

Attachment D

PRELIMINARY REVISED ECONOMIC IMPACTS SUMMARY

Proposed Modifications to the Regulation for the Reporting of Criteria Air Pollutants and Toxic Air Contaminants

As described in the notice, the proposed applicability modifications (Proposed Modifications) to the Regulation for the Reporting of Criteria Air Pollutants and Toxic Air Contaminants (CTR Regulation) require emissions data reporting at a statewide level as compared to the original proposal (Original Proposal). Therefore, the costs are greater than estimated for the Original Proposal in the October 2018 Staff Report: Initial Statement of Reasons (ISOR), developed for the rulemaking¹. This preliminary revised economic impacts summary has been prepared to provide an estimate of the number of facilities affected and the costs for compliance under the proposed modifications. A final economic and fiscal assessment will be prepared for the Final Statement of Reasons (FSOR) at the close of the regulatory process, and this preliminary revised economic impacts summary is subject to change based on available information.

Background of Proposed Modifications

The CTR Regulation focuses on many different types of sources, from large sources subject to greenhouse gas emissions reporting (GHG Facilities), other large sources of criteria pollutants in nonattainment areas (Criteria Facilities), sources of toxic air contaminants deemed high priority (Elevated Toxics Facilities), and smaller sources of pollutants. A core difference between the Original Proposal and the Proposed Modifications is the applicability criteria for these smaller sources of pollutants. The Original Proposal would affect all facilities with one or more air permits within the boundary of an AB 617 selected community (more communities would be added each year), without regard to the amount of pollutants emitted. In contrast, the Proposed Modifications are effective statewide and affect all facilities with one or more air permits and emissions, permitted processes, or activity levels exceeding the thresholds identified in section 93401(a) (referred to as Additional Applicability Facilities).

Approximately 50,000 individual facilities would be affected by the Proposed Modifications to the CTR Regulation over the eight year period to phase-in all sources which would be required to submit an annual emissions data report pursuant to the revised regulation. This includes approximately 1,300 GHG, Criteria, and Elevated Toxics Facilities subject pursuant to sections 93401(a)(1), (2), and (3), with the remaining approximately 48,700 Additional Applicability Facilities subject pursuant to section 93401(a)(4). Many of those Additional Applicability Facilities (approximately 29,000 – a conservatively low estimate) are expected to submit an abbreviated

¹ Staff Report: Initial Statement of Reasons (ISOR), released October 2018, available here: <https://ww2.arb.ca.gov/rulemaking/2018/proposed-regulation-reporting-criteria-air-pollutants-and-toxic-air-contaminants>

emissions report as described in the Proposed Modifications, containing only facility identification, location information, and specific activity data to satisfy the requirements of the article.

Economic Impacts of the Proposed Modifications

The primary costs associated with complying with the CTR Regulation are costs incurred for recordkeeping activities, preparation of an annual emissions data report, and submitting the report to the local air district (or at a future date, potentially, to CARB). The specific cost for a facility subject to annual reporting can vary depending on each facility's unique situation in terms of its sector designation and complexity, and its current emission reporting requirements as compared to the requirements under this proposal.

Costs were estimated based on CARB staff experience with prior reporting programs and evaluation of the expected labor hours required to prepare and report the required data, including an evaluation of the current local air district reporting programs. To obtain a cost in dollars, these additional labor hour estimates were multiplied by an average California loaded wage rate, based on the types of personnel expected to perform the data collection, evaluation, and reporting activities. In estimating costs, staff determined the first year cost, which is typically higher in order to implement new procedures, systems, or other changes, and the ongoing annual costs for a typical business. It is assumed that reporting costs will decrease over time as ongoing reporting methods are established, and as the air districts and CARB develop more advanced electronic data reporting systems to streamline the reporting process.

- On an individual basis, GHG, Criteria, and Elevated Toxics Facilities subject per sections 93401(a)(1), (2), or (3), will have minimal cost impacts to comply with the regulation because the costs will typically be a relatively modest additional workload, supplementing the workload that is typically already required in most regions to meet existing mandated data collection and reporting requirements. However, since those facilities generally have more sources or more complex sources (for emissions calculation purposes) than a smaller facility, the costs for these facilities will typically be greater than a smaller Additional Applicability Facility subject per 93401(a)(4).

For the typical private business subject per sections 93401(a)(1), (2), or (3), average initial year costs are estimated to be approximately \$1,140. Average ongoing costs are estimated to be approximately \$490.

- For Additional Applicability Facilities subject per section 93401(a)(4), the regulation contains options to minimize labor and cost for those facilities, while obtaining the necessary data. Many facilities subject per section 93401(a)(4) can calculate emissions based on simple activity data, and in many cases will only submit activity data to the local air district or CARB to calculate emissions on the facility's behalf.

