



Economic Impact Analysis Virginia Department of Planning and Budget

18 VAC 50-22 – Board for Contractors Regulations
Department of Professional Occupational Regulation
June 14, 2013

Summary of the Proposed Amendments to Regulation

The proposed regulations will no longer require a qualified individual working for a contractor to report past adverse financial history and extend the license reinstatement period for all contractors from one year to two years after expiration.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

The proposed regulations will no longer require a qualified individual to report past adverse financial history such as any past-due debts, judgments, or defaults on bonds for all three classes of contractor's license. A qualified individual is the person that has the technical skills in a particular licensing specialty or classification. For example, a contractor business with the home improvement specialty must have a qualified individual who has the requisite years of experience for the class of the license and who has successfully completed the home improvement technical examination. The Department of Professional Occupational Regulation (DPOR) estimates that there are approximately 20,000 persons listed as qualified individuals who do not serve as a member of responsible management or designated employee.

Currently, the qualified individual has been held to the same financial reporting standard as the responsible managers (owner/officers) and the designated employee (the individual who completed the business examination), both of whom are referenced in § 54.1-1106 and § 54.1-1108 of the Code of Virginia. While a licensed contractor is required to have a qualified individual who has demonstrated a level of technical expertise, this position is not based on any

financial criteria and the Board for Contractors (Board) does not hold this individual accountable for any disciplinary action that relates to the financial status of the company.

According to DPOR, compilation and submission of adverse financial history takes three to ten days and delays the awarding of a license to a business. The vast majority of these applications for licensure would have been approved upon initial review. Thus, the elimination of this requirement is expected to result in a reduction in the amount of time it takes for a company, with a qualified individual with an adverse financial history, to obtain its license and start performing work. No significant reduction in the protection afforded to the public by this requirement is expected because currently the Board does not use the adverse financial history of the qualified individual to determine eligibility for licensure. In addition, DPOR is likely to experience some reduction in its administrative costs from less documentation having to be tracked and reviewed during the normal course of processing the application.

Another proposed change will extend the reinstatement period for all contractors from one year to two years after expiration. After the reinstatement period ends, an applicant must apply for a new license and meet education and examination requirements of a new license. According to DPOR, the cost of additional education and examination requirements could reach \$1,000. DPOR receives about 50 to 100 reinstatement applications per month, but how many applicants would have waited more than one year to reinstate is not known.

This change will give individuals that let their license lapse an additional year to pay the reinstatement fee to bring their license into compliance. This option will eliminate additional costs and wait time for a new application to be reviewed for those that would have renewed their license within the second year. Additionally, when a license is reinstated, it becomes active back to the last expiration date and, from a legal standpoint, the licensee is considered continually licensed during that time. This provides an additional protection to consumers who may have hired contractor when the license was expired and, since he would have been considered unlicensed, does not have access to the Transaction Recovery Fund. In short, the extension of the reinstatement date will afford extra time for the licensee to become compliant as well as provide an extra year for the consumers to remain protected.

Businesses and Entities Affected

There are approximately 65,000 licensed contractors and 20,000 persons listed as qualified individuals who are not a member of responsible management or designated employee. Of these contractors, about 50 to 100 apply for a reinstatement every month.

Localities Particularly Affected

The proposed changes apply throughout the Commonwealth.

Projected Impact on Employment

Elimination of the past adverse financial history reporting for the qualified individual is anticipated to speed up the issuance of a license and consequently could have a positive impact on labor supply and demand as the qualified individual and the contractor can start performing work sooner.

The extension of the reinstatement period may allow a contractor to maintain his/her demand for labor for an additional year due to allowing him to reinstate his/her license without additional expense and delay. Elimination of the need for education and exam however is likely to reduce labor demand from providers of these services.

Finally, both changes are expected decrease demand for labor due to reduced administrative workload at DPOR.

Effects on the Use and Value of Private Property

The compliance costs for the licensed contractors with a qualified individual and those with a lapsed license will be lower. The reduction in compliance costs would have a positive impact on the asset value of such businesses. However, providers of education and exam services for the contractors may experience a negative impact on their asset values due to reduced demand for their services.

Small Businesses: Costs and Other Effects

According to DPOR, the overwhelming majority of businesses licensed by the Board are small businesses, and the majority of those individuals licensed as tradesman are employed by small businesses. All of the economic effects discussed above apply to small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulations are anticipated to have a negative impact on the small businesses that provide education and exam services to contractor license applicants. There is no known alternative to minimize adverse impact on them while accomplishing the same goals.

Real Estate Development Costs

No significant effect on real estate development costs is expected.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.04 of the Administrative Process Act and Executive Order Number 14 (10). Section 2.2-4007.04 requires that such economic impact analyses include, but need not be limited to, a determination of the public benefit, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has an adverse effect on small businesses, Section 2.2-4007.04 requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.