



# LITTLE HOOVER COMMISSION

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## Commission Calls for Improved Regulatory Process and Stronger Oversight

The Little Hoover Commission on Tuesday urged the Governor and the Legislature to make the state's process for developing regulations more rigorous and consistent across agencies and to strengthen oversight to ensure that agencies have assessed the economic impact of proposed regulations.

The Commission, responding to a request from legislative members, looked at the use of economic analysis in the rulemaking process and gaps in the Administrative Procedure Act's requirement to assess economic impacts.

The Commission found that California lacked statewide standards for economic analysis, and that the practices of agencies varied widely, which has helped fuel a perception that the state's regulatory practices are inconsistent and unfair. The Commission's recommendations, which are consistent with the direction set by SB 617 (Calderon and Pavley), now signed into law, are aimed at increasing transparency, efficiency and accountability with the goals of finding the least burdensome alternative to solving a regulatory problem and bolstering confidence in the regulatory process.

"For a state like California, with its dynamic economy, huge population and environmental resources, an effective regulatory process that all parties have confidence in is essential," Commission Chairman Daniel Hancock said. "We are not looking for fewer regulations or more regulations. We are looking for better regulations."

While economic analysis should not be the determining factor for approving a regulation, the process of developing the analysis can be improved by engaging stakeholders earlier and providing more information for decision-makers.

Through its open study process, the Commission heard from economists, regulators, business owners and government officials that have implemented regulatory review policies. The Commission learned not only what other states require, but how the federal government has used a regulatory review process located in the Office of Management and Budget through five different administrations under presidents of both parties. In an advisory committee meeting, the Commission heard concerns from environmental and labor representatives about the use of cost-benefit analysis and difficulties in assessing cost data.

In its report, *Better Regulation: Improving California's Rulemaking Process*, the Commission recommends that California develop a set of standardized guidelines for economic analysis appropriate for different scopes of regulations. For significant regulations, those that impose an annual cost of greater than \$25 million, the Commission recommends that the state require agencies do a rigorous and high-quality economic analysis that at a minimum, requires agencies to assess the cost-effectiveness of different alternatives before regulations are released for public comment. The Commission recommends that agencies be required to engage with regulated stakeholders and others affected by a regulation before the public comment period to develop alternatives and the economic analysis.

The Commission also recommends a small Office of Economic and Regulatory Analysis be established in the Department of Finance to take on the tasks of creating the guidelines with the assistance of an expert advisory board. This office also would work with agencies that are preparing significant regulations as they develop their economic analyses.

The Commission asks the Governor and Legislature to create a look-back process, organized through the Office of Economic and Regulatory Analysis, to assess the performance of current regulations to determine if they should be updated or eliminated.

The Little Hoover Commission is a bipartisan and independent state agency charged with recommending ways to increase the efficiency and effectiveness of state programs. The Commission's recommendations are sent to the Governor and the Legislature. To obtain a copy of the report, *Better Regulation: Improving California's Rulemaking Process*, visit the Commission's Web site: [www.lhc.ca.gov](http://www.lhc.ca.gov).