Calendar Year 2023 Annual Report

Inefficiencies from old rules are cumulative, and over time, the impacts are compounded by multiplier effects. Removing burdens associated with 500 rules in calendar year 2023 eliminated approximately $75.8 million of lost productivity for Arizona businesses. These changes do not reduce the welfare of Arizonans.
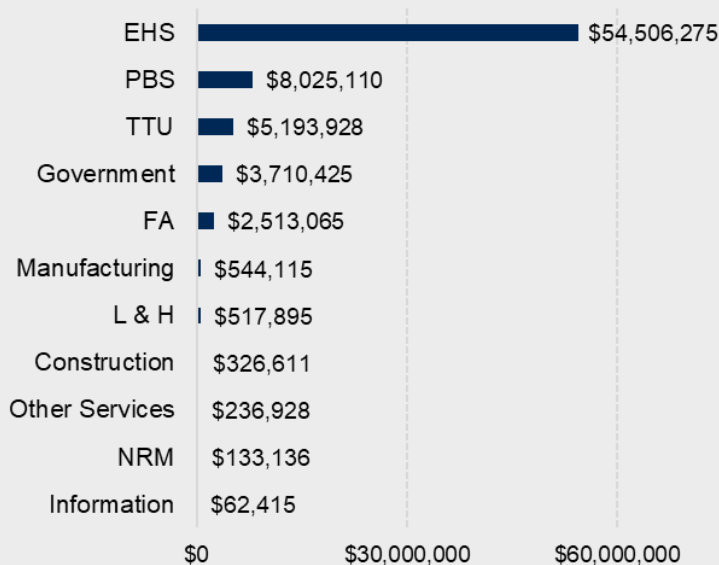
500 Rules Improved or Eliminated Across 17 Agencies

$75,769,903

Annual Savings for the Arizona Economy

$0.00

Lost Benefits for Arizonans

Value of Rule Improvements and Rule Eliminations from CY2023 by Supersector

Supersector	Value
EHS	$54,506,275
PBS	$8,025,110
TTU	$5,193,928
Government	$3,710,425
FA	$2,513,065
Manufacturing	$544,115
L & H	$517,895
Construction	$326,611
Other Services	$236,928
NRM	$133,136
Information	$62,415

The monetized economic impact refers to the costs to businesses simply due to the existence of these outdated or obsolete rules within the Arizona Administrative Code (AAC). These rules may have become obsolete due to timeliness or even lack of statutory authority. The estimates for lost economic activity quantify how much productivity businesses lose because a worker must sift through these rules even though they are invalid. This could mean reading an outdated rule, consulting the Arizona Revised Statutes (ARS) for statutory authority, or even possibly making a business decision based on a rule that lacks validity. Since these rules do not increase societal welfare, there is no loss in benefits. These estimates are focusing on a very narrow and conservative estimate of how businesses can be impacted by outdated rules.

Introduction

This report contains tables and charts that monetize the impact of regulation improvement during calendar year (CY) 2023. This includes the value of both rule improvements and rule eliminations. This report also includes a forecast for the economic impact of improving the rules over the next decade. The final section includes the methodology for each process as well as a sample of the formula that is used to generate these estimates. These estimates represent preliminary impacts using a very conservative process. The following table shows the status of each quarter in calendar year 2023.

Progress of Monetization Project by Quarter				
Calendar Quarter	**Calendar Equivalent**	**Monetization Status**	**Rule Count**	**Savings**
Q1 CY2023	January - March 2023	Completed	155	$11,366,492
Q2 CY2023	April - June 2023	Completed	74	$4,107,958
Q3 CY2023	July - September 2023	Completed	182	$9,122,799
Q4 CY2023	October - December 2023	Completed	89	$51,172,654
Total			**500**	**$75,769,903**

In CY 2023, 17 agencies improved or eliminated 500 rules. We estimate that the unimproved versions of these rules resulted in an aggregate loss of $75,769,903 every year across the economy of Arizona in the form of lost productivity. In regulation, the benefits must always be considered against the costs, and for these regulations, the benefits were $0.00 each year. Individually, these rules have minimal impact, but over the entire economy over time, these very minimal impacts can combine to produce significant inefficiencies in the economy.

