



Economic Impact Analysis Virginia Department of Planning and Budget

18 VAC 50-22 – Department of Professional Occupational Regulation, Board for Contractors Board for Contractors Regulations August 10, 2004

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, 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. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The proposed regulations will 1) remove alarm/security systems specialty classification from the regulations, 2) require tradesmen to supervise helpers and laborers, 3) increase the license reinstatement period from six months to one year, 4) remove the requirement that contracts include the expiration date of the contractor's license, and 5) clarify the language in a number of places regarding the definition or the scope of several specialties and the fee schedule.

Estimated Economic Impact

An amendment to §54.1-1103 (E) of the Code of Virginia in 2002 removed the licensure requirements under these regulations for private security businesses offering installation, maintenance, and design services. Prior to this statutory change, alarm/security systems specialty was regulated by the Board of Contractors as well as by the Department of Criminal Justice Services. With the proposed changes, these contractors will no longer be regulated by the Board of Contractors (the board). According to the Department of Professional and

Occupational Regulation (the department), there were 600 contractors with an alarms systems contracting license. Of these, only 100 individuals did not have any other license while remaining 500 had a license in other specialties. Of the 100, 25 later obtained a license from the board in a related area. Thus, the net annual revenue loss to the board is approximately \$5,000 for 75 regulants, which is inconsequential for the board. According to the department, no significant effect on health and safety is expected, as these contractors will continue to be regulated by the Department of Criminal Justice Services.

Also, the board proposes a requirement for supervision of helpers or laborers by a licensed tradesman. According to the department, about 32,000 tradesmen are currently licensed and approximately 23,000 businesses provide services in related service areas such as plumbing, gas fitting, and HVAC. However, there is no available information on the number of helpers and laborers assisting licensed tradesmen. Although we do not know the number of laborers and helpers, roughly about 20% of them are believed to perform tasks without the proposed supervision requirement because many companies already have incentives to perform a good service for consumer satisfaction. These companies that do not currently provide the proposed supervision are most likely to be affected by this change.

Another factor that compounds the difficulty of assessing the economic effects is the uncertainty about the actual enforcement of the supervision requirement. With this requirement, a tradesman will be required to be accessible to the helper or laborer and will be required to periodically observe and evaluate the performance of the task or procedure. Because “being accessible” is case specific, the proposed regulations do not contain any specific language on how this requirement could be satisfied, but leaves it to the board’s interpretation in the event a determination must be made. For example, a plumbing tradesman may be considered accessible by a cellular phone, or by time while a gas-fitting tradesman may be considered accessible only by physical presence at the work site.

In short, we do not know exactly how many companies will be actually affected and how they will comply with this requirement making it impossible to determine if significant economic effects should be expected. The following discussion is based on the assumption that the proposed supervision requirement will introduce non-negligible costs for a non-negligible number of firms.

The proposed requirement will increase the number of tradesman required to supervise the same number of helpers or laborers at the aggregate. The optimal individual company response to this change is hiring additional tradesmen while laying off some of the laborers or helpers and reducing service production due to increased compliance costs. Thus, the initial effects of this change at the aggregate are an increase in demand for skilled tradesmen and a decrease in demand for laborers and helpers. However, increased compliance costs would force some individual firms to reduce production reducing the market demand for both skilled and unskilled labor. When all the effects are realized, the demand for tradesmen may be higher even though significant compliance costs may result in a net reduction while the demand for helpers and laborers would be certainly lower.

The companies that do not already provide the proposed level of supervision will have to reduce the supply of services a tradesman must supervise because the same service will be completed at a higher cost. These costs include increased skilled labor costs and other compliance costs such as expenses for communication equipment, for gas, for vehicles, for lodging, etc. A reduction in the supply of services will eventually result in higher prices. Thus, we expect to see an initial increase in service prices and a reduced volume of these services purchased by the consumers.

The proposed supervision requirement could also affect consumer perception and choice about the tradesmen services. Some consumers may associate increased supervision with better quality and increase their willingness to pay for the same services. Thus, a further upward pressure on the prices of services offered and an increase in the volume of services consumed could result which would balance the initial negative effect on the volume traded. However, the higher prices could cause some others who do not associate more supervision with high quality reduce the volume of services they are willing purchase. The net market effects are likely to be higher prices than the current prices and a lower volume of services consumed than the current level.

