BILL SUMMARY

This bill:

1. Requires state agencies to prepare a standardized regulatory impact analysis, as specified, with regard to the adoption, amendment, or repeal of a major regulation, as defined, that is proposed on or after January 1, 2013. Require that the agency submit the analysis to the Department of Finance (DOF) for review and comments, as specified, which would be required to be included with the notice of proposed action. (Government Code [GC] Section 11346.3, et al.)

2. Requires the DOF, in consultation with the Office of Administrative Law and other state agencies, to adopt regulations for conducting the standardized regulatory impact analyses, as specified, to be utilized by state agencies when promulgating major regulations. (GC Section 11346.36.)

3. Revises certain provisions of the Administrative Procedures Act with respect to state agencies proposing to adopt, amend, or repeal regulations. (GC Section 11346.2, et al.)

4. Requires state agencies to conduct effective, independent, and ongoing monitoring of their internal accounting and administrative controls. Require the Department of Finance to establish, and modify as necessary, a framework of recommended practices to guide state agencies in conducting active ongoing monitoring or processes for internal accounting and administrative controls. (GC Section 13401, et al.)

ANALYSIS

CURRENT LAW

Current law establishes detailed procedural requirements in the Administrative Procedure Act (APA) (Chapter 3.5 (commencing with Section 11340) of Division 3 of Title 2 of the Government Code) that must be followed by state agencies when they propose to adopt, amend, or repeal regulations.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE’s formal position.
The need for regulatory action is identified in a number of ways. Under current law, interested persons may identify the need for regulatory action by filing a petition with a state agency for the adoption, amendment, or repeal of a regulation. When a petition is filed, a state agency must acknowledge its receipt in writing and, within 30 days, either schedule the petition for a public hearing or issue a detailed written decision indicating why the petition was denied on its merits and submit the decision to the Office of Administrative Law (OAL) for publication in the California Regulatory Notice Register. If an interested person disagrees with the reasons why an agency denied its petition, the interested person may also file a petition for reconsideration, which must be acknowledged and responded to in the same manner as the original petition.

Current law also allows state agencies to internally identify the need for regulatory action and gives state agencies that are considering adopting, amending, or repealing a regulation the discretion to informally consult with interested persons before considering whether to initiate the formal APA process for adopting, amending, or repealing a regulation. Current law only requires state agencies to consult with interested persons prior to initiating the formal APA process when a regulation involves complex proposals or numerous proposals.

If a state agency decides to begin the formal APA process to adopt, amend, or repeal a regulation, the APA provides for the public to actively participate in the agency’s rulemaking. The APA requires a state agency to notify by mail every person who has filed a request for notice and also a representative number of businesses affected regarding the commencement of each regulatory action. The APA also requires a state agency to publish the same written notice in the California Regulatory Notice Register and to post the notice on its Website.

The written notice must:

- State the time, place, and nature of the regulatory action;
- Identify the state agency’s authority for initiating the proposed regulatory action and refer to the specific provision of law being implemented, interpreted, or made specific by the proposed regulatory action;
- Contain an informative digest drafted in plain English describing existing law, the proposed regulatory action, the effect of the proposed regulatory action, and the broad objectives of the regulatory action;
- Contain a determination as to whether the proposed regulatory action imposes a mandate on local agencies or school districts and an estimate of the cost or savings to any state agency, the cost to any local agency or school district, other nondiscretionary cost or savings imposed on local agencies, and the cost or savings in federal funding to the state anticipated to result from the proposed regulatory action;
- Contain a determination and statement regarding whether the proposed regulatory action may have a significant, statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with out-of-state businesses;
- Contain a description of all the cost impacts, known to the agency, that a representative private person or business would necessarily incur in reasonable compliance with the proposed regulatory action;

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• Contain a statement regarding the results of the state agency’s assessment of the proposed regulatory action’s potential for adverse economic impact on California business enterprises and individuals, and its potential to impose unnecessary or unreasonable regulations or reporting, recordkeeping, or compliance requirements;

