SENATE COMMITTEE ON ENVIRONMENTAL QUALITY
Senator Blakespear, Chair
2025 - 2026 Regular

Bill No:	SB 981		
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Version:	3/9/2026	**Hearing Date:**	4/22/2026
Urgency:	No	**Fiscal:**	Yes
Consultant:	Alyssa Poletti		

SUBJECT: Administrative regulations: standardized regulatory impact analysis: State Air Resources Board

DIGEST: The bill would require additional analysis on the cost-of-living impact of major regulations from the California State Air Resources Board (CARB).

ANALYSIS:

Existing law:

1) Establishes the California Air Resources Board (CARB) as the air pollution control agency in California and requires CARB, among other things, to control emissions from a wide array of mobile sources and coordinate, encourage, and review the efforts of all levels of government as they affect air quality. (Health and Safety Code (HSC) § 39500 et seq.)

2) Establishes requirements for state agency rulemaking procedures and standards through the Administrative Procedures Act of 1945 (Government Code (GOV) § 11340 et seq.).

3) Requires agencies to assess the economic impact of proposed regulations, including:
   a) The creation or elimination of jobs within the state;
   b) The creation or elimination of businesses within the state;
   c) The expansion of existing businesses within the state; and
   d) The benefits to the health and welfare of California residents, worker safety, and the environment (GOV § 11346.3(b)).

4) Defines major regulation as a regulation that will have an economic impact greater than $50 million to California individuals or businesses (GOV § 11342.548).

5) Requires agencies to prepare a Standardized Regulatory Impact Analysis (SRIA) for proposed major regulation which

a) Must be submitted to the Department of Finance (DOF) for comments, and
b) Must include the following analysis in addition to GOV § 11346.3(b):
   i) The competitive advantages or disadvantages for businesses within the state;
   ii) The increase or decrease of investment in the state;
   iii) The incentives for innovation in products, materials, or processes; and
   iv) The benefits to quality of life of California residents, among any other benefits identified by the agency (GOV § 11346.3(c)).

6) Requires CARB, through AB 32 (Nunez, Chapter 488, Statutes of 2006), to adopt greenhouse gas emission limits and emission reduction measures that achieve the following:
   a) Minimize costs and maximize benefits to Californians;
   b) Not disproportionately impact low-income communities; and
   c) Consider the societal benefits of reduced air pollution, diversification of energy sources, and other benefits (HSC § 38562(a)).

This bill requires CARB to, in addition to the existing requirements for the SRIA, address the following:
a) Retail gasoline and transportation costs,
b) Consumer electric bills,
c) Consumer goods and food costs,
d) Housing and building construction costs, and
e) Costs to businesses.

Background

1) *Administrative Procedures Act*. Enacted in 1946 under the pressure of increasing government administration responsibilities, the APA provided a framework for California's present system of regulatory rulemaking. SB 981 amends Chapter 3.5: *Administrative Regulations and Rulemaking*, Article 5: *Public Participation: Procedure for Adoption of Regulations* (GOV § 11340 et seq.). The procedures detailed in this code section, including the length of public comment and public hearing periods and required agency assessments, apply to every state agency. GOV § 11340 et seq. rarely references individual agencies.

   The following are two examples of when the APA references specific agencies. AB 1706 (Eng, Chapter 771, Statutes of 2012) stipulates that CARB, the California Environmental Protection Agency (CalEPA), the California Energy Resources Conservation and Development Commission (CEC), and the

Department of Motor Vehicles must consider how vehicle weight regulations impact vehicle manufacturers (GOV § 11343.3). AB 410 (Swanson, Chapter 495, Statutes of 2011) places additional requirements on rulemaking pertaining to disability access for agencies which engage with disability regulation, such as the Department of Housing, the Department of Healthcare Services, and the California Building Standards Commission (GOV § 11346.6). In short, the APA typically applies to all state agencies, and narrower requirements (such as those pertaining to disability access and vehicle weights) name multiple agencies which engage in rulemaking within that issue area.

