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## **Economic Assessment: Preliminary Estimates**

As part of the rulemaking process, the Agency must complete a regulatory economic analysis, called a Standardized Regulatory Impact Assessment (SRIA), when it is anticipated the regulations will have an economic impact—which is calculated as the sum total of the anticipated costs and benefits—exceeding \$50 million in the first year. Pursuant to the Administrative Procedures Act (APA), the Department of Finance (DOF) is required to review the SRIA and to provide feedback, which results in an iterative process between the Agency and DOF to arrive at final estimates before formal rulemaking.

The Agency has engaged a team of economists to complete the economic analysis and develop the potential benefits of the regulations as currently proposed, preliminary anticipated costs to businesses, and comparison costs for alternative requirements. The economists are still finalizing their initial analysis, and once completed the Agency will engage DOF for feedback. Therefore, the information provided below is preliminary and subject to change.

*This document is intended to serve as a summary of the preliminary costs, benefits, and alternatives estimated for the proposed regulations, as currently drafted, for the Board's consideration as the Agency progresses towards formal rulemaking.*

### **Businesses and Consumers Impacted:**

The economists' preliminary estimates find that 52,326 California businesses and 39,128,162 consumers will be impacted by the proposed regulations. The number of businesses was calculated by estimating firms with a physical presence in California meeting the necessary processing and revenue thresholds, and which operate in relevant industries. The number of consumers impacted is the estimated 2023 total population of California.<sup>1</sup>

### **Benefits:**

A significant component of the SRIA is identifying and measuring the benefits of the proposed regulations. Potential benefits can be qualitative and, when calculable, quantitative. Importantly, there are limitations in assessing benefits for privacy regulations, due to factors such as the abstract nature of privacy benefits, data limitations, and variations in businesses' current consumer privacy protection status and their responses to regulations. In addition, benefits can be long-term and take time to accrue to businesses, consumers, and society.

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<sup>1</sup> See California Department of Finance, *State's Population Increases While Housing Grows Per New State Demographic Report* (Apr. 30, 2024), [https://dof.ca.gov/wp-content/uploads/sites/352/Forecasting/Demographics/Documents/E-1\\_2024\\_Press\\_Release.pdf](https://dof.ca.gov/wp-content/uploads/sites/352/Forecasting/Demographics/Documents/E-1_2024_Press_Release.pdf).

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For the proposed regulations, the Agency is assessing various qualitative and quantitative benefits. Qualitative benefits being assessed include reduced incidence and severity of data breaches; reduced harm to consumers that results from data breaches, including lost opportunities and psychological harm; more control for consumers over their personal information; increased transparency and trust in businesses' data processing; and reduced discrimination that can result from the use of automated decisionmaking technology. Quantitative benefits being assessed include avoided monetary losses. For example, in the context of cybercrimes, a conservative estimate of avoided monetary losses would equate to a benefit of approximately \$2 billion in the first year of implementation, assuming a 10% reduction in a subset of cybercrimes as a result of the proposed cybersecurity audit and risk assessment regulations.

To contextualize how the benefits of privacy regulations have been analyzed in other states, a helpful reference is the Colorado Attorney General's cost-benefit analysis of the Colorado Privacy Act Rules.<sup>2</sup> Similar to the assessment limitations noted above, that cost-benefit analysis noted that the costs of new restrictions tend to be easy-to-quantify and manifest in the short term, while the countervailing benefits to consumers are more difficult to quantify and accrue over longer periods of time. The potential benefits to consumers identified as a result of those rules include helping individuals understand and control information held about them; mitigation of economic and psychological costs of future data breaches; increased self-development, which enables individuals to navigate society and culture and supports innovation; and protection from intentional and inadvertent discrimination. The analysis also identified various market benefits (e.g., job creation, innovation, and promotion of competition) and benefits to covered entities subject to those rules (e.g., increased consumer trust and loyalty).

