

**BUSINESS & LABOR**EXHIBIT NO. 2DATE 4/11/05BILL NO. HB 630HOUSE BILL NO. 630 -- GRAY BILL  
INTRODUCED BY S. MENDENHALL

A BILL FOR AN ACT ENTITLED: "AN ACT REQUIRING THAT A SMALL BUSINESS IMPACT STATEMENT ~~AND A REGULATORY FLEXIBILITY ANALYSIS~~ MUST BE CONDUCTED PRIOR TO THE ADOPTION OF AN ADMINISTRATIVE RULE; DEFINING "SMALL BUSINESS" FOR THE PURPOSES OF THE MONTANA ADMINISTRATIVE PROCEDURE ACT; REQUIRING THAT SMALL BUSINESS IMPACT STATEMENTS ~~AND REGULATORY FLEXIBILITY ANALYSES~~ BE MADE AVAILABLE TO THE PUBLIC; REQUIRING LEGISLATIVE INTERIM COMMITTEES TO CONSIDER SMALL BUSINESS IMPACT STATEMENTS ~~AND REGULATORY FLEXIBILITY ANALYSES~~ WHEN REVIEWING ADMINISTRATIVE RULES; ~~REVISING CERTAIN PROCESSES FOR JUDICIAL REVIEW OF ADMINISTRATIVE RULES~~; AMENDING SECTIONS 2-4-102, 2-4-103, 2-4-110, 2-4-314, 2-4-402, and 2-4-406, ~~AND 2-4-506~~, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Small business impact statement.** (1) ~~Prior to the adoption of a proposed rule, the agency promulgating the rule shall determine if the rule will impact small businesses.~~ EXCEPT AS PROVIDED UNDER EMERGENCY RULEMAKING IN 2-4-303, EACH PROPOSED RULE MUST CONTAIN AN ANALYSIS OF THE IMPACT THE PROPOSED RULE WILL HAVE ON SMALL BUSINESSES. If the AN agency determines that the A proposed rule will not impact small businesses, the determination must be published in the register when the proposed rule is published. ~~If the~~

(2) IF AN agency determines that the A proposed rule may have an A SIGNIFICANT adverse impact on small businesses IN COMPARISON WITH OTHER BUSINESSES, the agency shall prepare a small business impact statement that includes, at a minimum, the following:

- ~~(a) an identification and estimate of the number of small businesses subject to the proposed rule;~~
- ~~(b) the estimated reporting, recordkeeping, and other administrative costs required for compliance with the proposed rule, including the type of professional skills necessary to prepare the report or record;~~
- ~~(c) a statement of the probable effects of the proposed rule on impacted small businesses; and~~
- ~~(d) a description of any alternative methods that may be less intrusive or less costly to small businesses for achieving the purpose of the proposed rule.~~

- (A) A GENERAL NARRATIVE AND OVERVIEW OF THE EFFECT OF THE RULE ON SMALL BUSINESS THAT IS WRITTEN IN PLAIN, EASY-TO-READ LANGUAGE;
- (B) AN EXPLANATION OF THE BASIS FOR THE ADOPTION OF THE RULE;
- (C) AN ESTIMATE OF THE TYPES AND NUMBERS OF SMALL BUSINESSES SUBJECT TO THE RULE;
- (D) A DESCRIPTION OF ANY ADDITIONAL REPORTING OR RECORDKEEPING REQUIREMENTS FOR SMALL BUSINESSES;
- (E) A LIST OF THE PROFESSIONAL SKILLS NECESSARY TO PREPARE ANY REPORTS;
- (F) AN ESTIMATE OF ADDITIONAL ANNUAL COSTS TO SMALL BUSINESSES TO COMPLY WITH THE RULE;
- (G) A DESCRIPTION OF THE IMPACTS THE PROPOSED RULE MAY HAVE ON THE WORKFORCE IMPACTED BY THE RULE; AND
- (H) A REGULATORY FLEXIBILITY ANALYSIS THAT PROVIDES A DESCRIPTION OF ANY ALTERNATIVES THAT WERE CONSIDERED TO DECREASE THE IMPACT TO SMALL BUSINESS AND THE REASONS FOR NOT SELECTING THOSE ALTERNATIVES. THE REGULATORY FLEXIBILITY ANALYSIS MUST INCLUDE CONSIDERATION OF:
  - (I) THE AVAILABILITY OF LESS BURDENSOME COMPLIANCE OR REPORTING REQUIREMENTS AND SCHEDULES OR DEADLINES FOR COMPLIANCE OR REPORTING;
  - (II) CONSOLIDATION OF COMPLIANCE OR REPORTING REQUIREMENTS;
  - (III) ADOPTION OF PERFORMANCE STANDARDS FOR SMALL BUSINESSES TO REPLACE DESIGN OR OPERATIONAL STANDARDS; AND
  - (IV) IMPLEMENTATION OF REGULATORY METHODS THAT WILL ACCOMPLISH THE OBJECTIVES OF THE LAW WHILE MINIMIZING ADVERSE IMPACTS ON SMALL BUSINESSES WHEN CONSISTENT WITH PUBLIC HEALTH, SAFETY, AND ENVIRONMENTAL AND ECONOMIC WELFARE.