For the typical private business subject per section 93401(a)(4), but not qualifying for abbreviated reporting per section 93403(c), average initial year costs are estimated to be approximately \$490. Average ongoing costs are estimated to be approximately \$250. For the typical private business subject per section 93401(a)(4) and qualifies for abbreviated reporting per section 93403(c), average initial year costs are estimated to be approximately \$120. Average ongoing costs are estimated to be approximately \$40.

In total, for affected facilities owned or operated by private businesses, local governments, and the state government, total costs are estimated at \$41.5 million over the eight year full phase-in period, or approximately \$5.2 million per year on average. The estimated costs for air districts depends on the implementation year, but can range from approximately \$350,000 to \$6.5 million annually to implement the proposed regulation, or \$38.7 million over the eight years. In total, the combined facility and district implementation costs to comply with the Proposed Modifications to the CTR Regulation are estimated to be approximately \$80.2 million over the eight year phase-in period.

Due to the phase-in schedule established in the regulation, it is not possible to calculate an accurate estimate of the average annual costs a typical facility may incur to comply with the regulation by using the estimated total cost to all facilities and the estimated total number of facilities affected over the analysis period, as some facilities would not have reporting costs every year of the analysis period. For example, Additional Applicability Facilities subject to the regulation pursuant to 93401(a)(4)(C) must submit an annual emissions report according to a phase-in schedule. A facility that must begin reporting 2022 data is not anticipated to have any meaningful costs incurred due to the regulation until 2022, when additional data collection may be necessary. Therefore, it is not appropriate to take the estimated total cost to all facilities and the estimated total number of facilities affected over the analysis period to determine an average annual cost to a typical facility. Determining an average annual cost in this manner would erroneously provide much lower labor hours and costs than what would be expected in any one year of implementation of the regulation. A more accurate representation of average values can be determined by referring to the average initial year costs and average ongoing year costs, as provided in this attachment.

Areas of additional focus for this preliminary revised economics impact summary are air districts and small businesses, which are impacted by the Proposed Modifications.

Air Districts

Air districts have no new specific legal requirements under the CTR Regulation. The regulation applies to affected facilities, not the air districts. However, CARB recognizes that California's local air districts play an important role in collecting, processing, confirming the validity of, and managing facility emissions data, and that these actions are central to the proposed regulation's implementation, data collection, and enforcement provisions. The CTR Regulation is intended to build on those existing

efforts, because air districts are already familiar with local facility operators, conduct inspections, issue permits, and in many instances have been regulating applicable sources for decades. The proposal also includes provisions allowing for compliance and enforcement activities by local air districts, to support efficient and effective implementation of the requirements. The abbreviated reporting provision added with the Proposed Modifications allow for calculating emissions from common sources that are relatively easy to calculate accurately, reducing labor from regulated facilities and air districts compiling the data.

Local air districts may need to add staff to manage the additional workload they may incur in providing assistance in implementing the regulation. Based on discussions with air districts and anticipated staffing needs, CARB estimates that by 2022 approximately 50 additional district staff positions statewide, at a total cost of approximately \$6.5 million per year, may be needed for districts in implementing the requirements of the regulation. These approximate district costs are based on a variety of factors including the number of affected businesses in the region, the types of facilities, the previous air district efforts in collecting criteria and toxics data, and the data management systems in place to process and compile collected data. It is likely that these additional district staff would also have additional duties beyond just implementing the requirements of the proposed regulation.

Small Businesses

The Proposed Modifications to the CTR Regulation will impact more small businesses than the Original Proposal. Small businesses are classified under California Government Code Section 11346.3(b)(4)(B)² as a business that is independently owned and operated, not dominant in its field of operation, and has fewer than 100 employees. Based on our analysis, we anticipate that 17,200 small businesses will be subject to the requirements of the regulation (this value is a subset of the number of businesses anticipated to be subject to the regulation). Some of the types of affected small businesses include retail gasoline fueling stations, dry cleaners, print shops, auto body and auto paint shops, metal plating, metal grinding and finishing, coating and finishing facilities, industrial cleaning and degreasing operations, welding operations, facilities with backup diesel generators and emergency fire pumps, crematories, agricultural operations, and others.

The preliminary estimated total cost to all small businesses to comply with the reporting requirements would be approximately \$1.6 million per year on average. For an average small business, costs can be expected to be similar to those estimated for private businesses depending on the applicability and required reporting of the facility. These costs are based on an estimated amount of time to compile data, confirm its accuracy and completeness, and report data, multiplied by a California-specific wage rate for professional staff.