• Contain a determination and statement as to whether the proposed regulatory action will have a significant effect on housing costs;

• Include a statement that the state agency may not adopt the proposed regulatory action unless it finds that no reasonable alternative considered by the agency or that was identified and brought to the agency’s attention would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action;

• Include the contact information for two agency representatives to whom inquiries concerning the proposed regulatory action may be directed;

• State the date by which written comments must be received to present statements, arguments, or contentions in writing relating to the proposed regulatory action in order for them to be considered by the state agency before it adopts the proposed regulatory action;

• State that the state agency has prepared the text of the proposed regulatory action and an initial statement of reasons regarding the proposed regulatory action, which are available to the public;

• State that if a public hearing is not scheduled, a public hearing will be scheduled if requested no later than 15 days prior to the close of the written comment period;

• State that if the state agency makes sufficiently related changes to the proposed regulatory action, the full text of the changes will be available for public comment for at least 15 days prior to the adoption of the proposed regulatory action; and

• Explain how the public can obtain a copy of the final statement of reasons and provide the address for the state agency’s Website.

In order to further assist the public, the APA requires state agencies to prepare an initial statement of reasons for proposing the adoption, amendment, or repeal of a regulation. The initial statement of reasons is required to: (1) provide the state agency’s specific purpose for the proposed regulatory action and the agency’s rationale for determining that the proposed regulatory action is reasonably necessary to carryout such purpose; (2) identify each technical, theoretical, and empirical study, report, or similar document, if any, the state agency is relying upon in initiating the proposed regulatory action; and (3) a description of any reasonable alternatives that would lessen any adverse impact on small business and the state agency’s reasons for rejecting those reasonable alternatives. However, state agencies are not required, in the initial statement of reasons, to artificially construct alternatives, describe unreasonable alternatives, or justify why the agency has not described alternatives.

If a state agency adopts a proposed regulatory action after considering all of the written comments submitted during the comment period and conducting a public hearing, then the state agency must prepare a final statement of reasons and an updated informative

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digest. The final statement of reasons must contain: (A) an update of all the information contained in the initial statement of reasons; (B) a determination as to whether the adopted regulatory action imposes a mandate on local agencies or school districts and, if so, whether the mandated costs are reimbursable; (C) a summary of each public comment objecting to or recommending a change to the proposed regulatory action and an explanation of the changes to the proposed regulatory action made in response to such comments or the state agency’s reasons for not making any changes; and (D) a determination with supporting information that no alternative considered by the agency would be more effective or would be as effective and less burdensome to affected private persons than the adopted action. The updated informative digest must provide an update to the information set forth in the informative digest included in the original notice. Then, the state agency must submit the entire rulemaking file to the OAL.

The OAL is charged with the orderly review of adopted regulations in order to reduce the number of administrative regulations and improve the quality of those regulations that are adopted. In its review, the OAL determines if the regulations comply with all six of the substantive standards prescribed by law, which are: necessity, authority, clarity, consistency, reference, and nonduplication.

Existing law, the Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983, stipulates that state agency and department heads are responsible for establishing and maintaining systems of internal controls within their organization. Under the FISMA, organization management is responsible for documenting the system, communicating the system requirements to employees, assuring that the system is functioning as designed and modifying the system as changes in conditions warrant. Chapter 69, Statutes 2006 (effective July 12, 2006) amended FISMA to require that heads of state agencies conduct an internal review and prepare a report on the adequacy of the system(s) of internal control on a biennial basis.

PROPOSED LAW

This bill revises certain provisions of the APA and requires state agencies to prepare a standardized regulatory impact analysis, as specified, with respect to the adoption, amendment, or repeal of a major regulation, as defined, that is proposed on or after January 1, 2013. Specifically, this bill:

1) Defines “major regulation” to mean any proposed adoption, amendment, or repeal of a regulation that will have an economic impact on California business enterprises and individuals in an amount exceeding $50 million, as estimated by the state agency.

