- total permitting and regulatory costs;
- total repair and maintenance costs to homebuyers and third-party residents; and
- home price.

### IMPACTS

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

#### Businesses, Non-Profits, Other Private Organizations

OLO anticipates Bill 30-22 would have mixed impacts on certain private organizations in the County in terms of the Council's priority economic indicators.

**Contractors:** The bill likely would have mixed impacts on certain contractors.

On the one hand, the bill would negatively impact certain contractors who would capitalize on the "loophole" in the absence of the change in law. By requiring them to obtain a permit for new home construction, these contractors would experience higher operating costs related to permitting fees and regulatory compliance. Based on consultations with DPS

---

<sup>2</sup> Montgomery County Code, [Sec. 2-81B](#).

# Economic Impact Statement

## Office of Legislative Oversight

personnel, higher operating costs to contractors could be substantial. The increase in operating costs may reduce net business income for certain contractors. However, to protect profit margins, contractors likely would respond to the change in law by passing costs onto future home buyers in the form of higher sales price and/or cutting operating expenses in other areas (i.e., wages).

On the other hand, the bill would positively impact certain contractors who would not take advantage of the “loophole” in the absence of the change in law. Currently, these contractors likely face a disadvantage in competing for jobs because their prices account for fees and regulatory costs associated with obtaining a new home construction permit and complying with its requirements. By requiring certain competitors to also attain and comply with a new home construction permit, the bill likely would level the playing field among contractors. Contractors who attain jobs they otherwise would lose may experience a net increase in business income.

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 30-22 would have an overall positive impact on certain residents in the County in terms of the Council’s priority indicators.

**Homebuyers:** The bill likely would have an overall positive impact on buyers of homes constructed by contractors who would have taken advantage of the “loophole” in the absence of the change in law.

Under current law, buyers of “new” homes constructed under the alteration/renovation permitting requirements likely incur post-transaction costs associated with (1) lacking a home warranty and (2) contractors failing to properly disconnect utilities and abate pest control and negative environmental issues. Due to information asymmetries between sellers and buyers in home transactions, certain homebuyers are likely unaware that contractors have bypassed requirements triggered by a new home construction permit and that this practice creates financial (and other) risks for them. OLO believes this practice may lead to a market failure, in which certain buyers may feel they paid too much for the home or would not have purchased it at all if they were made aware of the risks.

By requiring certain contractors to obtain a new home construction permit and comply with its requirements, the bill likely would mitigate this market failure. While contractors may attempt to pass on costs to homebuyers, as previously discussed, the bill likely would reduce unknown risks for homebuyers and prevent them from incurring certain post-transaction costs caused by lacking a home warranty, improper disconnection of utilities, unabated pest control, etc. In this way, the bill may help align prices of certain homes with their quality, thereby reducing the number of buyers who would have behaved differently if they had more information.

**Third-Party Residents:** OLO anticipates the bill would benefit certain residents who live near homes that would be constructed under “loophole” in the absence of the change in law. According to DPS and OCP personnel, contractors failing to properly disconnect utilities and abate pest control and negative environmental issues can create costs for nearby

# Economic Impact Statement

## Office of Legislative Oversight

residents that would have been avoided if contractors adhered to the new home construction permitting requirements. By requiring more contractors to comply with these requirements, the bill likely would prevent certain nearby residents from incurring these costs.

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

### Net Impact

OLO anticipates that Bill 30-22 would have an overall positive impact on economic conditions in the County in terms of the Council's priority indicators. As previously discussed, while the bill likely would negatively impact contractors who currently take advantage of the "loophole," requiring these contractors to comply with the new home construction requirements likely would benefit certain other contractors, homebuyers, and nearby residents.

### DISCUSSION ITEMS

Not applicable

### WORKS CITED

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

Montgomery County Council. [Expedited Bill 30-22, Buildings – Demolition or Removal](#). Introduced on November 1, 2022.

Sokoni, Khandikile Mvunga to County Council. [Memorandum](#). October 27, 2022.

### 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.