TENTATIVE AGENDA

LEGISLATIVE RULE-MAKING REVIEW COMMITTEE

3:00 - 5:00 p.m. May 20, 1990

COMMITTEE MEETING ROOM, M-438

- 1. Approval of Minutes Meeting January 23, 1990, 4:00 p.m.
- 2. Review of Legislative Rules:
 - a. Office of Insurance Commissioner Accident and Sickness Rate Filing
 - b. Racing Commission Greyhound Rules
 - c. Board of Pharmacy Continuing Education for Licensure of Pharmacies
 - d. Division of Employment Security Regulations of the Commissioner of the Division of Employment Security
 - e. Division of Natural Resources Assessment of Civil Administrative Penalties
- 3. Other Business:

Tuesday, May 20, 1990

3:00 - 5:00 p.m.

Legislative Rule-Making Review Committee (Code §29A-3-10)

Keith Burdette ex officio nonvoting member

Robert "Chuck" Chambers, ex officio nonvoting member

Senate

House Jackson, Chairman, absent

Chafin Manchin, J. Tomblin, absent Wiedebusch, absent Warner, absent

Murphy, Acting Chairman Buchanan Burk Faircloth

Roop, absent Starcher

The meeting was called to order by Mr. Murphy, Co-Chairman.

The minutes of January 23, 1990, were approved.

Debra Graham, Committee Counsel, reviewed her abstract on the rule proposed by the Office of Insurance Commissioner, Accident and Sickness Rate Filing. She stated that the agency had agreed to several technical modifications.

Ms. Starcher moved that the the proposed rule be approved as modified. The motion was adopted.

Michael McThomas, Associate Counsel, reviewed his abstract on the rule proposed by the Racing Commission, Greyhound Rules. that the agency had agreed to several technical modifications.

Ms. Starcher moved that the proposed rule lie over until the Committee's next meeting. The motion was adopted.

Ms. Graham reviewed the rule proposed by the West Virginia Board of Pharmacy, Continuing Education for Licensure of Pharmacists. told the Committee that the agency had agreed to several minor technical modifications.

Mr. Buchanan moved that the proposed rule be approved as modified. The motion was adopted.

Michael McThomas explained the rule proposed by the Division of Employment Security, Regulations of the Commissioner of the Division of Employment Security. He told the Committee that the agency had agreed to several minor technical modifications. Jack Friedman, Counsel for the Division, made a brief statement in support of the proposed rule.

Mr. Manchin moved that the proposed rule be approved as modified. The motion was adopted.

Mr. McThomas reviewed his abstract on the rule proposed by the Department of Natural Resources, Assessment of Civil Administrative Penalties. Mr. Murphy asked Ms. Graham to review a recent Attorney General opinion regarding the receipt of comments by Rule-Making agencies following a formal comment period. Max Robertson and Mike Dorsey of the Division of Natural Resources and Ann Bradley, representing West Virginia Manufacturers Association, addressed the Committee regarding the proposed rule and answered questions. Ms. Bradley distributed a list of objections to the proposed rule.

Mr. Burk moved that the proposed rule lie over until the Committee's next meeting.

The meeting was adjourned.

ROLL CALL - LEGISLATIVE RULE-MAKING REVIEW COMMITTEE

NAME	Present	Absent	Yeas	Nay
Chambers, Robert "Chuck", Speaker			ļ	<u> </u>
Murphy, Patrick H, Co-Chair				ļ
Buchanan, Michael				
Burk, Robert W., Jr.				
Faircloth, Larry V.				
Roop, Jack		/	<u> </u>	<u> </u>
Starcher, Virginia				<u> </u>
•				
Burdette, Keith, President				
Jackson, Lloyd, II, Co-Chair		/		
Chafin, Truman H.				
Manchin, Joe, III				
Tomblin, Earl Ray				
Warner, George				<u> </u>
Wiedebusch, Larry				
TOTAL	7	5		
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RE:	-···			

