

Attachment to STD 399

STD 399 Sections with additional explanation:

ECONOMIC IMPACT STATEMENT

A. ESTIMATED PRIVATE SECTOR COSTS: These regulations pertain only to agencies of the State of California and specify standards and methodologies for conducting economic analysis.

B. ESTIMATED COSTS: (info provided on STD 399)

C. ESTIMATED BENEFITS

- A more complete assessment of the economic impact of a proposed major regulation.
- Consistency in the type of economic impact analysis being conducted.
- Greater confidence in the results of that economic impact analysis.
- Ensures a more thorough assessment of alternatives to the solution set forth in the proposed major regulation.
- Consistency in determining the appropriate baseline for comparing proposed regulatory alternatives for a proposed major regulation.
- Agencies will receive the guidance necessary to assist them in better assessing the monetary as well as the nonmonetary benefits of proposed major regulations, as required by SB 617.

D. ALTERNATIVES TO THE REGULATION

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

1. Require use of one specific method or approach for assessing economic impact. This alternative was rejected because some agencies already have methods and approaches and expertise that yield valid results. To require them to adopt a new method and approach for this one subset of regulations would not be cost-effective.
2. Permit use of any method and approach for assessing economic impact. This alternative was rejected because it is inconsistent with the legislative intent in enacting SB 617 (Chapter 496, Stats. 2011) and because the Department would not be able to compare or verify results of such disparate methodologies.
3. Not require use of the Department's most current publicly available economic and demographic projections. This alternative was rejected because it would result in inconsistency in the projections used and make it difficult to assess the validity of conclusions based on other projections.
4. Not require costs and benefits to be separately identified for different groups where the impact of the regulation will differ significantly between identifiable groups. This alternative was rejected because it would be difficult to complete the economic impact assessment or to interpret the results in the absence of such separate identification.
5. Not provide guidance regarding how to compare proposed regulatory alternatives with an established baseline. This alternative was rejected because the Legislature instructed the Department to provide such guidance and because failure to provide the guidance would leave to inconsistent analyses.

6. Not specify the type of information an agency must provide regarding its assessment of the value of benefits of the proposed major regulation. This alternative was rejected because such information is necessary in order for the Department to be able to evaluate an agency's assessment of the benefits of a proposed major regulation.

7. Offer no guidance as to methods by which benefits may be assessed. This alternative was rejected because it is inconsistent with SB 617.

E. MAJOR REGULATIONS: (information provided on STD 399)

FISCAL IMPACT STATEMENT

A. FISCAL EFFECT ON LOCAL GOVERNMENT: None anticipated.

B. FISCAL EFFECT ON STATE GOVERNMENT

Estimation of Standardized Regulatory Impact Analysis Regulations on State Government

The Department of Finance is required to adopt regulations for state agencies to follow when performing standardized regulatory impact assessments for any major regulations—defined as a regulation resulting in an economic impact of \$50 million or more in any single year. The department's regulations will require agencies to (1) estimate the proposed regulation's effect on agencies, businesses and individuals, (2) evaluate alternatives to the proposed regulations, (3) assess the regulation's statewide economic impact, and (4) submit its analysis before initiating a formal rulemaking process.

Agencies will be required to perform one or two analyses. The first is an initial estimate to determine if the economic impact will exceed the \$50 million threshold. If it is determined that the proposed regulation will meet or exceed the threshold, a standardized regulatory impact assessment will be required. Both analyses will require an estimate of the regulation's statewide direct and induced economic impact.

For the most part agencies should be able to perform these analyses with existing resources. Much of the work to develop these analyses will be very similar to that already being done to complete the STD 399.

When a major regulation is proposed requiring a standardized regulatory impact assessment, agencies will need one or more trained economists to assess statewide economic impacts including (1) the creation or elimination of jobs within the state, (2) the creation of new businesses or the elimination of existing businesses within the state, (3) the competitive advantages or disadvantages for businesses currently doing business within the state, and (4) the increase or decrease of investment in the state. Only a few agencies are known to already have enough economists on staff at this point. Others would likely need to augment their resources with new staff or with consultants.

Fifty-two state agencies were surveyed and/or visited to determine if they anticipated promulgating major regulations and how the analyses would be handled. Responses were received from 26 of the 52 agencies. Based on the survey and the visits, it was learned that only five agencies (Energy Commission, CalRecycle, Forestry and Fire Protection, Air Resources Board, and the Department of Insurance) anticipate proposing major regulations in the foreseeable future. Of those five, two (Energy Commission and Air Resources Board) already have enough economists on staff to perform these analyses. The other three agencies will likely need to add one additional economist to their staff. Since these responses represent half of all state agencies, somewhere between 3 and 6 additional professional staff

will be added to the state workforce. With an estimated individual staff cost of \$100,000, this new requirement will cost an additional \$300,000 to \$600,000 in employee costs.

The other additional cost will be procuring a quantitative economic modeling capability. This could come in the form of a tool consisting of software, data and technical assistance. The Department of Finance has entered into a contract with Regional Economic Modeling Inc. to secure licenses for and technical assistance related to its Policy Insight system. All five of the agencies that anticipate proposing major regulations can also access this tool as affiliate users under the Department’s contract at a cost of \$38,250 per year. Other agencies will still need to assess the statewide economic impacts to determine whether or not the regulations meet the threshold. In these cases, the agencies will have the option of also accessing the Policy Insight system, consulting with the Department of Finance, or contracting with consultants. Additionally, many agencies will only intermittently propose regulations. Given these uncertainties, it is not possible to estimate how much will be spent acquiring this capability beyond the five agencies mentioned above.

The Department of Finance estimates costs associated with its responsibilities to perform specified duties will be between \$906,000 and \$1,302,000 annually. The Department’s costs include additional personal services, external consulting and professional services, and information technology services. In 2012-13 Finance was authorized to spend via a BCP \$677,000 in FY 2012-13 and \$670,000 in FY 2013-14.

FY 2014-15 total costs are estimated below at \$1.4 to \$2.3 million and a revised BCP will be submitted for consideration.

ANNUAL FISCAL IMPACT SUMMARY

State of California Agencies

	<u>PYs</u>	<u>Total Staff Cost</u>
Additional Staff (\$100,000/year)	3-6	\$300,000 - \$600,000
	<u>Licenses</u>	<u>Total Tool Cost</u>
Economic Assessment Tool (\$38,250 per license)	5-10	\$191,250 - \$382,500

Department of Finance

	<u>PYs</u>	<u>Total Staff Cost</u>
Additional Staff (\$125,000/year)	3-6	\$375,000 - \$750,000
Consulting Services, IT Services		\$531,000 - \$552,000
TOTAL COST		\$1,397,250 - \$2,284,500

C. FISCAL EFFECT ON FEDERAL FUNDING OF STATE PROGRAMS

It is currently unknown how the proposed SB 617 regulations will impact federal funding of state programs. However, it is anticipated there will be little or no impact on federal funding as the purpose of the regulations is primarily focused on transparency and standardized consistency of economic analysis.