Eliminations and Improvements Combined

Value of Rule Eliminations and Rule Improvements from CY2023 by Agency		
Agency	**Total Savings**	**Rule Count**
Arizona Criminal Justice Commission	$3,448,977	19
Arizona Health Care Cost Containment System	$639,748	34
Arizona Medical Board	$141,382	1
Board of Accountancy	$1,444,872	5
Board of Dental Examiners	$1,522,740	16
Board of Examiners for Nursing Care Institution Administrators and Assisted Living Facility Managers	$396,367	21
Board of Pharmacy	$41,406	4
Citizens Clean Election Commission	$4,208	4
Department of Agriculture	$6,810,157	112
Department of Child Safety	$4,489	1
Department of Environmental Quality	$214,796	79
Department of Health Services	$50,587,250	98
Department of Insurance and Financial Institutions	$5,578,588	82
Department of Water Resources	$933,944	3
Game and Fish Commission	$33,341	4
Industrial Commission	$3,336,620	12
Naturopathic Physicians Medical Board	$631,018	5
Total	**$75,769,903**	**500**

Value of Rule Eliminations and Rule Improvements from CY2023 by Supersector

NAICS	Supersector	Total Savings
10000000	Natural Resources and Mining	$133,136
20000000	Construction	$326,611
30000000	Manufacturing	$544,115
40000000	Trade, Transportation, and Utilities	$5,193,928
50000000	Information	$62,415
55000000	Financial Activities	$2,513,065
60000000	Professional and Business Services	$8,025,110
65000000	Education and Health Services	$54,506,275
70000000	Leisure and Hospitality	$517,895
80000000	Other Services	$236,928
90000000	Government	$3,710,425
Total		**$75,769,903**

Value of Rule Improvements and Rule Eliminations from CY2023 by Supersector
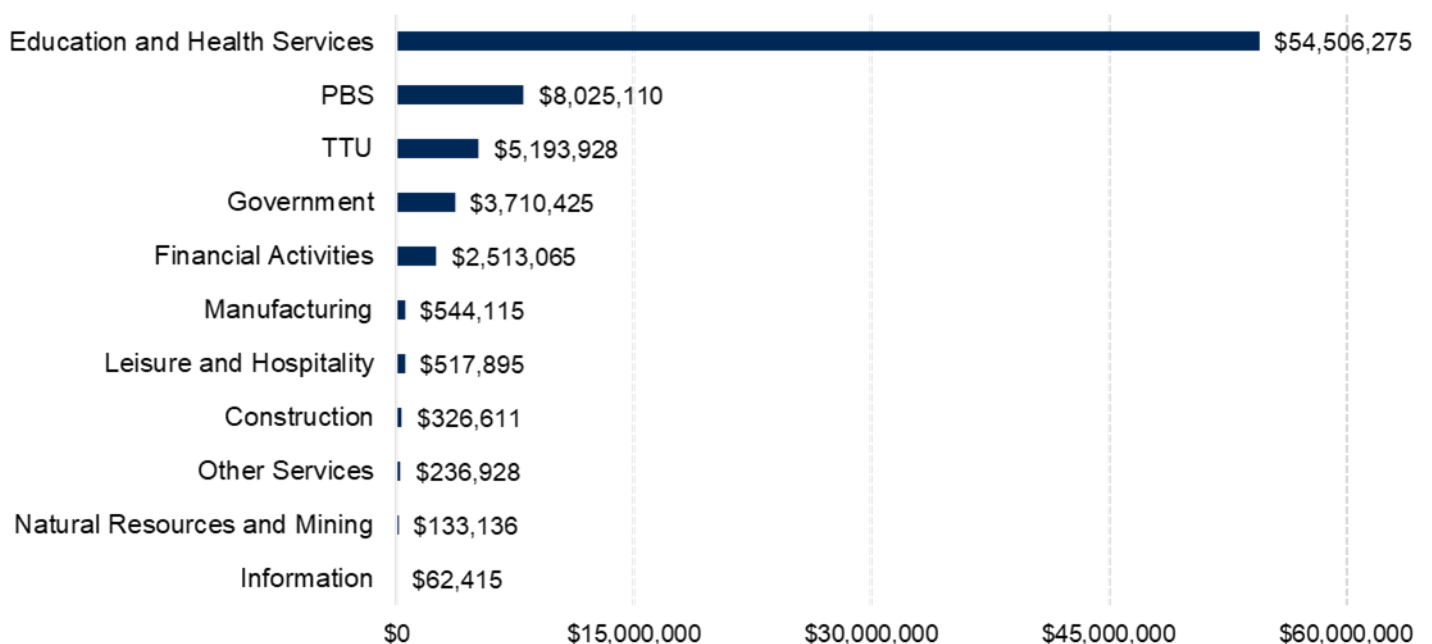
Ten Year Economic Impact Forecast
2024-2033

Change from Baseline		
Indicator	**Total Ten Year Impact**	**Average Annual Impact**
Total Employment (Jobs)	+14,513	+1,451
Population (Individuals)	+18,602	+1,860
Labor Force (Individuals)	+11,990	+1,199
Real Gross Domestic Product (Fixed 2012 dollars)	+$1,233,417,101	$123,341,710

Generated by OEO using REMI PI+

Throughout 2023, Arizona improved its Administrative Code in a manner that saved businesses $75.8 million each year. This is not a static economic impact, though. As time progresses, these savings can promote additional growth in different economic indicators.