REGISTRATION OF PUBLIC

AT COMMITTEE MEETINGS WEST VIRGINIA LEGISLATURE

COMMITTEE: Legislative Role-Making Review DATE: MAY 20, 1990

NAME	ADDRESS	REPRESENTING	PLEASE CHECK (X) IF YOU DESIRE TO MAKE A STATEMENT		
Please print or write plainly Richard F. Sherman	901w Da las Avey Belle	DuPant			
Max Robertson	916 Echo Rel So Chas	DNR- Waste Manage.	Here to respond		
Mile Donsey	261 New Hopo CQ Elkirea	H II	*1 11 11		
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DANIEL LIGHT	III CALLE AVE. CHAJ.	h h	٠, ٧		
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Ann Bradley	Charleston	W.Va. Manufactures Assoc	Statement &		
Richard Stevens	Chrs, 25701 Sute 1002	WV Phanmacit Assin	Statement /		
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Sylve Suite 503
405 CAPITOL STREET
CHARLESTON, WY 25301
TELEPHONE (304) 342-2123

May 18, 1990

The Honorable Lloyd Jackson, II West Virginia State Senate Charleston, WV 25305

The Honorable Pat Murphy State Capitol Charleston, WV 25305

Re: Objections To Civil Administrative

Penalty Regulations

Dear Sirs:

Enclosed please find the West Virginia Manufacturers Association's Objections To Division Of Natural Resources' Emergency Rules On Civil Administrative Penalty Assessment Regulations and an Executive Summary of those objections. These rules will be considered by the Legislative Rule-Making Review Committee on May 20, 1990.

If you should have any questions regarding the West Virginia Manufacturers Association's position with regard to these civil administrative penalty rules please contact me.

Sincerely yours

etrick M. Gallaghe

PMG:shb

Enclosures

cc: Mr. John M. Ranson

Mr. Tom Heywood

Mr. J. Edward Hamrick, III

Mr. Max Robertson Mr. Robert L. Foster



EXECUTIVE SUMMARY

The West Virginia Manufacturers Association ["WVMA"], a statewide trade association representing businesses and industry, is substantially concerned about the manner in which the DNR's emergency civil administrative penalty regulations are presently drafted. These regulations operate in an unfair fashion in the way in which they are applied to the regulated community and as to the entities to which they are applied. This paper summarizes our major concerns with the regulations.

1. The Ability To Pay A Penalty Should Be A Consideration In The Penalty Assessment Calculation.

The DNR should consider the ability to pay a penalty when determining the amount of civil penalty to be assessed. Otherwise, small enterprises may be driven out of business by the penalty, or the penalty may leave a business in a position where it is unable to pay for capital improvements necessary to correct the violation.

2. Appeals Of Penalty Assessments Are Discouraged By The Threat Of Increased Penalties.

The rules allow the DNR Director to increase a penalty assessment after an informal hearing. The opportunity for punishing those who would challenge an initial assessment is clearly presented by this procedure. To avoid this undesirable result the Director should only be permitted to affirm or decrease recommended penalties after an informal hearing.

3. The Type Of Facility At Which A Violation Occurs Should Not Be A Basis For Increasing A Penalty.

The severity of the violation, not the type of facility at which a violation occurs, should be considered by the DNR in assessing a penalty. For example, a hazardous waste transporter should not have a 50% reduction of his penalty for spilling a substance while a small manufacturing facility receives a 50% increase in his penalty for precisely the same violation. Penalty assessments should be based on site-specific factors related to impacts on human health and the environment and not arbitrary broad generalizations.

4. The Matrix Does Not Properly Weigh The Potential Harm Posed By A Violation.

Tables C and D set out penalty matrices for violations of the Hazardous and Solid Waste Management Acts, respectively. For example, where there is no potential for harm associated with a violation the penalty can be as high as \$2,500, or 50% of the total amount that can be assessed. We believe that the matrices need to be adjusted so that high penalties are not available for insignificant violations. Conversely, we support a higher level assessment when the penalty creates a more significant potential for harm.

5. The DNR Should Use A More Objective Method Of Rating Violations.

The DNR's methods of rating deviation from the requirement are too subjective. This determination should be made using a more objective tool such as the inspector's checklist and the percentage of non-compliance entries it contains.

6. Penalties Should Not Be Assessed Against Individuals.

The rules provide for the assessment of administrative civil penalties against individuals. Because of potential criminal exposure, the rules offer no practical methods for an individual to defend a civil administrative penalty action. For these reasons the rules should be revised to eliminate the use of civil administrative penalties against individuals.