2) Requires state agencies proposing to adopt, amend, or repeal a major regulation on or after January 1, 2013, to prepare a standardized regulatory impact assessment as prescribed by the DOF, addressing all of the following:
   • The creation or elimination of jobs within the state.
   • The creation of new businesses or the elimination of existing businesses within the state.
   • The competitive advantages or disadvantages for businesses currently doing business within the state.
   • The increase or decrease of investment in the state.

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Senate Bill 617 (Calderon & Pavley) Page 5

- The incentives for innovation in products, materials, or processes.
- Monetization, to the extent practicable, of the benefits of the regulations, including, but not limited to, benefits to the health, safety, and welfare of California residents, worker safety, and the state’s environment and quality of life, among any other benefits identified by the agency.

3) Requires a state agency proposing to adopt, amend, or repeal a major regulation on or after January 1, 2013, to submit the standardized regulatory impact assessment to the DOF upon completion. The DOF shall comment, within 30 days of receiving such assessment, on the extent to which the assessment adheres to the regulations adopted by the DOF, as specified.

4) Requires, prior to January 1, 2013, the DOF, in consultation with the OAL and other state agencies, to adopt regulations for conducting the standardized regulatory impact assessment. The regulations, at a minimum, shall assist the agencies in specifying the methodologies for the following:
   - Assessing and determining the benefits and costs of the proposed regulation, expressed in monetary terms to the extent feasible and appropriate.
   - Comparing proposed regulatory alternatives with an established baseline so agencies can make analytical decisions for the adoption, amendment, or repeal of regulations necessary to determine that the proposed action is the most effective, or equally effective and less burdensome, alternative in carrying out the purpose for which the action is proposed, or the most cost-effective alternative to the economy and to affected private persons that would be equally effective in implementing the statutory policy or provision of law.
   - Determining the impact of a regulatory proposal on the state economy, businesses, and the public welfare.
   - Assessing the effects of a regulatory proposal on the General Fund and special funds of the state and affected local government agencies attributable to the proposed regulation.
   - Determining the cost of enforcement and compliance to the agency and to affected business enterprises and individuals.
   - Making the estimation if a regulation is to be deemed a major regulation.

5) Requires state agencies to provide the DOF and the OAL ready access to their records and full information and reasonable assistance in any matter requested for purposes of developing the regulations required by this bill.

6) Requires the OAL, on or before January 1, 2014, to submit to the Senate and Assembly Committees on Governmental Organization a report describing the extent to which submitted standardized regulatory impact analyses for proposed major regulations adhere to the regulations adopted by the DOF. The report shall include a discussion of agency adherence to the specified regulations as well as a comparison between various state agencies on the question of adherence. In addition to this report, the OAL may notify the Legislature of noncompliance by a state agency with the specified regulations.

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7) Defines “noncompliance” to mean that the agency failed to complete the economic impact assessment or standardized regulatory impact analysis, or failed to include the assessment or analysis in the file of the rulemaking proceeding, as specified.

8) Requires state agencies, when submitting an initial statement of reasons for proposing the adoption, amendment, or repeal of a regulation, to include the following additional information:

- The problem the agency intends to address.
- Enumerate the benefits or goals provided in the authorizing statute. The benefits may include, to the extent applicable, nonmonetary benefits such as the protection of public health and safety, worker safety, or the environment, the prevention of discrimination, the promotion of fairness or social equity, and the increase in openness and transparency in business and government, among other things.
- For a major regulation proposed on or after January 1, 2013, the standardized regulatory impact analysis.

9) Specifies that reasonable alternatives included in the initial statement of reasons shall include alternatives that are proposed as less burdensome and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the authorizing statute or other law being implemented or made specific by the proposed regulation.

10) Requires state agencies proposing to adopt, amend, or repeal a regulation that is not a major regulation or that is a major regulation proposed prior to January 1, 2013, to prepare an economic impact analysis, as specified, that includes the benefits of the regulation to the health and welfare of California residents, worker safety, and the state’s environment.

11) Specifies that analyses conducted pursuant to this bill are intended to provide agencies and the public with tools to determine whether the regulatory proposal is an efficient and effective means of implementing the policy decisions enacted in statute or by other provisions of law in the least burdensome manner.