² California Government Code, Section 11346.3, approved by Governor September 14, 2016. (Gov. Code § 11346, 2016)

As with other businesses affected by the proposed regulation, the cost per small business will vary. The cost of this regulation is expected to have a minor financial impact on individual small businesses to collect and report the required data, and many will submit information that is currently collected and reported by facility operators – such as throughputs, fuel use, material use, or sales data. For small businesses with relatively small amounts of emissions that qualify for abbreviated reporting per section 93403(c), the additional reporting requirements will be minimal because it is anticipated that facility operators already collect the required data to estimate emissions, and in many cases already report this information to the local air district. Abbreviated emissions reporting for these small facilities, many of which are expected to be small business, will minimize costs to comply with the regulation. However, there will be some small businesses with higher costs, including those that may be more complex and that do not qualify for abbreviated reporting per section 93403(c), or that may not have preexisting reporting requirements such that they are not currently collecting data needed to compute emissions data (which will typically be performed by air districts for smaller facilities).

Comparison of Proposed Modifications to Original Proposal

Costs under the Original Proposal were based on four years of implementation to comply with Department of Finance procedures. However, in order to effectively compare the Proposed Modification with the Original Proposal, an eight year assessment is needed to align implementation timelines. To do this, the Original Proposal cost projection was extended four more years. A comparison between the cost estimates for the Original Proposal, the Original Proposal over eight years, and the Proposed Modifications over eight years, are presented in Table D-1.

Under the Original Proposal, it was estimated that over the initial four years of implementation, approximately 14,680 individual facilities would be affected, with a combined cost to facilities and air districts of about \$10.5 million over the four-year period, or about \$2.6 million per year on average. However, while these estimates of affected facilities and costs are reasonable for the timeframe analyzed, they are conservative estimates, as it is important to note that additional facilities would continue to be added every year as additional communities are identified and selected under the AB 617 Community Air Protection Program and the associated facilities within the boundary of the communities become subject to reporting. Due to the unknown quantity and location of potential selected communities that may be selected each year under AB 617, an exact estimate of the number of additional facilities is not possible. However, based on the original estimate of facilities within the known year-one selected communities, it was assumed that 4,466 additional facilities would be added each year, which would increase annual costs for facilities by approximately \$1.4 million for each year additional facilities are added. In addition, costs for air districts were assumed to increase by approximately \$1.0 million for each year. Therefore, after eight years, costs under the Original Proposal are estimated at \$20.1 million total.

The cost increases associated with the Proposed Modifications as compared to the Original Proposal are due a greater number of facilities reporting their emissions in a condensed timeframe, as discussed above. However, the overall per-facility costs are in some cases lower, because a greater number of small and relatively simple facilities are now included and abbreviated reporting would allow many facilities to submit minimal data to calculate emissions to satisfy the requirements of the article.

Table D-1. Comparison Between Proposed Modifications and Original Proposal

Parameter	Original Proposal (over 4 years)	Original Proposal (over 8 years)*	Proposed Modifications (over 8 years)
Total facilities affected	14,680	32,544	50,000
Private business facilities affected	13,980	28,406	43,657
Not small business	8,060	17,368	26,452
Small business	4,750	11,038	17,205
Local government facilities affected	1,610	3,538	5,389
State government facilities affected	260	600	954
Air districts affected	31	31 to 35 ¹	35
Total estimated costs	\$10.5 million	\$20.1 million	\$80.2 million
Private business costs	\$5.3 million	\$10.1 million	\$36.3 million
Not small business costs	\$4.2 million	\$7.1 million	\$23.4 million
Small business costs	\$1.1 million	\$3.0 million	\$12.8 million
Local government costs	\$5.0 million	\$9.7 million	\$43.2 million
Other local government costs	\$0.6 million	\$1.2 million	\$4.5 million
Air districts costs	\$4.4 million	\$8.5 million	\$38.7 million
State government costs	\$0.1 million	\$0.2 million	\$0.8 million

* Note: Projected costs of original proposal over the eight year phase-in period of the proposed modifications, to allow for adequate comparison between the two proposals.

¹ The number of air districts affected may range from 31 to all 35 for the Original Proposal Over Same Timeframe.

Conclusion to the Preliminary Revised Economic Impacts Summary

Based on the preliminary revised economic impacts analysis above, CARB staff does not expect businesses to be adversely affected by the costs of complying with the proposed regulation, due to the relatively small incremental additional costs. As a result, staff does not expect a noticeable change in employment, business creation, expansion, or elimination, or business competitiveness in California. In addition, because of the minor costs, no discernable fiscal impacts are expected for individual private persons within California.

As stated in the introduction to this preliminary revised economic impacts summary, a final economic and fiscal assessment will be prepared for the Final Statement of Reasons (FSOR) at the close of the regulatory process. This preliminary revised economic impacts summary is subject to change based on available information.