

Fiscal Impact Review 2017 General Assembly Session

Date: January 31, 2017

Bill number: HB 2387; waiver of first-time licensing fees for low-income applicants

Review requested by: Chairman Gilbert, House General Laws Committee

JLARC Staff Fiscal Estimates

JLARC staff do not concur with the fiscal impact statement prepared by the Department of Planning and Budget that HB 2387 will have a total fiscal impact of approximately \$780,000 in FY18 and approximately \$764,000 each year thereafter.

HB 2387 would waive the first-time application fee that low-income individuals pay to the Department of Professional and Occupational Regulation (DPOR) to apply for any license, certificate, or registration. The bill defines a "low-income individual" as someone whose gross annual income is less than \$25,000.

This bill is expected to have a net fiscal impact of approximately \$513,700 (NGF) in FY18 and \$253,300 (NGF) in FY19. The fiscal impact of the bill has two primary components: (1) the revenue that DPOR will lose by waiving first-time application fees for low-income individuals, and (2) the expenditures that DPOR will incur to verify individuals' gross annual income. After FY19, DPOR is expected to fully offset these revenue losses and additional expenditures by raising the first-time license application fees for non-low-income individuals. DPOR has this authority under § 54.1-113 of the Code of Virginia. In the meantime, DPOR will cover the additional costs through existing balances.

An explanation of the JLARC staff review is included on the pages that follow.

Authorized for release:



Hal E. Greer, Director

Bill summary: HB 2387 waives the initial application fee that low-income individuals pay to the Department of Professional and Occupational Regulation (DPOR) to apply for any license, certificate, or registration. The bill defines a “low-income individual” as someone whose gross annual income is less than \$25,000. The proposed fee waiver would not apply to license renewal fees paid by low-income individuals. It also would not apply to businesses submitting initial applications for licenses, certificates, or registrations.

Discussion of fiscal implications: The fiscal impact of this bill has two primary components: (1) the administrative and operational costs that DPOR will have to verify individuals’ income information and (2) the revenue that DPOR will lose by waiving first-time application fees for low-income individuals. DPOR indicates that these costs will be covered through an increase in fees for non-low-income individuals. Due to the regulatory process for increasing fees, DPOR does not expect the fee increase to be implemented for 18-24 months. (JLARC staff assumed an 18-month time frame.) In the meantime, DPOR staff indicate that the costs would be covered with existing balances.

Table: Fiscal impact estimates for HB 2387

Fiscal Year	Expenditure Impact (NGF)	Revenue Impact (NGF)	% Impact Offset by DPOR Fee Increases	Total Fiscal Impact <u>Not</u> Offset (NGF)
FY17	--	--	--	--
FY18	\$88,700	\$425,000	0%	\$513,700
FY19	\$81,700	\$425,000	50%	\$253,300
FY20	\$81,700	\$425,000	100%	\$0
FY21	\$81,700	\$425,000	100%	\$0
FY22	\$81,700	\$425,000	100%	\$0

Source: JLARC staff analysis.

Expenditure impact

JLARC estimates that the additional costs incurred by DPOR to implement the fee waiver would be approximately \$88,700 (NGF) in FY18, which is less than the \$354,944 (NGF) estimated by the Department of Planning and Budget.

The difference between the two estimates stems from a difference in interpretation of the bill language. DPOR interprets HB 2387 to require that DPOR collect and review

income information for all individuals who submit first-time license applications. JLARC interprets HB 2387 to require that DPOR collect and review income information only for those individuals who request a waiver of the application fee. JLARC's estimate therefore assumes that DPOR would need only one new full-time position to implement the fee waiver.

The bill could be amended to add "upon request of the applicant" to clarify that DPOR should not collect and review income information for all applicants, but only as requested.

One new full-time position will be needed to implement HB 2387 if DPOR collects and reviews income information for only low-income individuals. This assumes that DPOR will:

- 1) review income information for approximately 4,250 low-income individuals annually; and
- 2) spend approximately 20 minutes verifying the income information on each application. (Allocating 20 minutes to verify individuals' income information effectively doubles DPOR's current average processing time of 20 minutes.)

Under these assumptions, income reviews will require 1,417 additional work hours, which DPOR can accomplish with one new full-time position. (A full-time position has 2,080 work hours per year.)

DPOR's new additional position is expected to cost approximately \$88,700 (NGF) in FY18, which includes the position's salary and benefits, recurring operating costs, and a one-time fee for office furniture. To help limit additional administrative expenses, DPOR could modify initial license application forms to (1) allow individuals to indicate whether they meet the definition for "low-income" and are eligible for the fee waiver, and (2) specify the specific types of income information (e.g., tax returns) that individuals should submit with their application. In addition, DPOR could abstain from collecting initial license application fees from low-income individuals to avoid issuing refunds.

Revenue Impact

HB 2387 is expected to have a negative revenue impact of \$425,000 (NGF) starting in FY18 because DPOR will forgo collecting first-time license application fees from an estimated 4,250 low-income individuals each year at a cost of about \$100 per fee. This revenue impact is expected to be partially offset in FY19 as DPOR begins implementing increases on first-time license application fees for non-low-income individuals. It is

expected that, by FY20, DPOR will be able to fully offset the revenue losses from HB 2387 through increases on first-time license application fees for non-low-income individuals.

Other Key Assumptions

JLARC staff reviewed two assumptions used in the fiscal impact statement prepared by the Department of Planning and Budget and verified that they were reasonable.

Assumption 1: 4,250 low-income individuals will submit initial license applications each year

- DPOR currently does not collect income data from individuals who apply for licenses.
- U.S. Census Bureau data indicates that approximately 22 percent of individuals in the U.S. have annual household incomes that are less than \$25,000.
- Of the 19,323 individual license applications that DPOR received in FY16, an estimated 4,250 applications would be from low-income individuals.

Assumption 2: \$100 average initial license application fee

- Cost of the initial license fees varies depending on the type of license, ranging from \$25 for auctioneers to \$290 for real estate appraisers.
- Average license fee of \$100 was reported in fiscal impact statement.
- Weighted average license fee of \$109 was calculated by JLARC staff based on which license fees were most frequently paid in FY16.

Budget amendment necessary? A budget amendment is not necessary. If HB 2387 is enacted, DPOR would raise first-time license application fees for individuals who are not low income. Prior to the implementation of the fee increases, DPOR would use existing balances to cover costs.

Agencies affected: Department of Professional and Occupational Regulation.

Prepared by: Lauren Axselle

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