SUITE 503 405 CAPITOL STREET CHARLESTON, WV 25301 TELEPHONE (304) 342-2123

OBJECTIONS TO DIVISION OF NATURAL RESOURCES' EMERGENCY RULES ON CIVIL ADMINISTRATIVE PENALTY ASSESSMENT REGULATIONS

BEFORE THE LEGISLATIVE RULEMAKING REVIEW COMMITTEE

MAY 20, 1990

WEST VIRGINIA MANUFACTURERS ASSOCIATION'S OBJECTIONS TO DIVISION OF NATURAL RESOURCES' EMERGENCY RULES ON CIVIL ADMINISTRATIVE PENALTY ASSESSMENT REGULATIONS

I. INTRODUCTION.

During the 1989 Regular Legislative Session, the West Virginia Legislature enacted and the Governor signed into law certain amendments to the State's Hazardous Waste Management Act, W.Va.Code §20-5E-1 et seq. (1989 Repl. Vol.), and the Solid Waste Management Act, W.Va. Code §20-5F-1 et seq. (1989 Repl. Vol.), [sometimes hereinafter referred to collectively as "the Acts"]. These amendments authorized the assessment of civil administrative penalties by the Director of the Division of Natural Resources [hereinafter "Director" or "DNR"] against entities subject to the requirements of the respective Acts. The pertinent part of the State Hazardous Waste Management Act authorizing such enforcement authority is found at W.Va. Code §20-5E-16(a)(1)-(2) (1989 Repl. Vol.), while the corresponding enabling section of the Solid Waste Management Act is set forth at W.Va. Code §20-5F-6(c)(1)-(2) (1989 Repl. Vol.)

On December 5, 1989, the Department of Natural Resources filed with the Secretary of State proposed legislative rules seeking to implement the Director's authority under this new statutory authority. The Proposed Assessment of Civil Administrative Penalty Regulations, according to the preamble to the proposed rules, "concern[ed] the criteria and procedures that shall be followed in the assessment of civil administrative

penalties imposed under West Virginia's Hazardous Waste Management and Solid Waste Management Acts." No public hearing was scheduled for the proposed legislative rules; however, a written comment deadline of January 5, 1990 was established.

Pursuant to DNR's request for comments, the West Virginia Manufacturers Association submitted extensive comments objecting to a number of provisions of the proposed regulations on January 5, 1990. The West Virginia Manufacturers Association ["WVMA"] is a statewide trade organization representing approximately 215 businesses and industries in West Virginia. The WVMA has been integrally involved for a number of years in constructively commenting on all aspects of the State's solid and hazardous waste management programs and the rules and regulations promulgated thereunder.

The DNR filed emergency civil administrative penalty regulations on March 29, 1990. Simultaneously, the rule, as approved by DNR, was filed with the Legislative RuleMaking Review Committee. The emergency regulations substantially ignore a number of the concerns raised in the public comment period regarding the fundamental fairness of the rules. This white paper will present the WVMA's objections to the provisions of the emergency regulations and suggest appropriate revisions to ensure that the regulations are fairly applied.

A. CALCULATION OF PENALTY

 The Ability To Pay A Penalty Should Be A Consideration In the Penalty Assessment Calculation.

Section 2.3 of the emergency rules defines a "civil administrative penalty referral" as

a written document that includes the observations made by the inspector relative to the seriousness of the alleged violation and any good faith efforts made to comply with applicable requirements as well as any other appropriate factors established by these regulations.

DNR to establish by definition requires the The regulation the "other appropriate factors" which might considered in assessing civil penalties. Both the proposed and emergency rules failed entirely to address what these other appropriate factors might be. The WVMA specifically suggested in its comments that one appropriate factor would be the ability of the violator to pay the penalty assessed by DNR. It is important to note that businesses regulated by the hazardous and solid waste management programs, particularly small companies, may be driven out of business, or be unable to afford the capital expenditures necessary to upgrade their operations and correct the violations for which they were cited by DNR if they must pay significant civil penalties. Some consideration should therefore have been given in the regulations to the economic effect of the penalty on the operation of a small business.

