

Why GAO Did This Study

Federal regulations, especially those addressing health, safety, and the environment, can generate hundreds of billions of dollars in benefits and costs to society annually. Various statutes, executive orders, and OMB guidance direct federal agencies to analyze the benefits and costs of proposed regulations. These analyses—known as RIAs—can also provide affected entities, agencies, Congress, and the public with important information about the potential effects of new regulations.

According to OMB, EPA regulations account for the majority of the estimated benefits and costs of major federal regulations. GAO was asked to review EPA's RIAs for recent regulations. This report examines how EPA has used RIAs during the rulemaking process and the extent to which EPA adhered to OMB guidance on selected elements of RIAs for recent rules. GAO reviewed RIAs from a nonprobability sample of seven recent air, water, and other environmental regulations, assessed them against relevant OMB guidance, and interviewed agency officials.

What GAO Recommends

GAO recommends that EPA improve adherence to OMB guidance and enhance the usefulness of its RIAs, and that OMB clarify the application of guidance for estimating the benefits of reducing greenhouse gas emissions. In commenting on a draft of this report, EPA stated that it generally agreed with GAO's recommendations. On behalf of OMB, in oral comments OMB staff said that they neither agreed nor disagreed with the recommendations but saw some merit in them.

View [GAO-14-519](#). For more information, contact J. Alfredo Gomez at (202) 512-3841 or gomezj@gao.gov.

ENVIRONMENTAL REGULATION

EPA Should Improve Adherence to Guidance for Selected Elements of Regulatory Impact Analyses

What GAO Found

The Environmental Protection Agency (EPA) used the seven Regulatory Impact Analyses (RIA) GAO reviewed to inform decision making, and its adherence to relevant Office of Management and Budget (OMB) guidance varied. According to senior EPA officials, the agency used these RIAs to facilitate communication with management throughout the rulemaking process and communicate information that supported its regulatory decisions to Congress and the public. However, it generally did not use them as the primary basis for final regulatory decisions.

EPA generally adhered to many aspects of OMB's Circular A-4 guidance for analyzing the economic effects of regulations including, for example, considering regulatory alternatives and analyzing uncertainties underlying its RIAs. However, EPA did not always adhere to other aspects. Specifically, the information EPA included and presented in the RIAs was not always clear. According to OMB guidance, RIAs should communicate information supporting regulatory decisions and enable a third party to understand how the agency arrives at its conclusions. In addition, EPA's review process does not ensure that the information about selected elements that should appear in the analyses—such as descriptions of baselines and alternatives considered—is transparent or clear, within and across its RIAs. As a result, EPA cannot ensure that its RIAs adhere to OMB's guidance to provide the public with a clear understanding of its decision making.

In addition to using Circular A-4 (issued in 2003) to analyze the effects of regulations, EPA used more recent guidance developed by an interagency working group co-led by OMB and another White House office in 2010 for valuing carbon dioxide emissions. Applying this guidance while using Circular A-4 to estimate other benefits and costs yielded inconsistencies in some of EPA's estimates and has raised questions about whether its approach was consistent with Circular A-4. Circular A-4 does not reference the new guidance and the new guidance does not include an overall statement explaining its relationship to Circular A-4. Without increased clarity about the relationship, questions about the agencies' adherence to OMB guidance will likely persist.

In assessing EPA's adherence to OMB guidance, GAO identified two other areas in which EPA faced challenges that limited the usefulness of some of its estimates. First, EPA did not monetize certain benefits and costs related to the primary purposes or key impacts of the rules GAO reviewed, such as reducing hazardous air pollutants and water quality effects. EPA officials said resource and data limitations constrained the agency's ability to monetize these effects. OMB guidance acknowledges that monetizing effects is not always possible. However, without doing so, the public may face challenges understanding the trade-offs associated with regulatory alternatives. Second, EPA estimated effects of its regulations on employment, in part, using a study that, according to EPA officials, represented the best reasonably obtainable data when they conducted their analyses. However, the study was based on data that were more than 20 years old and may not have represented the regulated entities addressed in the RIAs. EPA officials said they are exploring new approaches for analyzing these effects but were uncertain about when such results would be available. Without improvements in its estimates, EPA's RIAs may be limited in their usefulness for helping decision makers and the public understand these important effects.