In summary, however significant they may be, the likely economic effects in the market are an increase or possibly a decrease in demand for skilled tradesmen and a decrease in demand for laborers and helpers. This could cause an increase or possibly a decrease in tradesman wages

while reducing wages for unskilled labor. Also, we expect to see higher service prices than the current level and a lower volume of services consumed than the current level.

Moreover, the fact that the compliance with “being accessible” is case specific and open to interpretation may create some additional costs. Risk-averse firms facing uncertainty as to how to make tradesmen accessible to helpers and laborers may over invest in their compliance efforts in the fear of being found out of compliance. Some firms may also disagree with the adverse determinations of the board and incur some litigation costs in order to determine whether their tradesmen were accessible. These costs arising from uncertainty involved in determining what is “being accessible” would introduce some economic inefficiencies.

On the other hand, the expected benefits of the proposed supervision requirement may include a decreased likelihood for health and safety risks that would otherwise be present. For instance, it is possible that there may be a reduced number of gas explosions from improperly installed gas equipment, a reduced number of electrical fires, a reduced number of plumbing malfunctions, etc. However, we do not know whether any of these expected reduction in the potential health and safety risks would actually materialize as a result of the proposed supervision requirement.

Another proposed change will extend the licensure reinstatement period from six months to one year to conform to tradesman licensing regulations. The department estimates that about 200 licensees apply for reinstatement annually. The reinstatement is accomplished simply by paying the reinstatement fee. The main benefit of this change is allowing contractors more time to reinstate their licensure status. According to the department, during the reinstatement period and until the fee is paid, a contractor is legally neither licensed nor unlicensed. Since contractors are not deemed unlicensed, existing or new customers will be able to resume or start a normal business relationship with a contractor for an additional six months. Also, customers will be afforded the board’s protection for an additional six months because contractors are subject to these regulations during the reinstatement period.

Another proposed change will remove the requirement that a contractor list the expiration date of his license on the contract. Thus, contractors using printed contracts will not have to reprint their contracts every two years and save some printing expenses. This information is

accessible through the department's web site or through telephone confirmation with the licensing staff.

The board also proposes to clarify some of the current language. These include i) clarifying that equipment/machinery contracting specialty includes installation or removal of boilers exempted by the Virginia Uniform Statewide Building Code, but regulated by the Department of Labor and Industry, ii) clarifying that heating/ventilating/air-conditioning contractors may perform incidental lead abatement work, iii) clarifying that gas fitting contractors may perform liquefied petroleum gas contracting and natural gas contracting, iv) clarifying that being a member of responsible management of a firm is not sufficient to be a designated employee under the Code of Virginia, v) removing bricks from the definition of work that does not have a specialty as there is a specialty for masonry contracting, vi) removing the dishonored check fee from the regulations because this administrative fee is not under the authority of the board, but rather under the authority of the department, and vii) adding steel erection to the list of functions may be performed by highway/heavy contractors.

All of these proposed changes for clarification purposes are consistent with the board's policy currently enforced in practice. So, no significant change in practice is anticipated to result from these clarifications. However, the current language has been creating some confusion among the regulants and the building officials. Thus, the proposed clarifications are expected to reduce the potential for confusion and consequently save some staff time for the affected entities.

Businesses and Entities Affected

There are approximately 83,440 businesses and individuals with licenses from the board of contractors.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed supervision requirement is expected to cause an increase or a possible decrease in the demand for tradesman positions and a reduction in the demand for unskilled laborer and helper positions. However, the likely sizes of these impacts are not known.

Effects on the Use and Value of Private Property

The proposed supervision requirement would increase costs for some businesses providing tradesmen services. Increased costs would reduce future profit streams and decrease the value of these businesses. On the other hand, reduced risks to property from gas explosions, electrical fires, or plumbing malfunctions would have a positive effect on property values at the aggregate. However, we do not know whether any of these effects would be significant.