



May 15, 2012

Dr. William A. Burke, Chairman
 Members of the SCAQMD Governing Board
 South Coast Air Quality Management District
 21865 Copley Dr.
 Diamond Bar, CA 91765

Dear Chairman Burke and Governing Board Members:

As AQMD staff continues development of the 2012 Air Quality Management Plan, our coalition made up of the leaders of some of California's largest regional business entities and associations, wants to convey to you our recognition of the challenges and difficulties inherent in this process, and express our continued support for a well-balanced strategy that addresses federal requirements as well as economically feasible compliance approaches.

Through the AQMP Advisory Group, many of us have seen SCAQMD staff presentations on issues related to emissions inventories and modeling, but little discussion or information has been presented to date related to specific control measures or socioeconomic impacts under consideration for this AQMP. Since this last issue is one that the Board has weighed in on numerous times on other rules and policies, we feel compelled to offer our assistance to help direct the drafting of the AQMP so that it complies with the Board's stated preferences regarding independent economic analyses of proposed policies, regulations and rules.

Through direction from the SCAQMD Governing Board, state legislation and recommendations of the Little Hoover Commission, common practice now calls for the development of an economic impact analysis prior to implementation of new regulations and the review of the economic impacts of certain current regulations.

While we would not presume to dictate one solution that would work for every political opinion, we do have recommendations based on our combined business sense and practical experience. In particular, there are two key areas in which we have broad agreement.

First, given the persistent economic recession in which we all find ourselves, we urge the SCAQMD Governing Board to exercise reasonable moderation when fashioning the AQMP. Specifically, now – more than ever – is the time to rely only on economical and proven technologies and strategies in this current AQMP and allow subsequent plans to focus on future, as-yet-developed technologies to provide substantial air quality improvements once our economy recovers.

Second, we support the principles of the Little Hoover Commission that call for using a standard set of economic analytic tools, “calibrated to the scope of the proposed regulation – to determine which alternative both meets the stated goal of the regulation and produces the desired social benefits, while avoiding unnecessary costs to regulated parties and society.”¹

As part of the socioeconomic impacts, we strongly urge SCAQMD to contract with a truly independent party to analyze certain factors related to the proposed AQMP. Please consider drawing upon the considerable expertise from within the entities represented in this letter to help develop the statement of work for that independent party. Following are the factors that should be analyzed:

1. **Cost Effectiveness Analysis (CEA)**

This process offers a framework for identifying the most cost-effective and financially efficient policy choice. CEA examines various policy options for obtaining a desired result, and creates a ratio of cost to an effectiveness measure (e.g., tons of emissions eliminated). The CEA should also be done for each control measure, as well as the overall AQMP.

We recognize that the District always estimates cost-effectiveness for new or amended rules, and attempts - whenever possible - to do so for proposed AQMP control measures. Our concerns, however, are with the facts that ever increasing, higher values for cost-effectiveness are routinely deemed acceptable, and that the actual values for cost-effectiveness continue to be calculated in a manner that underestimates the true costs.

We note that, in extreme contrast to the \$10,000 per ton cost-effectiveness upper bound set by President Clinton in 1994, or to historical benchmarks established by the District at \$13,000 per ton, values as high as \$65,000 per ton of emissions reduced have been referenced by SCAQMD senior staff as “acceptable” when discussing recent rules.

There has been no discussion in the AQMP stakeholder meetings to suggest that these spiraling values will be contained. Thus, there is the perception within the business community, which we represent, that the District lacks sufficient concern about the very real, and very significant, cost impacts of its regulatory programs.

Compounding the problem of ever-increasing levels of cost-effectiveness that are considered acceptable by the Board is that fact that the District's method of calculating cost-effectiveness produces “low-ball” values that do not reflect the true cost-effectiveness. Specifically, the

¹ Cover letter to the Governor and Legislature, Little Hoover Commission, “Better Regulation: Improving California’s Rulemaking Process”, 10-25-11

District uses a Discounted Cash Flow (DCF) method, whereas virtually all other regulatory agencies (e.g., US EPA, all of the Cal/EPA agencies, the BAAQMD, etc.) use the Levelized Cash Flow (LCF) method. Although the District is required, per the Health and Safety Code, to estimate the true cost-effectiveness of its proposed rules for both decision makers and stakeholders, the DCF method underestimates the values for cost-effectiveness. This has the effect of making proposed rules seem more "attractive" than they really are. Further, the District's use of the DCF methodology means that the cost-effectiveness of its rules cannot be compared to those of other agencies' rules, and vice versa.

