



Virginia Department of Planning and Budget **Economic Impact Analysis**

18 VAC 50-22 Board for Contractors Regulations
Department of Professional and Occupational Regulation
Town Hall Action/Stage: 6129/10413
September 4, 2024

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Code of Virginia (Code) and Executive Order 19. The analysis presented below represents DPB’s best estimate of the potential economic impacts as of the date of this analysis.¹

Summary of the Proposed Amendments to Regulation

In response to Executive Order 19 (2022) and Executive Directive 1 (2022), the Board for Contractors (Board) seeks to amend the *Board for Contractors Regulations* to reduce certain entry requirements for firms seeking a Class C or Class B contractor license. The proposed changes would also clarify the text, conform the regulation to current Virginia law, and reflect current practice.

Background

Executive Directive Number One (2022) directs executive branch entities under the authority of the Governor “...to initiate regulatory processes to reduce by at least 25 percent the number of regulations not mandated by federal or state statute, in consultation with the Office of the Attorney General, and in a manner consistent with the laws of the Commonwealth.”² Accordingly, the Board proposes to make one change for Class C contractors that would reduce

¹ Code § 2.2-4007.04 requires that such economic impact analyses determine the public benefits and costs of the proposed amendments. Further the analysis should include but not be limited to: (1) the projected number of businesses or other entities to whom the proposed regulatory action would apply, (2) the identity of any localities and types of businesses or other entities particularly affected, (3) the projected number of persons and employment positions to be affected, (4) the projected costs to affected businesses or entities to implement or comply with the regulation, and (5) the impact on the use and value of private property.

² <https://www.governor.virginia.gov/media/governorvirginiagov/governor-of-virginia/pdf/ed/ED-1-Regulatory-Reduction.pdf>

the entry requirements, and one change each in the requirements for Class B and Class C contractor licenses that would decrease the requirement for disclosing adverse financial history. The Board also seeks to make a number of changes that would clarify and update the text, and conform the regulation to statute. The most substantive changes are summarized below.

- Applicants for a Class C contractor license are currently required to demonstrate two years of work experience in every classification or specialty in which they seek licensure (Section 40); the Board proposes to reduce this to one year of work experience. Virginia statute limits the dollar value of contracts to amounts ranging from \$1,000 - \$10,000 for Class C, with an annual revenue cap of \$150,000.³ These statutory thresholds were most recently amended in 2010, and the Department of Professional and Occupational Regulation (DPOR) reports that an increase in the costs of materials and labor due to inflation has resulted in limiting Class C contractors to very small projects, often categorized as ‘handyman’ tasks, for which a two-year experience requirement is seen as overly restrictive. By reducing the work experience requirement for a Class C contractor license, the Board seeks to incentivize unlicensed contractors who are currently performing handyman work and/or individuals who are currently employed by contracting firms and who seek to start their own contracting firms, to obtain a license. (Contractor licenses are only issued to firms.)
- Applicants for all classes of licensure are currently required to submit information on any outstanding, past-due debts and judgments; outstanding tax obligations; defaults on bonds; or pending or past bankruptcies for five years prior to application. This requirement would be reduced to three years for Class C applicants and four years for Class B applicants; it would remain at five years for Class A applicants.
- Applicants for Class A and Class B licenses are required to submit information on their financial position to demonstrate financial responsibility. Class A applicants are required to verify a net worth or equity of \$45,000 (section 60); the corresponding requirement for Class B applicants is \$15,000 (section 50). Code of Virginia §§ 54.1-1106 and 54.1-1108 further specify (i) the acceptable documentation to demonstrate minimum net worth, and (ii) an option to demonstrate financial responsibility by electing to obtain and maintain a bond in the

³ See <https://law.lis.virginia.gov/vacode/title54.1/chapter11/section54.1-1100/>.

amount of \$50,000. Thus, the Board seeks to amend sections 50 and 60 to incorporate these statutory provisions.

- Requirements pertaining to specific classifications or specialties in which applicants seek to be licensed, which are currently listed separately for each license class in sections 40, 50, and 60, would be removed and consolidated in a new section 61, which would enhance clarity, and updated to reflect current requirements.⁴
- Language pertaining to pleas of nolo contendere, which currently appear to contradict Virginia Code § 54.1-204, would be struck.
- Lastly, the Board seeks to add a new section 35 to specify the requirements of the application process.

Estimated Benefits and Costs

Reduction in experience requirements for Class C contractors:

This proposed change would benefit prospective applicants for a Class C contractor license by reducing the experience requirement. DPOR estimates that this reduction could result in a 15 to 20 percent increase in the number of Class C applicants. The Board received 1,599 applications for Class C licenses in 2022 and 1,522 applications in 2023. As mentioned previously, DPOR expects that this increase will be driven by unlicensed contractors who are currently providing ‘handyman’ services and want to be contracted for projects within the statutory threshold for a Class C license (ranging from \$1,000-\$10,000 per project, with an annual revenue cap of \$150,000), as well as employees of contracting firms who seek to start their own firms. DPOR also reports that contractors often start at the Class C level and move up to Class B or Class A licenses as their business grows and they accrue experience and capital. Thus, reducing the entry requirements for Class C applicants could also gradually expand the profession overall.