12) Specifies that regulatory impact analyses shall inform the agencies and the public of the economic consequences of regulatory choices, not reassess statutory policy.

13) Provides that the baseline for the regulatory analysis shall be the most cost-effective set of regulatory measures that will effectively implement the statutory policy or other provisions of law.

14) Requires the notice of proposed adoption, amendment or repeal of a regulation submitted by the state agency to OAL to also include:

- A policy statement overview of the benefits anticipated by the proposed adoption, amendment, or repeal or a regulation, including, to the extend applicable, nonmonetary benefits such as the protection of public health and safety, worker safety or the environment, the prevention of discrimination, the promotion of fairness or social equity, and the increase in openness and transparency in business and government, among other things.

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• An evaluation of whether a proposed regulation is inconsistent or incompatible with existing state regulations.
• A statement of the results of the economic impact assessment or the standardized regulatory impact analysis.
• A statement that the state agency must determine that no reasonable alternative considered by the agency or that has otherwise been identified would be more cost-effective to affected private person and equally effective in implementing the statutory policy. For a major regulation proposed on or after January 1, 2013, the statement shall be based upon the standardized regulatory impact analysis of the proposed regulation, as specified.

15) Requires state agencies when submitting to the OAL a final statement of reasons, to also include the following:
• A determination with supporting information that no alternative considered by the agency would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provision of law. For a major regulation proposed on or after January 1, 2013, the determination shall be based upon the standardized regulatory impact analysis, and upon the statement of benefits, as specified.
• An explanation setting forth the reasons for rejecting any proposed alternatives that would lessen the adverse economic impact on small businesses including the standardized regulatory impact analysis for a major regulation, as well as the benefits of the proposed regulation.

16) Deletes certain provisions in GC Code Section 11346.3, which provide that “It is not the intent of this section to impose additional criteria on agencies, above that which exists in current law, in assessing adverse economic impact on California business enterprises, but only to assure that the assessment is made early in the process of initiation and development of a proposed adoption, amendment, or repeal of a regulation.” (This would change the purpose of Section 11346.3 and require state agencies to perform economic impact assessments as part of the requirements for the valid adoption of a regulatory action.)

17) Provides that state agency heads are responsible for the establishment and maintenance of effective, independent, and objective ongoing monitoring of the internal accounting and administrative controls within their agencies.

18) Requires state agency heads to implement systems and processes to ensure the independence and objectivity of the monitoring of internal accounting and administrative control as an ongoing activity, as specified.

19) Requires the DOF, in consultation with the State Auditor and the Controller, to establish, and modify as necessary, a framework of recommended practices to guide state agencies in conducting active ongoing monitoring of processes for internal accounting and administrative controls.

This bill would become operative on January 1, 2012, but certain provisions would be operative January 1, 2013.

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BACKGROUND

**Informal Rulemaking Process.** The BOE is always looking for ways to improve its current regulations and trying to identify areas that may need more or less regulation. Therefore, the BOE values the public's opinion of its regulations and the BOE's Website has a dedicated page that the public can use to submit informal suggestions for regulatory and other changes, in addition to accepting formal rulemaking petitions authorized under the APA. Furthermore, the BOE posts the name of the BOE’s Regulations Coordinator on its website, and invites the public to contact the BOE Regulations Coordinator with questions about any of the Board’s existing regulations, pending regulatory actions, or the rulemaking process. The Board also encourages its staff to suggest ways to improve the BOE’s current regulations and to identify areas that may need more or less regulation; and the BOE has established a Business Taxes Committee, a Property Tax Committee, a Customer Service and Administrative Efficiency Committee, and a Legislative Committee to formally identify and address the need for potential regulations or the need to repeal existing regulations and work with interested parties, when necessary.

Once BOE staff identifies a regulatory issue, staff prepares an issue paper for the BOE Members, which describes the regulatory issue and makes recommendations for addressing the issue through the adoption, amendment, or repeal of a regulation, or other alternative actions. Staff then submits the issue paper to the BOE Members for discussion during a public BOE meeting or committee meeting.

