

AGENCY RESPONSE TO THE ORM ECONOMIC IMPACT ANALYSIS

The agency concurs with the analysis of the Department of Planning and Budget concerning Action 6109, Stage 9827, Regulations for the Licensure of Home Care Organizations with the following exceptions:

Estimated Benefits and Costs

DPB states, “Some HCOs may incur licensure fees but subsequently cease operations. Virginia’s HCO industry appears to experience high turnover. According to VDH, there were 1,580 licensed HCOs as of July 1, 2022, while the annual number of expected initial applications is 300. This indicates that, on average, an HCO operates in Virginia for about five years; in other words, every year about twenty percent of the existing HCOs (approximately 300) leave the industry. This high turnover rate means that some of the HCOs that would be going out of business in the next year and in the year after that would be paying renewal fees for the years they will not be in operation. Assuming 300 HCOs exit the industry annually, approximately \$300,000 per year would be paid by companies that would not be in operation the following year. Some HCOs may have liquidity problems and may not be able to fund the additional \$1,000 in upfront costs. This may result in the inability of some HCOs to renew their licenses and further exacerbate the already high turnover.”

In response, the agency would like to clarify the following:

DPB estimates the average number of years an HCO operates to be 5 years and that 20% of HCOs leave the industry every year. While some HCOs leave the industry every year, the number of applicants (approximately 300) is the number of new HCOs that join the industry every year. Many of the new HCOs are owned and operated by individuals who have closed a previous HCO, have moved addresses and are opening an HCO in a new service area, have a change of ownership and HCO title, or have operated an HCO previously, closed, and then reopened. Therefore, the number of HCOs is not decreasing by 300 total each year. If, for any reason, an HCO ceases operation in less than three years, they can notify OLC and will not have to pay a fee beyond the initial licensure fee. VDH reports that there are approximately 2,061 licensed HCOs in Virginia as of March 10, 2025.

DPB states, “On the other hand, the new three-year renewal cycle is expected to reduce administrative costs for regulants and VDH as the licenses would be renewed less frequently. VDH expects \$60,204 in savings annually as a result of this effect.”

In response, the agency would like to clarify the following:

Given the number of change and exemption requests VDH receives annually, VDH expects \$21,435 in savings annually as a result of reduced administrative costs for regulants.

DPB states, “More specifically, the legislative increase of only one licensure fee had the unintended consequence of effectively reducing the revenues from initial applications by two-thirds, because an initial license is now effective for a three-year period. If not adjusted, VDH estimates that it would lose \$240,000 in fee revenues (i.e., a \$1,000 loss from each of the 240 expected applications for initial licensure). Thus, the proposal would help ensure VDH has adequate fee revenue to support sufficient staff to perform inspections and other oversight functions of HCOs. The legislation may have also inadvertently created an incentive for existing licensees to seek an initial license rather than a renewal;

this would be addressed by increasing the fee for initial licensure. If this incentivized behavior occurs, it would result in additional decreases in fee revenue.”

In response, the agency would like to clarify the following:

If the initial fee is not adjusted to reflect the change in the renewal fee, VDH estimates that it would lose \$240,000 annually in fee revenue. The proposal will contribute to VDH’s ability to perform inspections and oversight functions of HCOs. Existing HCOs cannot seek initial licensure but only renewal of their current license, unless they close their HCO and choose to reopen.

Businesses and Other Entities Affected

DPB states, “VDH reports that there are approximately 1,580 licensed HCOs in Virginia as of July 1, 2022,” and states “As noted above, the discretionary proposal to increase the initial license fee would add \$1,000 to each licensee’s compliance costs and would discourage some from applying for an initial license. Thus, an adverse impact is indicated.”

In response, the agency would like to clarify the following:

VDH reports that there are approximately 2,061 licensed HCOs in Virginia as of March 10, 2025. The proposed increase in initial license fee could discourage some from applying for an initial license, which would have a nominal adverse impact.

Small Businesses Affected

DPB states, “The proposed amendments appear to adversely affect small businesses. VDH estimates that the vast majority (i.e. 90%) of the 1,580 licensed HCOs in Virginia are small businesses. The proposed increase in the initial license fee would add \$1,000 in compliance costs to each HCO, including those that are small businesses, and discourage some from becoming a licensed HCO. Thus, an adverse economic impact on small HCOs is indicated. There does not appear to be an alternative method that both reduce adverse impact and meet the intended policy goals. The proposed amendments do not introduce costs for localities. The proposed fee increase is expected to discourage some HCOs from being licensed which would have a negative impact on employment. The expected \$1,000 one-time increase in compliance costs would likely reduce the profitability of HCOs and thus negatively affect their asset values. No effect on real estate development costs is expected.”

In response, the agency would like to clarify the following:

VDH estimates that the vast majority (i.e. 90%) of the 2,061 licensed HCOs in Virginia are small businesses.

The proposed amendments appear to adversely affect small businesses to a nominal degree.

The proposed increase in the initial license fee would restore \$1,000 in compliance costs for each HCO, including those that are small businesses. These are costs which were inadvertently omitted by the

General Assembly in 2022. This could discourage some from becoming a licensed HCO. Thus, a nominal adverse economic impact on small HCOs is indicated.

The proposed fee disbursement over three years could discourage some HCOs from being licensed, which would have a negative impact on employment.

The expected \$1,000 one-time disbursement over three years of compliance costs could nominally reduce the profitability of HCOs and their asset values.