2) *Climate calculus: CARB's SRIA history.* CARB is subject to the same SRIA requirements as any other agency. Calculating the cost impacts of climate policy on businesses and individuals is no easy task. Not only does climate policy have a direct impact on costs through compliance costs, but there are indirect costs and benefits from the climate crisis itself. How much does one degree of warming competitively disadvantage California businesses compared to those in colder regions? How much does one degree of avoided warming decrease health costs? Despite this challenge, CARB conducts a robust socioeconomic impact analysis that includes considering how, "the effects of the regulation are distributed, for example, by industry, income, race, sex, or geography" (Title 1 of California Code of Regulations (CCR) § 2003)

   As a specific example, CARB's SRIA for 2024 amendments on Cap and Trade included all of the required analysis in GOV § 11346.3(c). Additionally, this SRIA included additional analysis on the benefits and direct costs to typical businesses, small businesses, and individuals. The estimate of direct costs to individuals assumes that businesses regulated under Cap-and-Invest (known then as Cap-and-Trade) would fully pass compliance costs onto consumers through the pricing of consumer goods. CARB estimated this cost as $90 per capita annually. Taking into account the $80 of benefits from the Greenhouse Gas Reduction Fund (GGRF), utilities revenue, and health savings, Cap-and-Invest was estimated to cost the average individual $10 per year. The 2024 SRIA also considered personal income and found negligible impact on individual income from Cap-and-Invest.

3) *What is cost-benefit analysis?* Thoughtful policymaking is ultimately a balancing of trade-offs: who will be better off, who will be worse off, and when considered in totality, do those effects merit the proposed action? "Cost-benefit analysis" is a more formalized method for assessing the economic efficiency of proposed public policies through the systematic prediction of social costs and social benefits. In theory, comprehensively valuing effects and aggregating across all members of society yields the net social benefits of the

policy. In practice, this is often easier said than done.

Despite the best efforts of economists and policymakers, these costs and benefits are typically not objective truths. In an April 2022 interview with David Roberts of the climate podcast Volts, Elizabeth Popp Berman, a professor of Organizational Studies and Sociology at the University of Michigan and the author of *Thinking Like an Economist: How Efficiency Replaced Equality in U.S. Public Policy*, summarized the issue thusly:

> "Cost-benefit analysis sounds straightforward: you're tallying up the costs and tallying up the benefits and comparing the difference between the two. But the devil is in the details, and there's no simple way to account for costs or benefits. Any decisions that you make are going to involve many assumptions about who's being affected and what the costs of those effects are.
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> It creates a bigger opportunity for people who have a stake in the game to try to ensure that their preferred methods of calculating costs and benefits are going to be the ones that are taken into account. Historically, it's often been industry interests that have had a lot of money and a lot invested in making sure that costs are very apparent and are being counted as expansively as possible.
>
> That can be one way that a cost-benefit analysis that's intended to be neutral can in effect tilt the playing field toward the people who have the most resources to devote to ensuring that the costs are counted and the benefits are not."

Comments

1) *Purpose of Bill.* According to the author, "Current law requires that a state agency produce a Standardized Regulatory Impact Analysis (SRIA) which provides estimated macroeconomic effects of a major proposed regulation on affected industries. While they are useful for estimating aggregate impacts to the economy, testimony provided to the Legislature last year and subsequent statements made to the press reveal that they are lacking in analyzing the impacts to the end user- our constituents. To the extent that this legislature wants to focus on affordability, it becomes essential that the California Air Resources Board analyzes its major regulations impacts on the cost of living in the state to individuals and businesses."

2) *A tale of two crises: climate and affordability.* Both the climate crisis and the affordability crisis have real and detrimental impacts on Californians. Therin lies a difficult question: how does one weigh the cost of the climate crisis with the impact on everyday costs to California residents?

It is important to note that costs due to the transition to clean energy and decarbonization are not the only, nor the largest, contributor to the affordability crisis. There are several contributors to the affordability crisis including: lagging wages in the face of high inflation,[1] a lack of affordable housing,[2,3] and a disrupted supply chain.[4]

If the energy transition is not the primary contributor to the affordability crisis, can it still exacerbate it? Yes. There is no doubt a cost to climate mitigation. Public dollars are spent to incentivize green energy projects. Both CARB and independent researchers have estimated that the Low Carbon Fuel Standard (LCFS) costs consumers approximately 8 to 20 cents per gallon[5,6]. Yet, gasoline prices fluctuated by a far larger margin (see below). On the impact of Cap-and-Invest on gasoline prices, the CARB 2024 SRIA states that:

> "Importantly, retail fossil fuel prices are strongly influenced by many factors beyond any allowance price (e.g., global events, holiday weekends, seasonal fluctuations, refinery disruptions and decisions about production that affect supply, refinery pricing decisions, seasonal fuel blends, taxes) and fossil fuel producer pricing strategies are complex and reflect local and regional market conditions. Few of these factors are determined by government entities, including the State of California. Between 2017 and 2022, *the retail price of gasoline fell as low as $3.08 and rose as high as $5.41, and similarly for diesel, the retail price ranged between $3.07 and $6.02.* Retail gas prices in California aren't fully explained by the current regulatory environment and are being evaluated further per direction from Governor Newsom." (emphasis added)

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[1] Goldman, D. (2025) *The No. 1 cause of America's affordability problem just got worse*, CNN. https://www.cnn.com/2025/12/16/economy/affordability-wage-growth-inflation

[2] California Budget and Policy Center (2019) *California's Housing Affordability Crisis*. https://calbudgetcenter.org/resources/californias-housing-affordability-crisis/

[3] Christopher, B. & Tobias, M. (2024) *Californians: Here's why your housing costs are so high*, CalMatters. https://calmatters.org/explainers/california-housing-costs-explainer/

[4] Obando, S. (2025) *5 years after COVID hit, contractors still wait for prices to come down*, Construction Dive. https://www.constructiondive.com/news/covid-impact-construction-prices-materials/742087/

[5] CARB (2024) *Myth vs. Fact: Low Carbon Fuel Standard (LCFS).* https://ww2.arb.ca.gov/our-work/programs/low-carbon-fuel-standard/lcfs-faq-and-factsheets

[6] Cullenward, D. (2025) *Tracking Gasoline Price Impacts in California: Part 1,* Kleinman Center for Energy Policy. https://kleinmanenergy.upenn.edu/commentary/blog/tracking-gasoline-price-impacts-in-california-part-1/

Additionally, the costs of the energy transition are not felt evenly. As part of the comprehensive Scoping Plan Update process, last completed in December of 2022, CARB considered the income impacts by California household income group in 2035 and 2045 under the modeled scenario.[7] The Scoping Plan Update found:

> "While in 2035... total income for households that make less than $100,000 per year is estimated to decline by $4.1 billion dollars, and the total income for households that make more than $100,000 per year will increase by $3.5 billion under the Scoping Plan Scenario. ... Because more than 60% of households in the race/ethnicity categories of Hispanic, Black alone, Native Hawaiian (HI) or Pacific Islander, American Indian or Alaskan Native, Other, and Two or More make less than $100,000 per year, these populations generally are likely to experience reduced income."

Simply put, under the proposed scenario to achieve the state's climate goals, the rich get richer, and the poor get poorer. While some CARB regulations impact affordability, these impacts have thus far been disclosed in SRIAs. *Going forward, the author may wish to consider including equity considerations in SB 981.*

3) *A cost-no-benefit analysis*. As stated above, a policy analysis which considered only costs or only benefits is an incomplete analysis. This is as true for environmental regulation as in any other issue area. While there is a cost to climate mitigation, there too is a benefit.

   Avoided health costs are a frequently touted benefit of climate mitigation, yet these are also some of the least visible and take the most time to realize. Everyday consumers will see the price at the pump but be blind to their decreased cancer risk in twenty years. However, it is a misconception that there are not real and visible health benefits, some of which are realized quickly. For example, asthma symptoms can decrease within a month of a pollution decrease[8], pollution which is co-emitted from greenhouse gas sources such as cars, gas stoves, and industrial facilities[9]. Other monetary benefits include decreased transportation costs from zero-emission vehicles and increased fuel

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[7] CARB (2022) *Final 2022 Scoping Plan Update and Appendices.* https://ww2.arb.ca.gov/our-work/programs/ab-32-climate-change-scoping-plan/2022-scoping-plan-documents

[8] Kelly, F. J., Mudway, I. S., and Fussell J. C. (2021) *Air Pollution and Asthma: Critical Targets for Effective Action.* Pulmonary Therapy. doi: 10.1007/s41030-020-00138-1

[9] Paulin, L. M., Samet, J. M., and Rice, M. B. (2023) *Gas Stoves and Respiratory Health: Decades of Data, but Not Enough Progress*. Annals of the American Thoracic Society. doi: 10.1513/AnnalsATS.202306-533VP.

efficiency. Consumers see this cost decrease immediately upon purchasing a new vehicle.

