Accounting Methods under Executive Order 13771

In its accounting statements, the Office of Information and Regulatory Affairs (OIRA) summarizes regulatory reform progress under Executive Order 13771. In order to ensure consistent and comparable accounting of costs and cost savings, OIRA has worked with agencies to apply the same analytical assumptions to all covered actions.

Executive Order 13771 covers regulatory and deregulatory actions as defined in the Guidance Implementing Executive Order 13771. "EO 13771 regulatory action" includes significant regulatory actions and certain significant guidance documents that have been finalized and impose total costs greater than zero. "EO 13771 deregulatory action" is broader and includes any action that has been finalized and has total costs less than zero (including rulemaking; guidance documents; some actions related to international regulatory cooperation; and information collection requests that repeal or streamline recordkeeping, reporting, or disclosure requirements). These definitions reflect an understanding that most quantifiable regulatory costs are imposed by significant regulations and also a decision to incentivize agencies to eliminate or modify unnecessary regulatory burdens by counting small and large deregulatory actions. These definitions are related to similar conventions used by Canada and the United Kingdom in their successful reform efforts.

When setting regulatory budgets and cost allocations, agencies need an accounting method that allows for a comparison of the costs of regulatory actions to the cost savings of deregulatory actions. A challenge arises, however, because the analyses accompanying regulations often estimate impacts over different time periods, which makes it difficult to compare costs and cost savings across regulatory actions.

To allow for cost comparisons under Executive Order 13771, agencies have used the same dollar year (2016) to reflect differences due to inflation, and applied the same perpetual time horizon to all regulatory and deregulatory actions. A perpetual time horizon reflects a general presumption, for the purposes of this accounting, that regulatory and deregulatory actions are permanent and that the impacts of regulations continue in perpetuity. Agencies will use a perpetual time horizon unless they offer a specific and credible reason why a particular regulation's analysis requires a unique time horizon.

This accounting standardization is necessary to calculate net regulatory costs. To illustrate why, consider the differences in the following regulatory and deregulatory actions: (1) a new regulation effective indefinitely, imposing $200 million per year in costs; and (2) a new reporting requirement delayed for one year, resulting in cost savings of $200 million for only that one year. These costs and savings offset each other in the first year, and without a uniform analytic time horizon, there might be a failure to account for the different impacts in later years. By contrast, under the uniform time horizon methodology of Executive Order 13771, the new regulation would impose $200 million per year in costs (with a present value of $2.9 billion), and the reporting delay (with a present value of $200 million) would save the equivalent of only $14 million per year ($200 million "amortized"[1] at seven percent[2] in

[1] "Amortization" is the process of converting a one-time value to equal annual amounts that, taken together, are worth the same as the one-time value. In the case of a perpetual time horizon, a useful way to think of it is that $200 million in a savings account that pays a seven percent interest rate will generate $14 million in interest in perpetuity.

[2] For purposes of simplicity and clarity in Executive Order 13771 accounting, we use a seven percent discount rate. OMB Circular A-4 requires the use of both three and seven percent for cost-benefit analysis under Executive Order 12866. The choice of discount rate, however, matters less when comparing costs and cost savings across actions than it does in the cost-benefit analysis of a particular rule, where benefits never accrue substantially before costs. By contrast, there is no such predictability regarding the timing of the costs of one action and the cost savings of another action. Either may precede the other. Therefore the choice of discount rate does not tip the scales in favor of costs or cost savings.

perpetuity). This amortization accurately reflects that a one-time $200 million savings should not offset a regulation that costs $200 million each year.[3]

Presentational materials for Executive Order 13771 may summarize impacts using both annualized and present values, which are standard economic concepts that represent different formats of the same information, and show values adjusted from 2016 to the current dollar year. Moreover, accounting under Executive Order 12866 and Executive Order 13771 may report different regulatory costs or cost savings. The Executive Orders serve different purposes: Executive Order 12866 analysis focuses on particular rules, whereas Executive Order 13771 considers costs and cost savings across all qualifying rules. For all regulatory actions, agencies will clearly explain the underlying assumptions that may lead to the presentation of different reported values.

[3] Cost and cost savings estimates are expressed equivalently in terms of the time value of money (a concept discussed in more detail in the "Discount Rates" section of OMB Circular A-4). For purposes of OIRA's Executive Order 13771 database, amounts are adjusted to their 2016 cost or savings equivalents using the seven percent discount rate. An ongoing cost of $200 million would therefore be expressed as $187 million (=$200 million/1.07) if first imposed in 2017, $175 million (=$200 million/1.07^2) if first imposed in 2018, or $163 million (=$200 million/1.07^3) if first imposed in 2019, and so forth into the future. Similarly, a one-time cost of $200 million, annualized over a perpetual time horizon to $14 million (=$200 million x 0.07), would be expressed as $13 million (=$14 million/1.07) if experienced in 2017, as $12 million (=$14 million/1.07^2) if experienced in 2018, or $11 million (=$14 million/1.07^3) if first imposed in 2019, and so forth into the future. Some status report materials, where noted, include estimates reported as present-equivalents (e.g., 2018-equivalents for Fiscal Year 2018 reporting or 2019-equivalents for Fiscal Year 2019 reporting), which may be found by multiplying 2016-equivalents by 1.07^T where T equals the number of years since 2016.