In its response to the WVMA's comments, DNR suggests that the violator's ability to pay a penalty has no bearing on the violator's culpability. While this position has a limited initial appeal, it totally ignores the fact that a substantial penalty could have the unintended and unforeseen effect of driving a going concern out of business. Civil administrative penalties should not be a weapon with which DNR detrimentally affects the continued economic development of West Virginia businesses, which are genuinely interested in complying with applicable environmental regulatory requirements. In its response to the comments DNR also noted that it is difficult to assess a violator's ability to pay a penalty. However, commonly available economic data, such as audited financial statements or similar evidence voluntarily offered by a company, could readily be used to assess a business' fiscal health and its ability to pay any civil administrative penalty assessed.

The only action taken by the DNR in response to the WVMA's comments on the "ability to pay" assessment factor was to add Tables G and J in the emergency rules which allow a civil penalty to be decreased or increased based on the type of facility at which a violation occurred. The WVMA believes this is highly inappropriate, for the reasons set out at in Section II.A.3 below. In addition, we believe this response fails to address our concerns about the "ability to pay" factor discussed above. Accordingly, the WVMA urges deleting Tables G and changing Section 2.3 to read as follows:

"Civil Administrative Penalty Referral" means a written document that includes the observations made by the inspector relative to the seriousness of the alleged violation and any good faith efforts made to comply with applicable requirements as well as any other appropriate factors established by these regulations, including the

violator's ability to pay the penalty without suffering significant financial hardship.

2. Appeals Of Penalty Assessments Are Discouraged By The Threat Of Increased Penalties.

Section 5.4 of the emergency rules, similar to the proposed rules, provides that the Director of the Division of Natural Resources, within thirty days following an informal hearing, must issue and furnish to the violator a written decision dismissing increasing, decreasing, or affirming. administrative penalty assessed. Presumably, the Director has already heard the agency's position on the penalty when it is initially assessed and the amount of the assessment has been made on this basis. After the informal hearing, the Director will have had an opportunity to hear the version of the facts surrounding the alleged violation(s) as presented by the regulated community. submit that, under these circumstances, the only options that should be available to the Director are to affirm or decrease the initial assessment or to dismiss the matter. Section 5.4, as presently contained in the emergency rule, provides a heavy club to the agency and could be used to discourage any violator from appealing the assessment. An alleged violator's desire to appeal an assessment by seeking an informal hearing could easily be chilled if it knew that a possibility existed for an increased assessment if it appealed.

The DNR responded to the WVMA's comments in this regard by explaining that the Director would not be aware of any information other than the Notice of Violation and the civil administrative penalty referral form prior to the informal hearing, and that other information may lead him to revise the penalty upward or downward. The DNR has failed to consider, however, the fact that the proposed penalty will already reflect the violations noted by the assessment officer, a person presumably trained and knowledgeable in the operation of the regulations. There is no reason why the penalty assessed by the officer should not serve as the upper limit for the penalty, and no reason why the penalty should be arbitrarily increased merely because the violator chose to question the assessment in an informal hearing.

Accordingly, we would urge that the rule be revised to delete the word "increasing" from Section 5.4 and only allow the Director to affirm, decrease, or dismiss a civil administrative penalty assessment after the informal hearing.

3. The Type Of Facility At Which a Violation Occurs Should Not Be A Basis For Increasing A Penalty.

In Section I.A.1 of this paper, the WVMA noted its objection to DNR's adjustment of civil penalties based on the type of facility involved. (This adjustment was not contained in the proposed regulations.) DNR indicated, in its reply to comments to the rule, that the facility adjustment multipliers found at Table

Gare an appropriate response to the WVMA's comment urging that an "ability to pay" be taken into account by the Division in assessing a civil administrative penalty. In responding negatively to the WVMA's suggestion, DNR specifically noted that "[i]t is the Division's belief that culpability is not tied to ability to pay." Nevertheless, the DNR has proven itself willing to consider factors other than the violator's culpability, it as it went on to note:

However, the Division does find some merit in adjusting penalties at a predetermined rate in order to take into account the size and type of facility involved. The Division believes that permitted and interim status facilities should be held to the highest standards of compliance and that small facilities should not be unduly burdened. Therefore, the Division has added a standard adjustment the type of factor, based on facility involved, to the assessment procedure as reflected in Tables G and J.

