



Melissa Hall
State Water Resources Control Board
P.O. Box 100 [95812-0100]
1001 I Street, 17th Floor
Sacramento, CA 95814

January 12, 2023

Dear Ms. Hall:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary for the Hexavalent Chromium Maximum Contaminant Level Revision proposed regulations, as required in the California Code of Regulations, title 1, section (a)(1). Comments are based upon the SRIA and other publicly available information.

The proposed regulation sets the maximum level of hexavalent chromium in drinking water in any public water system (PWS) regulated by the state to 10 micrograms per liter. PWS with more than 10,000 connections will have to comply by the start of 2026, systems with 1,000 to 10,000 connections by the start of 2027, and systems with fewer than 1,000 connections by the start of 2028. According to the SRIA, not all 7,355 PWS in the state have tested for hexavalent chromium levels. Of those that have tested, 233 systems – serving 5.5 million people – reported hexavalent chromium levels above 10 micrograms per liter. The SRIA estimates annual compliance costs reaching \$180 million by 2028 (when the regulation is fully implemented), roughly split evenly between capital and operations/maintenance costs. The affected PWS will bear the direct costs, and the SRIA assumes that they will then pass the entire cost on to their customers. Benefits to individuals include an estimated 898 avoided cancer cases over 70 years, increased confidence in public drinking water, leading to reduced costs of up to about \$100 per month on bottled water for affected households, and additional (but unquantified) potential health care savings to businesses and individuals. Fiscal impacts include compliance costs of \$148.4 million annually for local governments, \$835,000 annually for state government, and \$3.5 million annually for the federal government, while any potential revenue impacts are not estimated in the SRIA.

Finance generally concurs with the methodology in the SRIA, with the following exceptions. First, the SRIA must disclose estimates of all fiscal impacts to state and local governments, including any potential revenue impacts such as any increased sales tax from the purchase and installation of testing and treatment equipment and materials they purchase in California – for example, the capital costs of \$95 million in 2028 could increase sales tax revenue by around \$7.8 million (assuming an average tax rate of 8.2 percent). Second, the SRIA must discuss the disparate impacts of the regulations on identifiable groups of individuals and businesses. While the SRIA separates into quartiles the numbers of individuals whose monthly water bills would increase by different amounts, the SRIA does not provide information on the

population in each quartile, nor does it discuss the potential of the projected increases to be particularly burdensome for individuals for whom water expenses are a higher proportion of total household expenses.

Third, the SRIA must provide the rationale underlying any assumptions that are material to the analysis. The SRIA is missing rationale for some assumptions including but not limited to the following: 1) Future costs are discounted at a 7 percent rate rather than a lower rate such as 3 percent. Since higher discount rates lead to lower cost estimates, the SRIA must disclose why 7 percent is the most appropriate discount rate for this regulation or provide a sensitivity analysis showing how different discount rates affect the impact estimates. 2) The SRIA implicitly assumes that water systems that did not previously test for hexavalent chromium will not incur any compliance costs. The SRIA notes that the number of affected systems could increase as testing is adopted yet bases future cost estimates on only the number of systems currently known to be out of compliance. The SRIA must either explain why it assumes that the untested systems will not incur costs to comply with the regulation or provide a sensitivity analysis showing how different assumptions about hexavalent chromium concentrations among untested water systems will affect the regulation's impact estimates.

These comments are intended to provide sufficient guidance outlining revisions to the impact assessment if a SRIA is required. The SRIA, a summary of Finance comments, and any responses must be included in the rulemaking file that is available for public comment. If any significant changes to the proposed regulations during the rulemaking process 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 Economist

cc: Ms. Dee Dee Myers, Director, Governor's Office of Business and Economic Development
Mr. Kenneth Pogue, Director, Office of Administrative Law
Ms. Yana Garcia, Secretary for Environmental Protection, California
Environmental Protection Agency