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Arnold Schwarzenegger
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TO: Division Chiefs

FROM: James N. Goldstone
Executive Officer

DATE: February 18, 2009

SUBJECT: REGULATORY COST AND ECONOMIC IMPACT ASSESSMENT -- A
NEW APPROVAL PROCESS & GUIDANCE DOCUMENT

Estimating the economic impacts of proposed regulations is a critical part of the regulatory development process. A regulation's cost and economic impact often influences the design of the regulation itself and current recession means that more scrutiny will be brought to bear on our proposed regulations. Consequently, the economic analysis for every rule must be done correctly and initiated early in the regulation development process. This memo will provide information on an improved cost and economic impact analysis process.

Brief Background:

The Administrative Procedures Act, Government Code section 11346.5 requires regulation writers to consider and assess the costs and the economic impacts of proposed regulations on the regulated community. The cost and economic analysis are required in both the Initial and Final Statement of Reasons documents, and are summarized on the Economic and Fiscal Impact Statements, STD 399 (Form 399) which becomes part of the rulemaking file.

The Department of Finance (DOF) is authorized to review the Form 399 that we prepare for proposed regulations. Recently DOF has rejected several of our 399s for a variety of reasons including incomplete descriptions of the economic impacts, or inconsistencies between the Form 399 and the staff report. In response, I am asking Division Chiefs to work with the Board Administration and Regulatory Coordination Unit (BARCU) and the Research Division's Economic Studies Section (ESS) to implement a procedure to increase accuracy, consistency, and completeness of the cost and economic analysis and Form 399 for all regulatory efforts.

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

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Improved Process:

In order to ensure consistency of our cost and economic analysis Board wide and to reduce DOF rejections of our Form 399 submissions, I am instituting the improved process described below.

- When a proposed regulation is added to the Board's regulatory calendar, BARCU will initiate the process by sending a cost and economic assessment Guidance Document to the lead Division staff or designated contact.
- The Guidance Document will include a memo template for requesting staff support from the ESS. This memo must be sent immediately to the ESS manager by the Division or Branch Chief for timely economic impact analysis.
- ESS will then assign a staff member to work with the regulatory development team to develop deadlines and assess the economic analysis needs.
- ESS staff will support the cost and economic analysis of the regulation and assist in the preparation of the Form 399. The Division lead staff should keep the designated ESS staff member informed of meetings and workshops with stakeholders, and consult with ESS frequently to assure the best analysis possible.
- The Form 399 is included in the regulatory package to the Office of Administrative Law prior to the Board Hearing. This version of the 399 must be based on information available at the time of submittal. ESS review of this version is required since BARCU will not submit the 399 without this oversight.
- The final version of the Form 399 will go to the DOF following the Board Hearing after any modifications are completed, and after ESS staff review and approval.
- ESS staff will work with the Division lead staff person to support all communication with DOF regarding the Form 399.

I request your full support to facilitate the implementation of the procedures outlined above in order to ensure consistent quality in our regulatory economic analysis. Please let me know if you have any questions. Also, for further information, please contact Fereidun Feizollahi in ESS at 323-1509, or Lori Andreoni in BARCU at 322-4011.