



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 5-220 – Virginia Medical Care Facilities Certificate of Public Need Rules and Regulations

Virginia Department of Health

February 15, 2013

Summary of the Proposed Amendments to Regulation

The proposed changes will adopt a formula to update the threshold for capital expenditure projects for which a registration or filing of an application for a Certificate of Public Need (COPN) is required.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

The proposed changes will adopt a formula to update the threshold for capital expenditure projects for which a registration or filing of an application for a COPN is required. Section 32.1-102.1 of the Code of Virginia mandates that COPN registration and application thresholds are revised annually to reflect inflation. Currently, the registration threshold is \$5,698,607 and application threshold is \$17,095,823. The Board of Health proposes to adopt a formula which will increase these thresholds by 3%, or by \$170,958 to \$5,869,565 and by \$512,874 to \$17,608,697 according to Consumer Price Index published by the U.S. Department of Labor.

The main impact of these proposed changes will be on projects that would no longer register or apply for COPN due to the higher thresholds. Since the magnitude of the increase is relatively small, 3%, this change is not expected to have an impact on a significant number of projects in the short term. For example, last year the Virginia Department of Health (VDH) received one registration and four applications. Since the amounts of these projects were not within the incremental increase proposed by these regulations, all of these projects would still be

required to register or apply under the revised thresholds. However, the proposed change is likely to have an impact on projects in the long term by increasing the threshold base automatically that will be employed for future revisions.

The COPN application fee is \$20,000. In addition to the application fee, compliance costs for an applicant may include expenses associated with the preparation for and processing of an application in the review process. Some applicants may hire a consultant to manage the application. If no application is required for a project due to increased thresholds, these costs associated with a COPN review would represent savings in compliance costs to the applicant. Compliance costs for registration appear to be low. There is no fee charged for registration and the registration is reported to be a simple process.

The likely impact on VDH in the long term would include a reduction in the amount of fees collected and a reduction in the administrative resources usually needed for the application review.

Businesses and Entities Affected

The proposed regulations apply to entities that are required to register or apply for a COPN. There were four applications and one registration for capital projects last year.

Localities Particularly Affected

The proposed changes apply throughout the Commonwealth.

Projected Impact on Employment

Since the change in the revised threshold is relatively small, no projects are likely to be affected immediately. Thus, no significant impact on employment is expected in the short term. In the long term, automatically increased thresholds should eliminate the need for reviews in a number of projects reducing the labor demand due to reduced need for review staff and staff needed to prepare an application.

Effects on the Use and Value of Private Property

No significant economic impact is expected on the use and value of private property in the short run as the incremental increase in the thresholds are relatively small. However, reduced compliance costs in the long term due to automatically adjusted higher thresholds are expected to improve profits and have a positive impact on asset value of affected applicants.

Small Businesses: Costs and Other Effects

The proposed changes are not anticipated to have an impact on small businesses as the sizes of businesses requiring registration or application tend to be relatively large.

Small Businesses: Alternative Method that Minimizes Adverse Impact

No adverse impact on small businesses is expected.

Real Estate Development Costs

The proposed changes will likely reduce costs of capital projects in the long term some of which may be real estate development projects at least partially.

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.