Some of these benefits (identified above) are quantified in CARB SRIAs, but some are not. *This is by design*. A SRIA is not meant to be a full, exhaustive cost-benefit analysis. Existing law states the following as the intent of economic analyses for major and non-major regulation:

> "Analyses conducted pursuant to this section 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. Regulatory impact analyses shall inform the agencies and the public of the economic consequences of regulatory choices, not reassess statutory policy. The baseline for the regulatory analysis shall be the most cost-effective set of regulatory measures that are equally effective in achieving the purpose 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." (GOV § 11346.3(e))

A SRIA is meant to provide enough information on the impact on California's public health and economy to make decisions on adopting, repealing, and amending draft regulations in a cost-effective and nonburdensome manner.

Despite the broader role a SRIA is intended to play, SB 981 seeks a more granular and individual cost analysis. In the same vein, an argument can be made to include a more granular benefit analysis as well. To what end should SRIAs be expanded? Unless that information significantly changes which and in what way CARB regulations are adopted, then there is no justification for expanding the SRIA requirements.

4) *Not a crystal ball.* There are limits to economic modelling. CARB frequently limits the economic analysis in SRIAs to average impacts across Californians by assuming compliance costs are entirely passed onto the consumer. To assess how a regulation such as Cap and Invest would impact something as specific and indirect as food prices would require assumptions of how much costs are passed onto the consumer at each stage of the supply chain – from the diesel fueling the tractor, the gasoline transporting the food, and the carbon intensity of the electricity powering the grocery store. Such an analysis is difficult at best, impossible at worst. *Going forward, the author may wish to consider narrowing the list of cost-of-living impacts to those directly impacted by CARB regulations.*

5) *Government Accountability versus Efficiency.* The APA aims to set clear standards and procedures for governmental rulemaking. This allows the public to engage with the rulemaking process because they are given sufficient time (public comment periods) and information (an explanation and rationale for regulatory actions through an Initial Statement of Reasons, SRIA, and other published draft regulations). This transparency begets accountability. However, a public rulemaking process takes time. From drafting assessments, having a public comment period, responding to said comments, etc., the rulemaking process typically takes 3 years but sometimes spans a decade. Requiring additional assessments puts an additional monetary burden on and slows already overburdened agencies. Thus, any additional requirement on rulemaking must be important enough to justify delaying rulemaking on necessary statues.

   The cost-of-living crisis is front of mind for policymakers in California and nationally, and it deserves ample transparency and assessment of economic impacts. As an example, recent amendments to the CARB regulations on the reauthorization of Cap and Invest demonstrate the myriad ways CARB regulations can affect Californians' bottom lines and underscore the importance of government accountability. The amendments would effectively shift monies from the Greenhouse Gas Reduction Fund (GGRF) to a new Manufacturing Decarbonization Incentive. CARB's stated intent in providing an incentive to manufacturers is to prevent costs being passed through to consumers, benefiting affordability. However, some of the programs that would have been funded by GGRF may too have benefited affordability. Such trade-offs are difficult to quantify without more information. Though not perfect, SB 981 may increase transparency and accountability in major regulations from CARB.

Related/Prior Legislation

SB 1123 (Weiner, 2026) would require a SRIA to include "offsetting benefits, impacts, or savings that might result directly or indirectly" from the proposed, major regulation. This bill passed the Governmental Organization Committee and was referred to appropriations.

SB 885 (Strickland, 2026) would require the legislature to enact statute authorizing a state agency to adopt a major regulation. This bill failed passage in the Governmental Organization Committee.

SB 1161 (Valladares, 2026) would require CARB to prepare an economic assessment on the impact of proposed regulation on low- and middle-income households and disadvantaged communities. Additionally, this bill would require any regulation with an economic impact above inflation to be heard in a joint informational hearing before adoption. This bill passed this committee and was referred to appropriations.

SB 1239 (Jones, 2026) would require CARB to release a supplemental SRIA if the proposed regulation undergoes material changes after the initial SRIA but before adoption. This bill failed passage in this committee.

SB 415 (Durazo, 2023) would require local air districts to perform an assessment of the socioeconomic impacts of the proposed regulations on households whose annual income is less than $100,000. This bill died in committee.

SB 474 (Niello, 2025) would revoke CARB's rulemaking authority. This bill died in committee.

AB 1232 (Avila Farias, 2025) would require an analysis of cost-of-living impacts in the economic analyses done for non-major and major proposed regulation. This bill was held on suspense.

SOURCE: Author

SUPPORT:

California Manufacturers and Technology Association
California Taxpayers Association
National Federation of Independent Business (NFIB)
Supply Chain Federation
5 Individuals

OPPOSITION:

Coalition for Clean Air

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