Using a dynamic regional economic model (REMI PI+), we can forecast the impact that saving $75.8 million for businesses can have as these savings multiply through the economy. From 2024 to 2033, the work of improving regulation in 2023 is forecast to increase total employment by 14,513 jobs, increase population by 18,602 individuals, increase the labor force by 11,990 individuals, and increase real gross domestic product (GDP) by $1.2 billion.

These estimates show how improving regulation can have substantial impacts over time. These impacts show how improving the rules can increase economic growth over a projected baseline.

Conclusion

500 obsolete or antiquated rules were improved or eliminated in CY 2023. Some of these rules had minimal impact on a narrow set of businesses, and others had a modest impact on a very broad set of businesses. These minimal impacts are insignificant on the individual level, but as these aggregate, they can become a significant drag on economic growth.
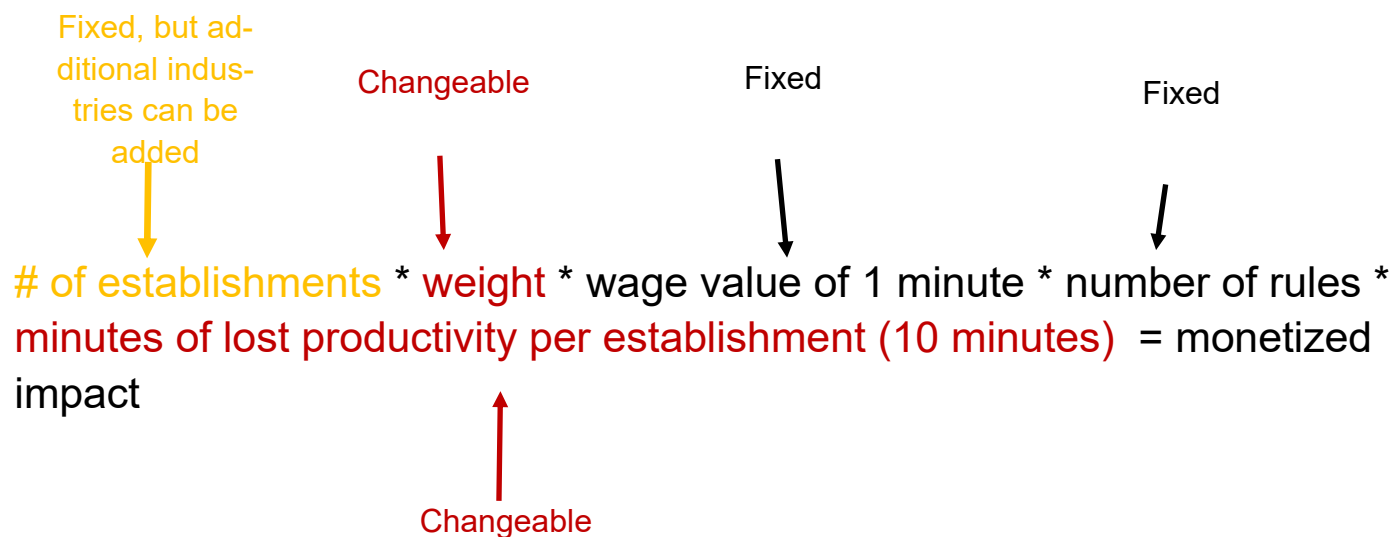
For this limited set of rules, OEO estimates that Arizona businesses forego over $75.8 million in lost productivity each year. This may also seem insignificant in a state with real GDP of $422 billion (chained 2017 dollars) in 2023, but these annual losses become cumulative over multiple years. Even modest gains in GDP can multiply into immense gains over large time horizons, such as $1.2 billion over ten years.

Finally, these economic gains do not reduce the welfare of Arizonans. Maintaining a clear, updated, and understandable administrative code provides modest benefits without incurring any costs.

Improvement Formula

\# of establishments * weight * wage value of 1 minute * number of rules * minutes of lost productivity per establishment (10 minutes) = monetized impact

1,230 * 1 * $0.24 * 13 * 10= $38,376.00 (rounded value for wage used in this example)

Fixed, but additional industries can be added

Changeable

Fixed

Fixed

\# of establishments * weight * wage value of 1 minute * number of rules * minutes of lost productivity per establishment (10 minutes) = monetized impact

Changeable

Number of establishments– derived from number of establishments for each industry attached to particular rules from QCEW at the three digit NAICS level or higher.

Weight– this number can control for industries that are comprised of a small number of very large establishments (NAICS 622: Hospitals). The ratio of average employees per establishment in the industry over the average employees per establishment among all industries. Minimum value is 1. Values that exceed 1 are rounded down to the whole integer. This is designed to control for industries that have a small number of large establishments.