(2) (3) The agency shall provide documentation for the estimates, statements, and descriptions required under subsection (1).

(4) THE INFORMATION IN THIS SECTION MUST BE COMPILED ON A FORM DEVELOPED BY THE SECRETARY OF STATE AND ADOPTED BY THE ATTORNEY GENERAL AS A SAMPLE FORM IN MODEL RULES. THE SECRETARY OF STATE SHALL SOLICIT INPUT FROM STATE AGENCIES ON THE CONTENT OF THE FORM. THE FORM MUST BE FILED BY AN AGENCY WITH A PROPOSED RULE AND PUBLISHED BY THE SECRETARY OF STATE WITH A PROPOSED NOTICE IN THE REGISTER. THE FORM IS NOT TO BE PRINTED IN THE ARM FOLLOWING FINAL ADOPTION OF A RULE.

~~—NEW SECTION. Section 2. Regulatory flexibility analysis -- notification -- assistance. (1) Prior~~

~~to adopting a proposed rule, an agency shall prepare a regulatory flexibility analysis. When preparing the regulatory flexibility analysis, the agency shall, when consistent with public health, safety, and environmental and economic welfare, consider using regulatory methods that will accomplish the objectives of the law being implemented while minimizing adverse impacts on small businesses. To reduce the negative impacts of the proposed rule on small businesses, the agency shall consider:~~

~~—(a) establishing less stringent compliance or reporting requirements for small businesses than for other businesses;~~

~~—(b) establishing less stringent schedules or deadlines for compliance or reporting requirements for small businesses than for other businesses;~~

- ~~—(c) consolidating or simplifying compliance or reporting requirements for small businesses;~~
- ~~—(d) establishing performance standards for small businesses to replace design or operational standards required in the proposed rule for other businesses; and~~
- ~~—(e) exempting small businesses from all or any part of the requirements contained in the proposed rule.~~
- ~~—(2) Subsequent to completing the regulatory flexibility analysis required in subsection (1) and prior to adopting a proposed rule that the agency has concluded may have an adverse impact on small businesses, the agency shall notify the appropriate administrative rule review committee of the agency's intent to adopt the proposed rule and provide to the committee a copy of the small business impact statement required in [section 1] and the regulatory flexibility analysis.~~
- ~~—(3) The office of economic development, established in 2-15-218, shall advise and assist agencies in complying with the provisions of [section 1] and this section.~~

