STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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1. Statement of the need for the proposed major regulation.

The California Privacy Protection Agency ("Agency") is directed by statute to adopt regulations to further implement the California Consumer Privacy Act of 2018. The regulations proposed by the Agency address the following: (1) updates to existing CCPA regulations; (2) clarify when insurance companies must comply with the CCPA; (3) establish requirements to complete a cybersecurity audit (“CSA”); (4) establish requirements to prepare a risk assessment (“RA”); and (5) operationalize consumers’ rights to access and to opt-out of businesses’ use of automated decisionmaking technology (“ADMT”).

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

The proposed regulations impose direct costs on California businesses in certain sectors as determined by their North American Industry Classification System ("NAICS") code such as retail trade, information services, and professional, scientific, and technical services sectors. Approximately 52,326 businesses are covered with first-year direct costs totaling $3.5 billion and average annual ongoing costs of $1.0 billion. Businesses also benefit from the proposed regulations in numerous ways but presently the only benefit the agency quantified is reduction in the risks of cybercrimes. Direct benefits to covered businesses total $1.5 billion in 2027 and average almost $19 billion annually over a 10-year period. All California consumers benefit from the proposed regulations' stronger privacy protections, including increased protection of their personal information ("PI"), additional transparency, more control over their PI, and reduced incidences of discrimination. The Agency was unable to find information to reliably quantify the benefits to consumers, so a qualitative description is provided within the Standardized Regulatory Impact Assessment ("SRIA").

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

The Agency anticipates an effective date for proposed regulations in 2027 and full implementation in 2029 when covered businesses must complete their first CSA, submit their first certification of completion of their CSA, submit their first certification of conduct of their RAs, and submit their RAs in abridged form. First-year costs include: updates to regulations ($369 million), CSAs ($2.0 billion), RAs ($207 million), ADMTs ($835 million). Ongoing annual costs include: CSAs ($308 to $615 million), RAs ($31 to $62 million), and ADMTs ($125 to $250 million). Annual costs and benefits through 2030 are as follows: 2027 has $3.5B costs and $1.5B benefits, 2028 has $900 million costs and $2.2B benefits, 2029 has $900 million costs and $3.4B benefits, and 2030 has $800 million costs and $5.1B benefits.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

The Agency estimates that first-year direct costs ($3.5 billion) and first-year quantified direct benefits ($1.5 billion) will exceed the economic impact threshold of $50 million. The economic impacts 12 months after full implementation are estimated to be $800 million in costs and $5.1 billion in benefits. The proposed regulations are major regulations and require preparation of a SRIA.

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5. Description of the agency's baseline:

The Agency evaluates costs and benefits of proposed regulations that define new obligations, either through the creation of new requirements or the new interpretation of existing requirements, beyond what is required by current laws and regulations. The regulatory baseline used is the counterfactual scenario without the proposed regulations. For this SRIA, it is assumed that the overall California economy grows according to macroeconomic projections of the California Department of Finance. Conservative assumptions are used for baseline conditions of businesses subject to new requirements of the proposed regulations, including the impact of laws and regulations that protect consumer privacy in other states, the federal government, and at the international level.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

a. All costs and all benefits of the alternative
b. The reason for rejecting alternative

The Agency considered three less stringent alternatives for CSA requirements, one less stringent alternative for the RA requirements, and one less stringent alternative for the ADMT requirements. The types of direct costs and benefits of the less stringent alternatives are the same as for the proposed regulations, but the expected costs and benefits are both reduced. On average, in the first year of implementation, the less stringent CSA alternatives would reduce costs from $2.05B to range from $1.1B to $2.0B, the less stringent RA alternative would reduce costs from $89M-$354M to $87M-$347M, and the less stringent ADMT alternative would reduce costs from $358M-$1.4B to $286M-$1.1B. There would be a proportional decline in ongoing costs as well. Expected quantified benefits of the less stringent alternatives would also decline from $1.5B to $512M in 2027, and from $66B to $23B in 2036. The Agency rejected the less stringent alternatives because they would not be more effective in carrying out the purpose of the proposed regulations or be as effective and less burdensome than the proposed regulations. The Agency considered more stringent alternatives for the CSA, RA, and ADMT requirements as well. On average, compared to the proposed regulations, the more stringent alternative would increase total first-year costs from $3.5B to $6.4B and would increase ongoing costs from $1.0B to $1.4B. The Agency lacked sufficient information to estimate increased benefits of the more stringent alternatives. As with the less stringent alternatives, the Agency finds the more stringent alternatives would not be more effective in carrying out the purposes of proposed regulations, nor be as effective and less burdensome to impacted businesses or private persons.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

In 2021, the Agency issued an invitation for written comment (open from September 22 through November 8, 2021) and received over 75 public comments, totaling over 850 pages. In 2022, the Agency hosted two days of informational sessions (March 29 and 30, 2022). The Agency then hosted three days of stakeholder sessions (May 4 through 6, 2022), providing an opportunity for members of the public to speak; the sessions were attended by many members of the public, and the Agency received approximately 100 comments across the three sessions. In 2023, the Agency solicited additional preliminary written public comments (open from February 10 through March 27, 2023) and received over 50 public comments, totaling over 1,000 pages. In 2024, the Agency held three pre-rulemaking stakeholder sessions (May 13, 15, and 22, 2024) to receive feedback on proposed CSA, RA, and ADMT regulations. The sessions were attended by nearly 400 members of the public, and the Agency received close to 50 comments across the three sessions. In addition, the Agency has held seven CPPA Board meetings at which the proposed regulatory topics were discussed, and every meeting included the opportunity for members of the public to comment.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The economic impact method used involves first identifying all "regulatory deltas" or changes in requirements of CCPA covered businesses that are strictly due to those new proposed regulatory requirements. Numbers of impacted business were estimated from data maintained by the California Employment Development Department and the federal Bureau of Economic Analysis, in combination with information and insights provided by industry experts on baseline conditions of covered businesses. Direct costs were estimated based upon appropriate labor costs and estimates of time required for compliance with new requirements. Ongoing costs were estimated as reductions from significantly larger first-year costs for impacts that involve meeting annual requirements. Direct quantifiable benefits were estimated from California-specific information on monetary losses associated with cybercrimes. Seven types of cybercrimes were identified as subject to risk reductions associated with the conduct of CSAs and RAs. Direct costs and direct benefits estimates were used in a macroeconomic model of California's economy to estimate the additional indirect and induced economic impacts. Direct costs and benefits and macroeconomic impacts were assessed for the proposed regulations, as well as for the less stringent and more stringent alternatives.

Agency Signature	Date
Signature On File	08/21/2024

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Ashkan Soltani, Executive Director