This number can also be used to control for industries that are overly broad (NAICS 541: Professional, Scientific, and Technical Services). Reducing this number below the value of 1 can limit the size of establishments used in overly broad NAICS industries.

Wage value of 1 minute– derived from the weekly wages for each industry attached to a particular rules from QCEW at the three digit NAICS level or higher.

Number of rules– derived from the quantity of rules in each group of rulemakings.

Minutes of lost productivity per establishment– a reasonable estimate of 10 minutes are used for each rule.

Improvement Methodology

1. Identify at least one industry at the three digit or higher North American Industrial Classification System (NAICS) level. These are somewhat broad industry classifications at the three digit level. Not all businesses in each industry will be impacted in the same way. There will also be businesses outside of each industry that could be impacted. This analysis includes businesses that are probably not impacted and excludes businesses that are probably impacted.

2. Use Quarterly Census of Employment and Wages (QCEW) data from the most recently available quarter. At the state level, this data set can provide a quarterly average of the number of establishments and average weekly wages in each industry at the three digit NAICS level or higher.

3. Assume that each establishment has at least one person dedicated to working on compliance issues for the establishment. Some establishments will have more individuals working on compliance, and others may outsource their regulatory compliance matters to outside businesses. Our analysis generally assumes that each obsolete rule drains productivity of compliance employees once per year.

4. Divide the average number of employees in the industry by the average number of employees in all industries. Round this value down to the nearest integer (minimum value of 1). This weight controls for large industries with few establishments, like NAICS 622: Hospitals.

5. Establish the cost or burden of the rule on each individual's time. This is established by assigning a weight of 10 minutes for each rule. This weight is then multiplied by the number of rules improved to establish a rough estimate of time saved for each individual. This weight is intended to include time saved by not working with statutes and rules that are out of sync or unclear.

6. Apply the weekly average wage in the industry to the amount of time lost by the individual employee in each establishment. (Average Weekly Wage/2,400).

7. Multiply the cost of the lost time by the number of establishments to get the total lost productivity from the rule for an entire year across the entire industry. (Average Weekly Wage/2,400) * Number of Establishments.

8. This final number estimates how much businesses lose in productivity due to the existence of obsolete and outdated rules each year.

Elimination Formula

\# of establishments * weight * wage value of 1 minute * (word count/100) = monetized impact

20,306 * 0.5 * $0.58 * (2,981/100)= $175,921.67 (rounded value for wage used in this example)

Fixed, but additional industries can be added

Changeable

Fixed

Fixed

Changeable

\# of establishments * weight * wage value of 1 minute * (word count/ 100) * = monetized impact

Number of establishments– derived from number of establishments for each industry attached to particular rules from QCEW at the three digit NAICS level or higher.

Weight– this number can control for industries that are comprised of a small number of very large establishments (NAICS 622: Hospitals). The ratio of average employees per establishments in the industry over the average employees per establishment among all industries. Minimum value is 1. Values that exceed 1 are rounded down to the whole integer. This is designed to control for industries that have a small number of large establishments.

This number can also be used to control for industries that are overly broad (NAICS 541: Professional, Scientific, and Technical Services). Reducing this number below the value of 1 can limit the size of establishments used in overly broad NAICS industries.

Wage value of 1 minute– derived from the weekly wages for each industry attached to a particular rules from QCEW at the three digit NAICS level or higher.

Word Count– number of words in the eliminated rules.

100– an estimated reading speed of 100 words per minute for an individual reading the AAC.

Elimination Methodology

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3. Assume that each establishment has one person dedicated to working on compliance issues for the establishment. Some establishments will have more individuals working on compliance, and others may outsource their regulatory compliance matters to outside businesses. Our analysis assumes that each obsolete rule drains productivity of compliance employees once per year.

4. Divide the average number of employees in the industry by the average number of employees in all industries. Round this value down to the nearest integer (minimum value of 1). This weight controls for large industries with few establishments.

5. Establish the cost or burden of the rule on each individual's time. This is established by counting the words in each repealed section and assuming that individuals read legal documents at roughly 100 words per minute (WPM). Generally, adults read somewhere between 200 and 300 words per minute, but legal and technical documents generally take more time. Some rules may include references to other places in the Arizona Administrative Code (AAC). Other rules may require frequent re-reading due to their complexity. These types of issues are excluded from the analysis aside from the 100 WPM assumption.

6. Apply the weekly average wage in the industry to the amount of time lost by the individual employee in each establishment. (Average Weekly Wage/2,400).

7. Multiply the cost of the lost time by the number of establishments to get the total lost productivity from the rule for an entire year across the entire industry. (Average Weekly Wage/2,400) * Number of Establishments.

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