



August 4, 2014

Mr. Robert Holmes
California Department of Resources Recycling and Recovery
1001 I Street
Sacramento, CA 95812

Dear Mr. Holmes:

Thank you for submitting the standardized regulatory impact assessment (SRIA), the summary (Form DF-131), and other related documents for the proposed compostable materials and transfer/processing regulations as required in California Code of Regulations, title 1, section 2002(a)(1).

Based on our understanding, the proposed regulations would codify standards for two types of composting facilities, many of which already implement the standards. This would result in an annual cost of \$0.8 to \$50.8 million in 2015 and \$1.6 to \$63.5 million in 2018 to approximately 360 composting facilities with positive job impacts on the waste management and remediation services industries, and nearly no job impacts on the California economy. Although the proposed regulations would benefit public health, safety, and the environment by giving clarity to facilities as they expand, these benefits are not quantified. Based on the evidence presented above, the Department of Resources Recycling and Recovery (CalRecycle) concluded that the proposed regulations would not have a significant adverse impact on businesses.

Finance, in general, agrees with CalRecycle's approaches to the cost and total impact assessments. However, there are some areas where the SRIA needs to be strengthened with additional details and narrative.

First, the implication that higher costs on their own would create more jobs to the regulated waste management and remediation services industry is incorrect. This is likely due to the decision to change the rental cost of capital, as this affects substitution between capital and labor usage, leading to the positive job impacts. However, there does not seem to be any reason to change that parameter, and in general, higher costs should lead to job losses. For example, while the purchase of machinery and equipment benefits the sectors providing such services, these are additional costs to the regulated industry. On the other hand, if the regulation leads to growth in the supplying and regulated industries by offering greater certainty for investment, we would expect there could be positive job impacts overall. That argument should be made explicitly, even if the benefits are difficult to quantify.

Second, there are some errors in the submitted SRIA. Some of the economic impacts are characterized as indirect, rather than total, as in Table 3. This mislabeling changes how impacts are evaluated and needs to be corrected. In addition, while the presentation of compostable materials and in-vessel digestion separately provides useful detail, it may be helpful to also report the total impact of the proposed regulations in these areas. Direct references to the results in Table 3 would make the discussions on job creation/elimination, competitive advantage/disadvantage and increase/decrease in investment more transparent.

Modeling the direct effects of Alternative 2 would also allow a more straightforward comparison to the impacts of the proposed regulations.

Finally, we suggest the introductory section be expanded to discuss the wider benefits that would be made possible with these regulations. Composting could play a large part in meeting California's goals to reduce or divert solid waste. Strictly speaking, these issues are outside the scope of the regulatory impact, but form a large part of the justification for the need to adopt these regulations. We think it would benefit the public's understanding to include such context.

These comments are intended to provide sufficient guidance outlining revisions needed in this analysis and for future analysis. The SRIA, a summary of our comments, and your responses to them must be included in the submission of your regulatory package to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,



Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Office of Administrative Law
Mr. Ken Decio, CalRecycle
Mr. Cody Oquendo, CalRecycle