The BOE Members may respond to the issue paper by agreeing that regulatory action is necessary and authorizing BOE staff to either begin the formal rulemaking process or work with industry representatives, taxpayer groups, public officials, and other interested parties to draft regulatory language to be brought back to the BOE Members at a later date. The BOE Members may also direct staff to begin drafting specific regulatory language or assign work on a potential regulation to a specific BOE committee or the BOE’s Legal Department depending upon its nature. Or, the BOE Members may simply disagree with the issue paper’s conclusion that regulatory action is needed and direct staff to cease work. However, in most cases, the BOE Members assign a regulatory project to the BOE’s Business Taxes Committee or Property Tax Committee and the assigned committee conducts one or more interested parties meeting with the public. When the committee is satisfied that all the issues have been addressed and the draft regulation is ready for BOE Member consideration, the committee recommends that the BOE Members authorize staff to publish the notice of action for a public hearing on the proposed regulatory action. The publication of the notice of action begins the formal rulemaking process set forth in the APA.

**Formal Rulemaking Process.** Approximately 60 days before the public hearing date, BOE sends to the OAL a copy of the *Notice of Action for the proposed regulatory action*. The notice includes the date, time, and place of the hearing (and all of the other information listed above), and explains how to contact the BOE’s Regulations Coordinator to obtain the text of the proposed regulatory action.

At least 45 days before the public hearing, OAL publishes the notice in the *California Regulation Notice Register*, and invites the public to review and comment on the proposed regulatory action (comments may be made in writing before the BOE hearing date or in person at the hearing). At the same time, BOE sends the Notice of Action to

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interested taxpayers, public officials, industry groups, and other interested parties who have requested notice and invites them to review and comment on the proposed regulatory action. The Notice of Action is also posted on the BOE’s Website and made available by e-mail.

Comments received from interested parties are circulated to the BOE Members and BOE staff.

The BOE Members then hold the scheduled public hearing in accordance with both the APA and the Bagley-Keene Open Meeting Act. (The BOE always schedules and conducts a public hearing.) At the hearing, responsible BOE staff members respond to oral and written comments, and recommend whether or not the BOE Members should adopt the proposed regulatory action as originally proposed or whether the BOE Members should approve potential changes to the original proposed text of the regulatory action to address public comments.

If the BOE Members are satisfied with the text of the proposed regulatory action with or without nonsubstantial or solely grammatical changes, the BOE Members may formally vote to adopt the text with or without the changes, and direct staff to complete the rulemaking file and submit it to OAL for review and approval. If the BOE Members are not satisfied with the proposed text, they may direct staff to make further sufficiently related changes to the text, and make the changed text available for public comment for another 15 days. Subsequently, the BOE Members may adopt the text of the proposed regulatory action with the sufficiently related changes after considering any comments received during the additional 15-day comment period and direct staff to complete the rulemaking file and submit it to OAL for review and approval. And again, if the BOE Members are not satisfied with the proposed text, they may also direct staff to terminate the rulemaking project and/or start a new and different project.

Generally, the BOE submits its rulemaking files to the OAL within three weeks of BOE adoption; however, the OAL has 30 business days to review the rulemaking file.

COMMENTS

1. **Sponsor and Purpose.** The authors are sponsoring this bill in an effort to provide a more thorough review of future regulations. According to Senator Calderon, this bill “will require agencies to review regulations with an estimated cost of more than $50 million and mandates that the least burdensome, most cost-efficient method of implementation be adopted to lessen the burden on affected businesses.”

2. **The BOE is currently very pro-active in seeking the input from interested parties.** The BOE does not believe that it has any regulations that are burdensome to businesses in California. The BOE already works closely with all interested parties who wish to participate in its rulemaking activities, to ensure that it does not inadvertently adopt burdensome regulations.