The District has, in the past, been made aware of the inadequacies of the DCF method. Although the problem - and the concerns of the regulated community - had apparently been given some consideration, as a practical matter the problem continues. In addition to establishing a clear and definitive policy regarding an upper bound on cost-effectiveness, the actual values for cost-effectiveness need to be calculated in a manner (i.e., LCF) that accurately reflects the true costs.

2. **Cost Benefit PLUS Opportunity Costs Analysis**

This tool attempts to examine the costs and benefits of policies and identifies the alternative that yields the largest net benefits for society.

3. **Comprehensive Analysis of Higher Cost Regulation**

The economic impact of the AQMP and its associated control measures is also relevant to the residents of this region in terms of their overall quality of life and jobs. The region's continued economic recovery must be a key component of policy makers' decision-making in the AQMP, as should the affordability of proposed regulations.

The AQMP should not be so focused on any one result without taking into consideration the broader context, or unintended consequences, of the solution it seeks. Undervaluing the fragile nature of our economy will place the region at a competitive disadvantage and potentially impact the affordable production and delivery of goods and services.

Finally, in order to produce a document that can be supported by both the regulated and non-regulated communities, the process must be fair, transparent and accountable. With that in mind, SCAQMD staff should also provide clarity and transparency with regard to benchmarking for future considerations.

We can't stress enough the need for credible independent evaluation of the data. In fact, this is the same direction given by the Board in relation to Rule 1110.2, Rule 1147, and the Energy Policy adopted by the Board last year.

We are not requesting *less* regulation when it comes to the AQMP, but rather *better* regulation. On a larger scale, even the state's economy will benefit from better, more effective regulation and reduced uncertainty.

The regulated community appreciates the public process thus far, and believes that as the development of the AQMP moves forward, increased collaboration is needed between the SCAQMD and relevant stakeholders to create a better consensus on how to reduce the region's emissions as required under existing law, while simultaneously improving the region's economy. To this end, and in keeping with your February 3, 2012 comments on the importance of outreach

to stakeholders, we respectfully request a meeting with you, and the Executive Officer, to discuss how our recommendations might be incorporated into the current development and outreach schedule for the 2012 AQMP.

To follow up on this request, Tracy Rafter, CEO of BizFed (tracy.rafter@bizfed.org) or Kate Klimow, Vice President of Government Affairs for Orange County Business Council (kklimow@ocbc.org) will contact your office to schedule a meeting.

Sincerely,

Southern California Business Coalition - AQMP Stakeholders Working Group

Comprised of members of the following associations:



Tracy Rafter
BizFed, Los Angeles County Business Federation



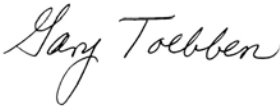
Kate Klimow
Orange County Business Council

Bill La Marr

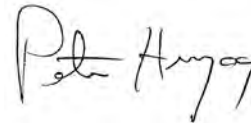
Bill LaMarr
California Small Business Alliance



Clayton Miller
Construction Industry Air Quality Coalition



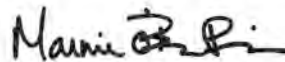
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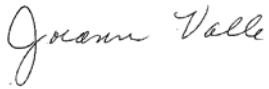
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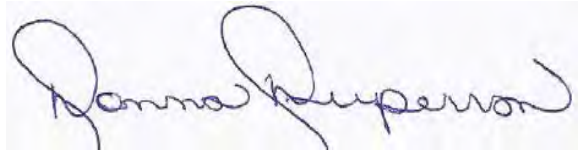
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CC: Dr. Barry Wallerstein, Executive Officer