



Elizabeth Cox
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

August 20, 2020

Dear Ms. Cox:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary (Form DF-131) for the Proposed Regulations to Implement Proposition 12, as required in California Code of Regulations, title 1, section 200(a)(1) for major regulations. Proposed text of the regulations was not submitted; hence, comments are based solely on the SRIA and other publicly available information.

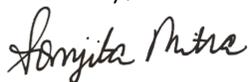
The proposed regulations implement Proposition 12, establishing minimum animal confinement standards for egg-laying hens (cage-free by 2022), veal calves (minimum of 43 square feet by 2020) and breeding sows (minimum of 24 square feet by 2022) for products sold in California for human consumption. The proposed regulations define the animal products that will be subject to those standards and imposes requirements for certification, labelling, and enforcement. In 2022, the SRIA expects California consumers to spend an additional \$1.2 billion on covered egg, veal, and pork products despite consuming less as prices increase—69 percent higher for shell eggs, 28 percent for veal, and 4 percent for pork. However, producer impacts are only calculated for shell egg producers, estimated as a \$7-million increase in producer revenue in 2022 as the SRIA asserts that there are few or no veal, pork, or liquid egg operations in California. California retailers' revenues are expected to increase by \$1.2 billion, with profits increasing for shell eggs (by \$950 million or 89 percent) and liquid eggs (by \$18 million or 15 percent) retailers but decreasing for pork (by \$63 million or 2 percent) and veal retailers (\$5 million or 8 percent). Compliance costs for businesses are not quantified. Benefits are qualitatively discussed as moral satisfaction, peace of mind, and social approval. Fiscal costs to the state include administration costs and are estimated to average around \$5.0 million annually.

In general, Finance concurs with the methodology used to estimate impacts of the proposed regulations, with two exceptions. First, the SRIA must separately identify and estimate costs and benefits to affected businesses and individuals. For instance, the SRIA must estimate the costs to producers to comply with the new housing, certification, labeling, and reporting requirements and for individuals to maintain their consumption or

to substitute. Furthermore, disparate impacts must be discussed. For instance, some small farmers might not be able to switch to cage free eggs right away and might reduce or stop production altogether. This may lead to job losses and to further price increases and consumption decreases than assumed in the SRIA. Alternatively, larger farms, who typically can adapt more quickly, will increase their market share to compensate for lower production from smaller farms. Small businesses that rely on regulated products such as small restaurants, who tend to have a thin profit margin, might increase prices or close if cost increases cannot be absorbed. In 2018, over one quarter of California restaurants had 5 or fewer employees. Finally, using the SRIA's assumption of around 200 shell eggs consumed per person per year, lower income individuals will spend \$40 per year more on shell eggs, an increase equal to around 2 percent of individual SNAP benefits. Second, fiscal cost calculations must be disclosed and include all costs to state and local governments. While the SRIA reports estimates of administrative costs, it does not provide any underlying assumptions or calculations for these. Costs should be broken down by category including but not limited to certification, registration, enforcement, and other administrative costs. Further, the SRIA must evaluate impacts on other government agencies that are consumers of the covered products, such as hospitals, prisons, and schools.

These comments are intended to provide sufficient guidance outlining revisions recommended to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,



Somjita Mitra

Chief of Economic Research

cc: Mr. Chris Dombrowski, Acting Director, Governor's Office of Business and Economic Development
Mr. Kenneth Pogue, Director, Office of Administrative Law
Ms. Annette Jones, Director, Animal Health and Food Safety Services, California Department of Food and Agriculture