This amendment would also benefit households and commercial entities seeking Class C contractors. DPOR reports that the demand for contractor services increased during the COVID-19 pandemic and continues to remain high. Thus, an influx of newly licensed contractors could make it easier and cheaper for consumers looking to hire contractors for small projects, thereby

⁴ The current requirements are available on DPOR’s website:
<https://www.dpor.virginia.gov/sites/default/files/Boards/Contractors/A501-27EXINFO.pdf>.

also reducing wait times for such projects to get contracted and completed. Lowering the barriers to entry into a profession typically increases competition faced by incumbents (those who are already licensed), making them worse off. However, to the extent that currently licensed Class C contractors are already fully booked, or facing more demand than they can fulfill, they are unlikely to be made worse off by an increase in the number of contractors.

Lastly, the Board would benefit through increased fee revenue from new Class C contractor license applicants (\$235 per application) and from license renewal fees (\$195 per biennium) in subsequent years. The Board would also incur some additional costs; they would have to process additional license applications and may also have to review more complaints against Class C contractors if the reduction in the experience requirement results in improper project management or estimation. However, the increase in revenues is expected to exceed the increase in costs.

Reduction in years of financial disclosure:

These changes would benefit Class B and Class C applicants who have adverse financial histories either five years prior to application or four-five years prior to application, respectively. This could include outstanding, past-due debts and judgments; outstanding tax obligations; defaults on bonds; or past bankruptcies. DPOR anticipates a savings as a result of conducting fewer licensing informal fact-finding conferences due to reduced adverse financial history reporting requirement.

Other changes:

All current prospective contractor licensees and readers of the regulation would benefit from the remaining changes, which serve to update and streamline the regulatory text. DPOR staff may benefit to the extent that they receive fewer questions about contractor license requirements.

Businesses and Other Entities Affected

The proposed changes reduce requirements and clarify the application process, thereby benefiting new contractor license applicants, especially Class C applicants, and some Class B applicants with adverse financial history.

The Code of Virginia requires DPB to assess whether an adverse impact may result from the proposed regulation.⁵ An adverse impact is indicated if there is any increase in net cost or reduction in net benefit for any entity, even if the benefits exceed the costs for all entities combined.⁶ The proposed amendments would not create any new requirements or costs, thus an adverse economic impact is not indicated.

Small Businesses⁷ Affected:⁸

The proposed amendments reduce requirements for obtaining a contractor license, thereby benefiting applicants for a Class B or Class C license. These firms are likely to all be small businesses as Virginia statute restricts the total value of contractors' projects to \$150,000 per year for Class C contractors, and \$750,000 per year for Class B contractors.

Localities⁹ Affected¹⁰

Localities that have a shortage of current contractors may particularly benefit from the likely increase in contractor licensees. The proposed amendments would not affect costs for local governments.

⁵ Pursuant to Virginia Code § 2.2-4007.04(D): In the event this economic impact analysis reveals that the proposed regulation would have an adverse economic impact on businesses or would impose a significant adverse economic impact on a locality, business, or entity particularly affected, the Department of Planning and Budget shall advise the Joint Commission on Administrative Rules, the House Committee on Appropriations, and the Senate Committee on Finance.

⁶ Statute does not define "adverse impact," state whether only Virginia entities should be considered, nor indicate whether an adverse impact results from regulatory requirements mandated by legislation. As a result, DPB has adopted a definition of adverse impact that assesses changes in net costs and benefits for each affected Virginia entity that directly results from discretionary changes to the regulation.

⁷ Pursuant to § 2.2-4007.04 of the Code of Virginia, small business is defined as "a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million."

⁸ If the proposed regulatory action may have an adverse effect on small businesses, Code § 2.2-4007.04 requires that such economic impact analyses include: (1) an identification and estimate of the number of small businesses subject to the proposed regulation, (2) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the proposed regulation, including the type of professional skills necessary for preparing required reports and other documents, (3) a statement of the probable effect of the proposed regulation on affected small businesses, and (4) a description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed regulation. Additionally, pursuant to Code § 2.2-4007.1, if there is a finding that a proposed regulation may have an adverse impact on small business, the Joint Commission on Administrative Rules shall be notified.

⁹ "Locality" can refer to either local governments or the locations in the Commonwealth where the activities relevant to the regulatory change are most likely to occur.

¹⁰ Virginia Code § 2.2-4007.04 defines "particularly affected" as bearing disproportionate material impact.

Projected Impact on Employment

The proposed amendments are not expected to affect total employment. Some contractor firms may see increased turnover if their employees decide to leave and establish their own firms as a result of this regulatory action.

Effects on the Use and Value of Private Property

By reducing the barriers to entry, the proposed amendments would marginally increase the value of new private Class C contractor firms. Real estate development costs would not be affected.