### **Preliminary Estimates of Year 1 Direct Costs**

The SRIA also requires an estimation of the direct costs reasonably associated with the proposed regulations—which are distinct from any associated statutory costs—and the key factors that affect those costs.

The table below shows the estimated number of impacted California businesses and the estimated costs to those businesses in Year 1 following implementation of the proposed regulations.

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<sup>2</sup> See Office of the Attorney General, *Cost-Benefit Analysis for Colorado Privacy Act Rules* (Jan. 20, 2023), available at [https://www.dora.state.co.us/pls/real/SB121\\_Web.Show\\_Rule?p\\_rule\\_id=9501](https://www.dora.state.co.us/pls/real/SB121_Web.Show_Rule?p_rule_id=9501).

Proposed Regulations	Number of California Businesses Impacted	Estimated Year 1 Costs of Proposed Regulations to California Businesses	Key Factors Affecting Cost
<b>Regulatory Updates</b>	52,326	\$389,007,821	<ul style="list-style-type: none"> <li>• Number of businesses estimated to be covered by the CCPA</li> <li>• Number of hours to undertake the updates</li> </ul>
<b>Cybersecurity Audits</b>	25,352	<p>\$2,061,504,500</p> <p><b>Spectrum of cybersecurity audit costs:</b> The estimated cost of a business's first annual cybersecurity audit ranges from \$40,000 to \$363,000.</p>	<ul style="list-style-type: none"> <li>• Number of hours to complete an audit</li> <li>• Auditors' rates</li> <li>• Whether the business already uses a cybersecurity framework to assess its cybersecurity program</li> </ul> <p>Economists assume that all three of these factors vary with the size &amp; complexity of the business.</p> <p>The primary cost of a cybersecurity audit is having to engage an independent auditor to conduct a thorough, independent cybersecurity audit.</p>
<b>Risk Assessments</b>	Assuming, as an upper bound, that all businesses will be subject to risk assessment requirements: 52,326	\$354,365,071	<ul style="list-style-type: none"> <li>• Number of hours to comply with all risk-assessment requirements</li> <li>• Hourly rate</li> </ul> <p>The primary cost of a risk assessment is having to conduct a risk assessment for each processing activity/comparable set of processing activities that triggers the requirements and having to submit abridged risk assessments.</p>
<b>Automated Decisionmaking Technology</b>	Assuming, as an upper bound, that all businesses will be subject to ADMT requirements: 52,326	\$1,431,681,804	<ul style="list-style-type: none"> <li>• Percentage of CA businesses subject to CCPA assumed to use ADMT in ways that trigger ADMT requirements</li> <li>• Number of hours of software-developer time needed to come into compliance with proposed requirements</li> </ul>

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### Preliminary Estimates of Alternatives Considered: Cybersecurity Audits

The table below shows two alternatives that the economists assessed for the cybersecurity audit regulations. It includes the estimated number of impacted California businesses, the estimated costs to those businesses in Year 1 following implementation of the proposed and alternative cybersecurity audit regulations, and the differences in cost and number of California businesses impacted.

	LESS STRINGENT ALTERNATIVE: <b>Increasing revenue threshold to &gt;\$100M instead of &gt;\$28M</b>	PROPOSED REGULATIONS AS DRAFTED: <b>Revenue threshold &gt;\$28M</b>	MORE STRINGENT ALTERNATIVE: <b>Requiring all businesses subject to CCPA to complete annual cybersecurity audits</b>
<b>Estimated Year 1 Costs to CA Businesses</b>	<b>\$1,084,344,688</b>	<b>\$2,061,504,500</b>	<b>\$3,533,273,375</b>
Number of CA Businesses Impacted	7,443	25,352	52,326
Differences			
<ul style="list-style-type: none"> <li>• Cost</li> <li>• Number of CA Businesses Impacted</li> </ul>	<p>-\$977,159,812</p> <p>-17,909</p>	N/A	<p>+\$1,471,768,875</p> <p>+26,974</p>

The economists are assessing alternatives for the risk assessment and ADMT regulations as well, and those will be included in the final SRIA.