DNR's so-called "standard adjustment factor" results in an increase of 50% for treatment, storage and disposal facilities, in the name of holding these supposedly "bigger" facilities to the standards of "highest compliance." reality, In DNR discriminated in an unjustified fashion against two different classes of regulated businesses. It has stated in its reply to the comments that it will not take into account a small business' economic ability to pay an assessment because it would be wrong to premise a penalty on factors unrelated to the violator's culpability. At the same time, the DNR will tax certain facilities by increasing their penalties 50%, not based on the type of violation but on the class of violator. The two positions are contradictory and untenable.

The result of the DNR's position is an increase of an award of up to 50% in the case of a hazardous waste treatment, storage or disposal facility or a Class A or a Class F solid waste facility, but a reduction of the penalty assessed against a small quantity generator or hazardous waste transporter for the same offense. The adjustment factor bears absolutely no relationship to the amount of harm imposed by the violation and represents an attempt by the DNR to tax certain classes of business.

Penalties should be assessed upon site-specific factors such as the effects of a violation on human health or the environment, not the status of the violator. Consequently, Table G should be deleted from the regulations and Table J rewritten accordingly.

4. The Tables Do Not Properly Weigh The Potential Harm Posed By A Violation

Tables C and D of the rules establish penalties for violation of the Hazardous Waste Management Act and the Solid Waste Management Act, respectively. The penalties for violations with little or no potential for harm should be set much lower because the danger they pose to human health and the environment is much less. For example, categories 1 to 3 are applied to situations where there is no potential for harm to human health or the environment. See Table B. Nevertheless, the DNR would assess a penalty as high as \$2,500 (See Table C) in these circumstances—

50% of the total fine that can be assessed! There is no rational justification for such a penalty scheme.

At the time it issued its comments to the proposed rules, the WVMA included a table which it suggested be used to replace the Table C developed by the DNR. For purposes of this white paper the WVMA has proposed a different Table C and a new Table D which provide greater emphasis on the "potential for harm" consideration than the "deviation from requirement" consideration, an approach which is consistent with the U.S. Environmental Protection Agency's approach. Changes have also been made to Table B to clarify that, while there may reasonably be gradations within the minor, moderate and major potential for harm categories, there can be no subdivision of the category representing no potential of harm.

5. The DNR Should Use A More Objective Method of Rating Violations.

Tables A, B, and E of the proposed regulations attempt to quantify in numerical terms deviation from regulatory requirements, potential for harm, and a violator's level of negligence or good faith. The subjective language used to describe compliance with the aforementioned factors, combined with the range between numerical ratings, created the potential for enforcement abuse. For example, Table A specifies the following rating for deviation from requirements:

1 to 3 - the violator had completed nearly all requirements of the statute, rule, regulation, order or permit condition in question. However, there were some aspects of the requirements which were clearly not accomplished or the requirements were completed in most, but not all, areas of the facility.

The terms "nearly all", "some aspects" and "most but not all," are extremely vague and could lead different assessors to calculate vastly different penalties for the same infraction.

The WVMA believes that the DNR should use a checklist which would allow an assessment officer to identify objective violations of the Acts and to standardize the assessment of penalties rather than rely on the generalities contained in the tables. Such a form has been developed and successfully implemented in connection with inspections of landfills. A checklist has also been developed for hazardous waste facilities, and such a form could be adopted for use in calculating civil penalties also.

In failing to adopt the WVMA position in the emergency rules, the DNR responded that it would be impossible to establish a violation checklist because of the number of possible violations which could occur at a facility regulated under the Acts. However, DNR's response does not explain why checklists or reporting sheets have been historically used with a great deal of success in its hazardous and solid waste inspections. The Director also pointed out that only one assessment officer will calculate penalties, rather than the inspectors, and claims that this will result in consistent assessments. The fact remains, however, that even with

the review by one central figure of all penalty assessments, the violations assessment system is so subjective that it provides virtually no guidance to the regulated community as to what constitutes a violation. For these reasons, the WVMA again urges the use of a more objective criteria, e.g. a checklist, in assessing penalties.