**Section 2 3.** Section 2-4-102, MCA, is amended to read:

**"2-4-102. Definitions.** For purposes of this chapter, the following definitions apply:

- (1) "Administrative rule review committee" or "committee" means the appropriate committee assigned subject matter jurisdiction in Title 5, chapter 5, part 2.
- (2) (a) "Agency" means an agency, as defined in 2-3-102, of the state government, except that the provisions of this chapter do not apply to the following:
  - (i) the state board of pardons and parole, except that the board is subject to the requirements of 2-4-103, 2-4-201, 2-4-202, and 2-4-306 and its rules must be published in the ARM and the register;
  - (ii) the supervision and administration of a penal institution with regard to the institutional supervision, custody, control, care, or treatment of youths or prisoners;
  - (iii) the board of regents and the Montana university system;
  - (iv) the financing, construction, and maintenance of public works;
  - (v) the public service commission when conducting arbitration proceedings pursuant to 47 U.S.C. 252 and 69-3-837.
- (b) Agency does not include a school district, unit of local government, or any other political subdivision of the state.
- (3) "ARM" means the Administrative Rules of Montana.

(4) "Contested case" means a proceeding before an agency in which a determination of legal rights, duties, or privileges of a party is required by law to be made after an opportunity for hearing. The term includes but is not restricted to ratemaking, price fixing, and licensing.

(5) (a) "Interested person" means a person who has expressed to the agency an interest concerning agency actions under this chapter and has requested to be placed on the agency's list of interested persons as to matters of which the person desires to be given notice.

(b) The term does not extend to contested cases.

(6) "License" includes the whole or part of an agency permit, certificate, approval, registration, charter, or other form of permission required by law but does not include a license required solely for revenue purposes.

(7) "Licensing" includes an agency process respecting the grant, denial, renewal, revocation, suspension, annulment, withdrawal, limitation, transfer, or amendment of a license.

(8) "Party" means a person named or admitted as a party or properly seeking and entitled as of right to be admitted as a party, but this chapter may not be construed to prevent an agency from admitting any person as a party for limited purposes.

(9) "Person" means an individual, partnership, corporation, association, governmental subdivision, agency, or public organization of any character.

(10) "Register" means the Montana Administrative Register.

(11) (a) "Rule" means each agency regulation, standard, or statement of general applicability that implements, interprets, or prescribes law or policy or describes the organization, procedures, or practice requirements of an agency. The term includes the amendment or repeal of a prior rule.

(b) The term does not include:

(i) statements concerning only the internal management of an agency or state government and not affecting private rights or procedures available to the public, including rules implementing the state personnel classification plan, the state wage and salary plan, or the statewide budgeting and accounting system;

(ii) formal opinions of the attorney general and declaratory rulings issued pursuant to 2-4-501;

(iii) rules relating to the use of public works, facilities, streets, and highways when the substance of the rules is indicated to the public by means of signs or signals;

(iv) seasonal rules adopted annually or biennially relating to hunting, fishing, and trapping when there is a statutory requirement for the publication of the rules and rules adopted annually or biennially relating

to the seasonal recreational use of lands and waters owned or controlled by the state when the substance of the rules is indicated to the public by means of signs or signals; or

(v) uniform rules adopted pursuant to interstate compact, except that the rules must be filed in accordance with 2-4-306 and must be published in the ARM.

(12) (a) "Significant interest to the public" means agency actions under this chapter regarding matters that the agency knows to be of widespread citizen interest. These matters include issues involving a substantial fiscal impact to or controversy involving a particular class or group of individuals.

(b) The term does not extend to contested cases.

(13) "Small business" means a business entity, including its affiliates, that is independently owned and operated and employs fewer than 20 full-time employees.

~~(13)~~(14) "Substantive rules" are either:

(a) legislative rules, which if adopted in accordance with this chapter and under expressly delegated authority to promulgate rules to implement a statute have the force of law and when not so adopted are invalid; or

(b) adjective or interpretive rules, which may be adopted in accordance with this chapter and under express or implied authority to codify an interpretation of a statute. The interpretation lacks the force of law."

**Section 4.** Section 2-4-103, MCA, is amended to read:

**"2-4-103. Rules and statements information to be made available to public.** (1) Each agency shall:

(a) make available for public inspection all rules and all small business impact statements, regulatory flexibility analyses, and other written statements of policy or interpretations formulated, adopted, or used by the agency in the discharge of its functions;

(b) upon request of any person, provide a copy of any rule.