   The BOE actively seeks public input regarding its rulemaking activities and invites the public, not just taxpayers, to recommend proposed changes to BOE regulations in real-time via the BOE’s website. The BOE also accepts formal rulemaking petitions and works with interested parties (industry representatives, taxpayer groups, public officials, and so forth) during the BOE’s informal and formal rulemaking processes to draft effective regulations that address specific regulatory needs and are not broader than necessary.

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3. **This bill will make it more difficult to adopt, amend, or repeal a regulation.** This bill will add to the APAs rulemaking requirements, and thereby delay necessary rulemaking, create additional grounds for challenging the validity of state regulations, and potentially force state agencies to incur additional costs. The bill will convert the economic impact provisions in GC Section 11346.3 into mandatory requirements and add the requirement that state agencies prepare economic impact analysis to those provisions, and thereby impose additional work and related costs on state agencies and render regulations invalid whenever state agencies do not comply with section 11346.3 in adopting, amending, or repealing a regulation.

4. **How many “major regulations” has BOE adopted, amended, or repealed to the OAL?** The BOE maintains on its website rulemaking files for regulations it adopts, amends, or repeals for the years 2009, 2010, and 2011. The BOE’s Disclosure Office maintains Rulemaking files for periods prior to 2009. In the time provided to prepare an analysis on this bill, staff reviewed the rulemaking files for the years 2009, 2010, and 2011, and did not find a “major regulation” adopted, amended, or repealed by the BOE.

5. **Related legislation.** Similar bills have been introduced this session that would make changes to the Administrative Procedures Act. As of the date of this analysis, none of these measures have passed their house of origin.

   - **SB 366 (Calderon and Pavley)** would require each state agency to identify any regulations that are duplicative, overlapping, inconsistent, or out of date, and adopt, amend, or repeal regulations to reconcile or eliminate any duplication, overlap, inconsistency, or out of date provisions. The bill requires state agencies to complete the specified actions within 180 days of the effective date of the bill.

   - **SB 396 (Huff)** would require each state agency to review each regulation adopted prior to January 1, 2011, and report to the Legislature on the regulations. The bill would also require, beginning January 2018, and at least every five years thereafter, require each agency to review each regulation that has been in effect for at least 20 years and submit a report to the Legislature on its findings associated with the review.

   - **SB 400 (Dutton)** would require that an economic impact assessment on a proposed regulation include additional criteria, and that agencies submit economic assessments for certain regulations to OAL for it to determine whether the assessment is based upon sound economic knowledge, methods, and practices. The bill would also require the OAL to reject a regulation that is not based on sound economic knowledge, methods, and practices.

   - **SB 401 (Fuller)** would specify that every regulation proposed by an agency after January 1, 2012, include a provision repealing the regulation in five years. This bill would prohibit the OAL from approving a proposed regulation unless it contains repeal provisions.

   - **SB 591 (Gaines)** would require, beginning July 1, 2012, each state agency to determine how many regulations it imposes and, beginning December 31, 2013, reduce the total number of regulations it has identified by 33 percent. The bill would also require, until December 31, 2021, that any new regulation proposed by an agency also eliminate another regulation.

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• SB 688 (Wright) would require an economic impact statement for a proposed regulation to include a detailed estimate of the total actual costs of compliance for affected businesses and individuals. This bill would also require the adopting agency to notify specified committees of the Legislature if the estimated total costs of compliance exceed $10 million, and that the regulation effective date is postponed in that event.

• AB 530 (Smyth) would require state agencies submitting regulation packages to identify all documents, including technical, theoretical, and empirical studies upon which the agency relied for rejecting each reasonable alternative to the proposed regulation. The bill would prohibit an agency from rejecting a reasonable alternative unless the statement of reasons includes at least one of these documents. The bill would also repeal a provision that authorizes the agency to avoid having to artificially construct alternatives, describe unreasonable alternatives, or justify why it did not describe alternatives.

COST ESTIMATE
The BOE would incur additional costs in staff time to address all the additional requirements for preparing an economic impact analysis prior to submitting a proposal, including justifying why it has not described a specific alternative. However, these costs are estimated to be absorbable.

REVENUE ESTIMATE
This bill would have no direct impact on the taxes administered by the BOE.