B. TYPES OF PENALTIES.

1. Penalties Should Not Be Assessed Against Individuals.

The WVMA strongly opposes assessing civil penalties against individuals in the same manner as they are assessed against businesses. While the DNR indicates that such penalties will be assessed "only [on] rare occasions", the regulations contain nothing which would deter the DNR from assessing individual penalties for every violation. Every corporation or business entity works through its employees, and it is difficult to imagine a corporate act for which responsibility could not be laid at the feet of some person.

The DNR's civil penalties differ only slightly from criminal sanctions, and could be a predecessor to a criminal prosecution in some instances. Under such circumstances, any individual who voluntarily spoke at an informal hearing or a hearing before their Review Board would risk waiving his Fifth Amendment rights or otherwise prejudice himself. The DNR will necessarily lose the cooperation of many persons who might

otherwise help to resolve penalties assessed only against a corporation.

Individuals have historically received greater protection of their rights than legal creations such as corporations because of the interest society has in preserving individual freedoms. The DNR's rules run contrary to this trend, as they provide individuals with no greater protection than corporations. The DNR has the power, if it wishes, to seek criminal sanctions against individuals in a forum that more completely protects their rights. That is the forum in which actions against individuals should be decided, not a summary administrative hearing.

III. CONCLUSION

In this white paper, the WVMA has presented its position on major concerns presented by DNR's proposed civil administrative penalty regulations which DNR failed to address in an adequate fashion when issuing its emergency civil administrative penalty These concerns all relate to the ultimate fairness regulations. of the system which DNR has created to assess penalties against businesses regulated by the West Virginia Solid and Hazardous Waste We believe that this system, as presently Management Acts. represented by DNR's emergency regulations, cannot fairly be applied to the regulated community because of flaws in the ways penalties are calculated, and the entities which are subject to The WVMA hopes that the manifest unfairness of the penalties. present regulations will be addressed in a favorable fashion by the

Table B

Ratings of Potential for Harm

- 1 -- The violation is of an administrative nature and could not result in a potential for harm to human health or the environment.
- 2 to 4 -- The violation is of an administrative or a physical nature and may result in a minor potential for harm to human health or the environment.
- 5 to 7 -- The violation is of an administrative or a physical nature and may result in a moderate potential for harm to human health or the environment.
- 8 to 10 -- The violation is of an administrative or physical nature and may result in a major potential for harm to human health or the environment.

TABLE C
Seriousness of Hazardous Waste Violation

• • • •

Potential For Harm				Deviatio	n from I	Requireme	nt				
		1	2	3	4	5	6	7	8	9	10
No potential For Harm	1	100	125	150	175	200	225	250	275	300	325
Minor Potential	2	350	375	400	425	450	475	500	525	550	575
For Harm	3	450	475	500	525	550	575	600	625	650	675
	4	550	575	600	625	650	675	700	725	750	775
Moderate	5	1200	1250	1300	1350	1400	1450	1500	1550	1600	1650
Potential For Harm	6	1600	1650	1700	1750	1800	1850	1900	1950	2000	2050
	7	2000	2050	2100	2150	2200	2250	2300	2350	2400	2450
Major	8	3100	3200	3300	3400	3500	3600	3700	3800	3900	4000
Potential For Harm	9	3600	3700	3800	3900	4000	4100	4200	4300	4400	4500
	10	4100	4200	4300	4400	4500	4600	4700	4800	4900	5000

TABLE D
Seriousness of Solid Waste Violation

Potential For Harm	Deviation from Requirement										
		1	2	3	4	5	6	7	8	9	10
No Potential For Harm	1	50	75	100	125	150	175	200	225	250	275
Minor	2	200	225	250	275	300	325	350	375	400	425
Potential For Harm	3	300	325	350	375	400	425	450	475	500	525
	4	400	425	450	475	500	525	550	575	600	625
Moderate	5	1000	1050	1100	1150	1200	1250	1300	1350	1400	1450
Potential For Harm	6	1200	1250	1300	1350	1400	1450	1500	1550	1600	1650
	7	1400	1450	1500	1550	1600	1650	1700	1750	1800	1850
Major	8	2100	2200	2300	2400	2500	2600	2700	2800	2900	3000
Potential For Harm	9	2350	2450	2550	2650	2750	2850	2950	3050	3150	3250
	10	2600	2700	2800	2900	3000	3100	3200	3300	3400	3500