(2) Unless otherwise provided by statute, an agency may require the payment of the cost of providing such copies.

(3) ~~No~~ An agency rule is not valid or effective against any person or party whose rights have been substantially prejudiced by an agency's failure to comply with the public inspection requirement ~~herein~~ provided for in this section."

**Section 5.** Section 2-4-110, MCA, is amended to read:

**"2-4-110. Departmental review of rule notices.** (1) The head of each department of the executive branch shall appoint an ~~existing~~ attorney, paralegal, or other qualified person from that department to review each departmental rule proposal notice, adoption notice, or other notice and each small business impact statement and regulatory flexibility analysis relating to administrative rulemaking. Notice of the name of the person appointed under this subsection and of any successor must be given to the secretary of state and the appropriate administrative rule review committee within 10 days of the appointment.

(2) The person appointed under subsection (1) shall review each notice, AND small business impact statement, and regulatory flexibility analysis by any division, bureau, or other unit of the department, including units attached to the department for administrative purposes only under 2-15-121, for compliance with this chapter before the notice is filed with the secretary of state. The reviewer shall pay particular attention to 2-4-302 and 2-4-305. The review must include but is not limited to consideration of:

(a) the adequacy of the statement of reasonable necessity for the intended action and whether the intended action is reasonably necessary to effectuate the purpose of the code section or sections implemented;

(b) whether the proper statutory authority for the rule is cited;

(c) whether the citation of the code section or sections implemented is correct; ~~and~~

(d) whether the intended action is contrary to the code section or sections implemented or to other law; and

(e) the adequacy of the small business impact statement and the regulatory flexibility analysis.

(3) The person appointed under subsection (1) shall sign each notice for which this section requires a review. The act of signing is an affirmation that the review required by this section has been performed to the best of the reviewer's ability. The secretary of state may not accept for filing a notice that does not have the signature required by this section."

**Section 6.** Section 2-4-314, MCA, is amended to read:

**"2-4-314. Biennial review by agencies -- recommendations by committee.** (1) Each agency shall at least biennially review its rules to determine if any new rule should be adopted or any existing rule should be modified or repealed.

(2) The determination must CONSIDER WHETHER THE RULE MAY HAVE ANY SIGNIFICANT ADVERSE IMPACTS TO SMALL BUSINESS THAT HAVE NOT BEEN CONSIDERED PREVIOUSLY be based on:

— (a) the policy objectives of the statutes implemented by the rules;

— (b) whether the rule minimizes economic impacts on small businesses in a manner consistent with the stated objective of applicable statutes;

— (c) the continued need for the rule;

— (d) the nature and scope of complaints or comments concerning the rule that the agency has received from the public;

— (e) the complexity of the rule;

— (f) the extent to which the rule overlaps, duplicates, or conflicts with any other laws or rules; and

— (g) the length of time and the degree to which technology, economic conditions, or other factors have changed since the rule was adopted or last evaluated.

(2)(3) The committee may recommend to the legislature ~~these~~ any modifications, additions, or deletions of agency rulemaking authority ~~which~~ that the committee considers necessary."

"SECTION 6. SECTION 2-4-402, MCA, IS AMENDED TO READ:

**"2-4-402. POWERS OF COMMITTEES -- DUTY TO REVIEW RULES.** (1) THE ADMINISTRATIVE RULES REVIEW COMMITTEES SHALL REVIEW ALL PROPOSED RULES FILED WITH THE SECRETARY OF STATE.

(2) THE APPROPRIATE ADMINISTRATIVE RULE REVIEW COMMITTEE MAY:

(A) REQUEST AND OBTAIN AN AGENCY'S RULEMAKING RECORDS FOR THE PURPOSE OF REVIEWING COMPLIANCE WITH 2-4-305;

(B) PREPARE WRITTEN RECOMMENDATIONS FOR THE ADOPTION, AMENDMENT, OR REJECTION OF A RULE AND SUBMIT THOSE RECOMMENDATIONS TO THE DEPARTMENT PROPOSING THE RULE AND SUBMIT ORAL OR WRITTEN TESTIMONY AT A RULEMAKING HEARING;

(C) REQUIRE THAT A RULEMAKING HEARING BE HELD IN ACCORDANCE WITH THE PROVISIONS OF 2-4-302 THROUGH 2-4-305;

(D) INSTITUTE, INTERVENE IN, OR OTHERWISE PARTICIPATE IN PROCEEDINGS INVOLVING THIS CHAPTER IN THE STATE AND FEDERAL COURTS AND ADMINISTRATIVE AGENCIES;

(E) REVIEW THE INCIDENCE AND CONDUCT OF ADMINISTRATIVE PROCEEDINGS UNDER THIS CHAPTER; AND

(F) REVIEW THE SMALL BUSINESS IMPACT STATEMENT FOR COMPLIANCE WITH [SECTION 1]."

Section 7. Section 2-4-406, MCA, is amended to read:

**"2-4-406. Committee objection to violation of authority for rule -- effect.** (1) If the appropriate administrative rule review committee objects to all or some portion of a proposed or adopted rule because the committee considers it not to have been proposed or adopted in substantial compliance with 2-4-302, 2-4-303, and 2-4-305, AND [section 1], and [section 2], the committee shall send a written objection to the agency that promulgated the rule. The objection must contain a concise statement of the committee's reasons for its action.

(2) Within 14 days after the mailing of a committee objection to a rule, the agency promulgating the rule shall respond in writing to the committee. After receipt of the response, the committee may withdraw or modify its objection.

(3) If the committee fails to withdraw or substantially modify its objection to a rule, it may vote to send the objection to the secretary of state, who shall, upon receipt of the objection, publish the objection in the register adjacent to any notice of adoption of the rule and in the ARM adjacent to the rule, provided an agency response must also be published if requested by the agency. Costs of publication of the objection and the agency response must be paid by the committee.

(4) If an objection to all or a portion of a rule has been published pursuant to subsection (3), the agency bears the burden, in any action challenging the legality of the rule or portion of a rule objected to by the committee, of proving that the rule or portion of the rule objected to was adopted in substantial compliance with 2-4-302, 2-4-303, and 2-4-305, AND [section 1], and [section 2]. If a rule is invalidated by court judgment because the agency failed to meet its burden of proof imposed by this subsection and the court finds that the rule was adopted in arbitrary and capricious disregard for the purposes of the authorizing statute, the court may award costs and reasonable attorney fees against the agency."

~~Section 8. Section 2-4-506, MCA, is amended to read:~~

~~"2-4-506. Declaratory judgments on validity or application of rules. (1) A rule may be declared invalid or inapplicable in an action filed in district court for declaratory judgment if it is found the court finds that the rule or its threatened application interferes with or impairs or threatens to interfere with or impair the legal rights or privileges of the plaintiff.~~

~~(2) A rule may also be declared invalid in such an a declaratory judgment action on the grounds that the rule was adopted:~~

~~(a) with an arbitrary or capricious disregard for the purpose of the authorizing statute as evidenced by documented legislative intent; or~~

~~— (b) in violation of [section 1 or 2].~~

~~— (3) An action filed for an alleged violation of [section 1 or 2] must be filed within 1 year after the rule that is the basis of the allegation is adopted.~~

~~— (3)(4) A declaratory judgment may be rendered whether or not the plaintiff has requested the agency to pass upon the validity or applicability of the rule in question.~~

~~— (4)(5) The action may be brought in the district court for the county in which the plaintiff resides or has his in which the plaintiff's principal place of business is located or in which the agency maintains its principal office. The agency shall must be made a party to the action."~~

**NEW SECTION. Section 9. Saving clause.** [This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

**NEW SECTION. Section 10. Codification instruction.** [Sections 1 and 2] are [SECTION 1] IS intended to be codified as an integral part of Title 2, chapter 4, part 1, and the provisions of Title 2, chapter 4, part 1, apply to [sections 1 and 2] [SECTION 1].

- END -